

DIARY

Book 229

December 14 and 15, 1939

- A -

	Book	Page
Agriculture		
Income Certificate Plan for Agriculture; an analysis prepared in Tax Research, Treasury Department - 12/15/39.....	229	158
Appointments and Resignations		
Sullivan, John L.: Farley and HMJr discuss - 12/14/39..		6

- B -

Budget Message, 1940
 See Financing, Government
 Burton, W. T.
 See Louisiana: Tax Cases

- F -

Farm Credit Administration		
Goss (Land Bank Commissioner) presents to HMJr recommended plan of organization - 12/14/39.....		117
Hill's resignation (already written) discussed by Goss and HMJr - 12/15/39.....		317
Financing, Government		
Budget:		
Haas memorandum provides revised estimate for fiscal year 1940 and original estimate for fiscal year 1941 - 12/14/39.....		142
Haas memorandum: "Budget estimates of revenues and estimates of national income" - 12/15/39.....		153
Relief Expenditures: Currie memorandum on, 6/30/33-40		
a) \$18 billion on services formerly assumed by state and local public bodies.....		157-A
Reconstruction Finance Corporation: FDR's and Currie's memoranda.....		157-B
(See also Book 230, page 298-A)		

- L -

Louisiana		
Tax Cases:		
Burton, W. T.: Congressman De Rouen (Louisiana) asks HMJr to have case settled - 12/14/39.....		15
a) HMJr discusses with Helvering.....		19

- M -

Mexico	
See Silver	
Movie Cases	
See Tax Evasion	

- P -

Pan American Bank
See War Conditions: Latin America

Book Page

- R -

Reconstruction Finance Corporation
Currie memorandum requesting information on present
borrowing authority - 12/15/39..... 229 157-B
a) Answer..... 157-C
(See also Book 230, page 298-A, for FDR's
request that HMJr discuss with him)
Relief Expenditures
See Financing, Government
Revenue Revision
Paul (Randolph) recommendations: Viner memorandum -
12/14/39..... 71

- S -

Silver
State Department transmits Mexican cables expressing
anxiety over silver policy at beginning of new year -
12/14/39..... 48
a) Daniels reports weakness of peso is due to
report that, in January, United States will
stop purchase of silver: See Book 230, page 184
Sullivan, John L.
See Appointments and Resignations

- T -

Tax Evasion
Movie Cases: HMJr and Murphy discuss progress; HMJr worried -
12/15/39..... 311
Taxation
See Revenue Revision

- W -

War Conditions
Bombing of Civilian Populations:
FDR's statement concerning United States attitude and
State Department comment thereon - 12/14/39..... 64
Exchange market resumed - 12/14/39, et cetera..... 45,248,297

- W - (Continued)

	Book	Page
War Conditions (Continued)		
Finland:		
After payment of debt, Procope confers with HMJr -		
12/15/39.....	229	133
a) Memorandum on entire indebtedness.....		140
HMJr's statement for Movietone.....		225
Hoover's relief organization approved by Bureau of		
Internal Revenue as a charitable organization -		
12/15/39.....		260
France:		
Reynaud, in Chamber of Deputies, reviews policies and		
discusses problems - 12/14/39.....		81,267
High-Grade Securities Markets:		
Current Developments: Haas memorandum - 12/14/39.....		32
Latin America:		
Bulletin (quarterly) of American Treasuries:		
Tentative outline sent to Department of State		
by Treasury - 12/15/39.....		279
Eighth American Scientific Congress: HMJr asks Welles		
to appoint Haas rather than Riefler as Treasury		
representative on Section on Statistics - 12/14/39..		58
Pan American Bank: HMJr endorses idea in letter to Berle -		
12/15/39.....		275
a) White memorandum: "Outline of tentatively		
proposed bank for American republics" -		
12/15/39.....		276
Purchasing Mission (British-French):		
Great Britain:		
Pinsent calls at Treasury where HMJr expresses		
disappointment that Whigham and Gifford departed		
"without the vesting taking place of some 60		
securities as recommended in full agreement		
with the views of United States Treasury and		
Securities and Exchange Commission" - 12/15/39.....		239,250
a) Draft of cablegram to be sent to London		
Strategic War Materials:		
Molybdenum:		
Japan asking about next year's orders: Hochschild reports		
to HMJr - 12/14/39.....		10
Japan: Moral embargo applied against by State Department -		
so Hornbeck informs HMJr - 12/14/39.....		80
Climax Molybdenum Company presents results of study of		
proposed embargo in anticipation of conference -		
12/14/39.....		102
a) Conference of Hochschild, et cetera, with HMJr,		
White, and Cochran - 12/15/39.....		241
Wall Street Journal story discussed at 9:30 meeting -		
12/15/39.....		300

December 14, 1939.
9:15 a.m.

H.M.Jr: Hello.
Wm.O.
Douglas: Hello Henry.

H.M.Jr: How are you?

D: Fine.

H.M.Jr: Bill, two things.

D: Yes.

H.M.Jr: Did you have a chance to check up on this fellow John Sullivan?

D: I haven't yet. I was planning on calling Ed, and see if he'd come over this afternoon.

H.M.Jr: Fine.

D: I've been pretty well sunk but I'll, I was going to suggest some time to Ed this morning.

H.M.Jr: Good. Now the other thing, did you know the fellow Gazelle has been recommended to us to try the Bank of America case.

D: I didn't know that. He is- he's an excellent fellow.

H.M.Jr: Well now, do you think he's got enough experience to do something like this?

D: Oh sure.

H.M.Jr: You do.

D: Oh yes, definitely.

H.M.Jr: You mean you'd put your money on him.

D: Oh yes.

H.M.Jr: You brought him down, didn't you?

D: Yes. I have great confidence in him. He handled for us, when I was over there, the Whitney episode on the New York Stock Exchange. Did a beautiful job. He's been handling the SEC insurance stuff for the TNEC.

H.M.Jr: Yes.

D: And he was doing a fine job when I was there, I haven't followed it since but I had a confidential - I had a talk with Brandeis the other day and he said that he had read every word of the record in the insurance investigation.

H.M.Jr: Yes.

D: That Gazelle had conducted and he thought it was the best record, the most lawyer like job of anything he'd ever seen, which is very high praise.

H.M.Jr: I should say so.

D: No there's no question about him. Whether or not he is in a position where he could do it is something I don't know.

H.M.Jr: Well I haven't gone that far yet and I haven't spoken to Jerome Frank.

D: Yes.

H.M.Jr: Whether they would release him.

D: Oh he's - he is a grand fellow, he's tough at the same time he's a perfect gentleman and doesn't just shout meow and roar around.

H.M.Jr: We were thinking for examiner of asking Charles Warren.

D: Yes. Well I wouldn't have much judgment on that because I just know him by reputation.

H.M.Jr: Well some people who are friends of yours recommended him.

D: Yes.

H.M.Jr: They think that he'd be very fair.

D: Yes. Well I just know of him, I guess maybe I've met him, that's about all.

H.M.Jr: I see. But Gazelle, you'd put your money on him.

D: Oh sure.

H.M.Jr: What?

D: Absolutely.

H.M.Jr: Well.

D: Oh yes, he's got the intellectual equipment, he's a born trial lawyer, he'd never miss a point, he'd have a lovely record.

H.M.Jr: Swell. Thank you Bill.

D: O.K. Goodbye.

December 14, 1939.
10:25 a.m.

H.M.Jr: Hello

Operator: Postmaster General. Go ahead.
James

Farley: My name is Farley.

H.M.Jr: Right.

F: Inasmuch as there won't be any Cabinet today I won't be able to be of service to you, but I thought I'd check up and find out if over the telephone I can be helpful.

H.M.Jr: Well you were the only fellow the other day
we were talking about something pretty damned serious.

F: That's right, and I didn't know whether he was paying much attention to us, at the moment, if you don't mind my saying so.

H.M.Jr: What?

F: If you don't mind my saying so I just thought I'd butt in on that.

H.M.Jr: Well I'm saying you're the only fellow who did and I was -

F: Frankly I realize that you were serious and I didn't know whether he was or not.

H.M.Jr: Well how can a fellow joke about a thing like that?

F: Well that's - I don't want to comment on that you know.

H.M.Jr: What?

F: If I was talking to you I'd tell you about it.

H.M.Jr: Yes.

F: I'll see you next week. I realize that you - how serious you were, see?

H.M.Jr: Well sometime I'd like to show you the memorandum that I had in my pocket about A. A. Berle.

F: Yes.

- 2 -

H.M.Jr: And it was what A. A. Berle had said to my attorney here.

F: Yes.

H.M.Jr: That led me to ask this question.

F: I see. Well I knew there was a reason for it. I know those things don't -

H.M.Jr: And I don't know what you think of A. A. Berle.

F: Well that's between us.

H.M.Jr: What?

F: That's between us.

H.M.Jr: Yes. But - and A. A. Berle is the fellow who handled everything that had to do with neutrality in the State Department.

F: Is that so?

H.M.Jr: Oh yes. He's the final word and the whole policy is in his hands.

F: Is that a fact?

H.M.Jr: Oh yes.

F: Cordell doesn't have anything to say about it.

H.M.Jr: As far as I can tell he doesn't have a damned thing to say about it.

F: It's amazing, isn't it.

H.M.Jr: And the rulings and the decisions on these ships and all the rest of that, it's all Berle.

F: Is that a fact?

H.M.Jr: Oh yes.

F: Well brother, you have my sincere and heartfelt sympathy.

H.M.Jr: And I was told, you see, that Hull was going to bring this up.

F: Yes.

H.M.Jr: And when he didn't, I thought it was so serious I would.

F: Yes.

H.M.Jr: And I did, and you know me, I bring it up, if you don't like it, well -

F: That's that.

H.M.Jr: That's that.

F: Well there it is anyway.

H.M.Jr: How are you?

F: Never felt better and had less and get worse all the time, but I still have a sense of humor, young man.

H.M.Jr: Yes, well I try to keep it. Incidentally Gaston said he was coming over to see you.

F: Yes, he's going to come over and I'll talk with him.

H.M.Jr: I've got two fellows in mind for Assistant Secretary and I asked him to ask you about it.

F: O.K. Well I still have a sense of humor despite everything else.

H.M.Jr: Well if you've got a minute, I'll tell you who they are.

F: Go ahead.

H.M.Jr: One I know is a good friend of yours and that's John L. Sullivan of New Hampshire.

F: Yes, that's all right.

H.M.Jr: What?

F: He's all right. Are you going to take him away from Guy?

H.M.Jr: Well I'm thinking about it.

F: I see. Well he's a good fellow. Anything you do with him is all right with me. I've known him for years. He's all right.

- 4 -

H.M.Jr: Is he all right?

F: Oh, you can go to sleep on him.

H.M.Jr: Can he stand up?

F: Oh yes. Trustworthy - you can tell him anything and he'll stand up.

H.M.Jr: Now the other fellow I've got in mind is young -

F: I hate to see you take him away from Guy though that's the only - but that's your business.

H.M.Jr: Well I haven't crossed the bridge yet. I haven't spoken to Sullivan.

F: He's all right. He's all right. Anything you want to do and if it's an advance for the fellow it's O.K.

H.M.Jr: Well it would be an advance.

F: Then you won't make any mistake.

H.M.Jr: Yes. Now the other fellow, I don't know whether you know him but you know his father and that's young Larry Morris, the son of David

F: Yes, I know Larry Morris.

H.M.Jr: What do you think of him?

F: I think he's allright from what I know of him.

H.M.Jr: Would he be credited to Pennsylvania?

F: Well I don't know, where does he vote?

H.M.Jr: I don't know. Don't they come from Philadelphia?

F: The Morris'?

H.M.Jr: Yes.

F: No they've been in New York for years. They came from New Orleans originally, you know.

H.M.Jr: Oh.

F: No they've been around New York, no I imagine he votes in New York.

H.M.Jr: What do you think of young Larry Morris?

F: Well I don't know enough about his ability. I know the boy you see. He's a lawyer, isn't he?

H.M.Jr: Yes.

F: Yes. I know, he's down at one of those down town firms.

H.M.Jr: Well he's only with a small firm, not out at one of the big firms.

F: I know that. I know. I don't know - he'd be all right. Dave is all right. I like his - his father's always been all right. So anything you do on either one of those would be all right with me brother.

H.M.Jr: Well I'm just thinking.

F: Take it easy, why don't you put Tommy over there in one of those places?

H.M.Jr: (laughs) Listen fellow he can't be so busy these days because I have had a suggestion about giving him something to do.

F: Really.

H.M.Jr: Oh, yes.

F: That's fine.

H.M.Jr: I hear he's not busy.

F: I don't know a thing about it. They never cross my path.

H.M.Jr: Yes. All right.

F: You know me -

H.M.Jr: You don't know - you're pretty hot on that one.

F: You know me I go right down my side of the road and I don't care what side the other fellow travels on as long as he doesn't run across me when I'm on a corner.

(laughs)

F: I'm all right though. I never felt better in my life and I say that honestly. I mean I'm picking - I'm O.K.

H.M.Jr: Thank you.

F: And I'll see you soon Henry, I really will.

H.M.Jr: Goodbye.

F: Goodbye.

December 14, 1939.
10:46 a.m.

10

H.M.Jr: Hello.

Operator: Mr. Hochschild.

H.M.Jr: Hello.

O: Go ahead.

H.M.Jr: Hello. Hello.

H.

Hochschild: Hello, Henry?

H.M.Jr: I'm sorry we had trouble but I've been a little bit busy.

H: I can well imagine that Henry. I didn't call you before because I hesitated to bother you but it occurred to me, last night, that perhaps I ought to tell you something that happened here on Tuesday.

H.M.Jr: Please.

H: Mr. Besche - who buy most of the molybdenum for Japan called up Climax and they said they wanted to talk about last - about next year's requirement.

H.M.Jr: Yes.

H: And in the meantime they would like to have a quotation on thirty-five tons, which of course is a very small quantity.

H.M.Jr: Yes.

H: Climax stalled them off and said they'd have to figure out their requirements for here and other countries, then Mr. Besche said, you haven't by any chance been requested by the United States Government not to sell us any more molybdenum, have you?

H.M.Jr: Yes.

H: And Climax denied that.

H.M.Jr: Yes.

H: Then Mr. Besche called up Kennecott and made more or less the same inquiry there except that there they inquired for a hundred tons which is also small

quantity and when Kennebec stalled them off they made the same remark, asked Kennebec the same question as to whether they'd been requested by the Government not to sell them anymore.

H.M.Jr: Yes.

H: And both Kennebec and Climax are a little on, particularly Kennebec, are a little on edge about this thing and they're wondering what to say.

H.M.Jr: Well I talked to the President about this question on Tuesday, see?

H: Yes.

H.M.Jr: And told him that you people had asked what should they say, and this is his answer that if you got any requests for bids that the companies were estimating on the requirements necessary for the countries represented by their stockholders. Now I don't know whether that's satisfactory or not.

H: Well Henry, that, of course I think that they evidently already suspect the truth.

H.M.Jr: Yes.

H: And I think - frankly - I think that would sound a rather - that would sound to them as if we were - just a rather lame excuse.

H.M.Jr: I see.

H: Because we've - I mean there hasn't been any particular change in the nationality of the stockholders.

H.M.Jr: Well you haven't -

H: - the customers of the two companies.

H.M.Jr: Well you have got that clause in your contracts, you tell me, that you must first take care of the Government, mustn't you?

H: Of the - of this country.

H.M.Jr: Of this country.

H: Yes.

- 3 -

H.M.Jr: Well, couldn't you - that's practically what you told them isn't it?

H: We simply told them we had to figure on the requirements here and abroad. We didn't say anything about the Government, about the United States Government.

H.M.Jr: How does the clause - what's it about - what your clause usually says?

H: Well it says that the requirements of this country come first. Domestic requirements must have the preference.

H.M.Jr: Yes.

H: That's what our clause says, I don't know what Kennebec's clause says. I don't know whether they have any such clause but that's what ours says.

H.M.Jr: Of course I appreciate the difficulty that you're in and the thing that we both have to face is if it gets out in the public, you see?

H: Yes.

H.M.Jr: And you don't feel entirely satisfied with what the President said, I take it.

H: I beg your pardon.

H.M.Jr: You don't feel entirely satisfied.

H: I don't think it will - I think it will have the same - I think they will realize what's up and it does - whatever harm might be done by telling them the truth, and at the same time I think it also gets them rather sore at us.

H.M.Jr: Yes.

H: Kennebec seems to be particularly nervous about it because they also have copper business with the Japanese.

H.M.Jr: I see. How about you, don't you have copper business?

H: The American Metal Company does but that's got nothing to do with Climax, you see.

H.M.Jr: I see.

H: That wouldn't - whatever Climax might do wouldn't embarrass the Metal Company, but in the case of Kennecut their main product is copper and the by-product is molybdenum, and I tell you what I was wondering.

H.M.Jr: Go ahead.

H: Henry - if you'd have time, if we could come down again and talk this situation over with you and I'd like to bring the Kennecut man along.

H.M.Jr: Sure. I mean that's the least that I could do.

H: I think it would make things easier with me. I might also mention another aspect of this thing. The reason you haven't gotten that memorandum yet is because they've gone into it very carefully up there - of course this has been quite a bombshell to Climax, also to Kennecut and the Climax people are inclined to feel - they're inclined to question how much - whether anything substantial will be accomplished from the standpoint that you have in mind, by shutting those people off from molybdenum, and they are going - they are getting up certain figures on the things that might be available to both those countries that might be substituted for molybdenum.

H.M.Jr: Huh-huh.

H: And I have told them to be very careful about any statements they make in that respect because I think the question of whether - I mean they shouldn't - I don't want them to present any statement that has - too much of a special plea for the molybdenum producers because I think that the national - obviously the national policy and whatever you may want us to do has got to be the paramount consideration.

H.M.Jr: Yes.

H: But I think that they - I think that you would probably want to tell you what their views are about the possibility of substitutes.

H.M.Jr: Oh yes.

H: It may not be as good but may be - but might help those people to get by, and I think they'll be

- 5 -

finished with that some time today and if it would be possible for you to see us tomorrow sometime.

H.M.Jr: Yes.

H: I'd like to bring, come down with both the Climax people and one of the Kennebec men.

H.M.Jr: Well I could do it at eleven-thirty.

H: Eleven-thirty tomorrow morning.

H.M.Jr: Yes.

H: Well I'll get in touch with him, I'm sure it will be all right Henry.

H.M.Jr: Fine.

H: So you - will you expect us at that time?

H.M.Jr: I'll expect you at eleven-thirty. You needn't call me again unless it's not convenient.

H: All right Henry.

H.M.Jr: See?

H: Yes.

H.M.Jr: Eleven-thirty.

H: All right, Henry.

H.M.Jr: Thank you for calling.

H: All right, Henry, thank you, goodbye.

December 14, 1939.
3:53 p.m.

15

H.M.Jr: Hello.

Operator: Congressman De Rouen.

H.M.Jr: Thank you.

O: Go ahead.

H.M.Jr: Fello.

Cong. René L. De Rouen: Good morning.

H.M.Jr: Hello.

R: All right Mr. Secretary!

H.M.Jr: Talking.

R: Congressman De Rouen of Louisiana speaking.

H.M.Jr: How do you do sir?

R: Just fine. Mr. Secretary, not two weeks ago I was in Washington and had an understanding with Mr. Helvering.

H.M.Jr: Yes.

R: With regard to one of our constituents. He filed his income tax and paid it and then after the Department man went through it they found another report, claiming a million eight hundred and fifty thousand dollars more.

H.M.Jr: Good heavens. What kind of a -

R: Those are technicalities. After I'd gone over it with Mr. Helvering he said he'd call back all the papers and we had an understanding and try and settle a flat rate. The question of technicalities would be settled in the Internal Revenue Department, and Mr. Helvering told me that in the next ten or twelve days I'll make a call and have everything over here. And he'll come over and Mr. W. T. Burton -

H.M.Jr: Would you - I don't get it. W. T. -

R: Burton. B-u-r-t-o-n.

H.M.Jr: B-u-r-t-o-n.

R: Burton.

H.M.Jr: I've got it.

R: He's a good business man here, he creates a lot of employment, has a big outlay in the oil business, in the barge, in the sugar factory and they've been in his office for five months here checking him up.

H.M.Jr: Yes.

R: Of course there's a lot of little fellows and he's just carried on his business unless they give him some release.

H.M.Jr: Well this is a -

R: Put that case to Mr. Helvering. Now I said, "If you're going to destroy all big business men, men who are creating wealth and men who are willing to pay their taxes, that's another question." He said, "No we don't want to do that".

H.M.Jr: Yes.

R: Well I said, "If you don't want to do that let the Department take those business men and bring them up here and show and sit with them, in some way - don't keep this persecution - "

H.M.Jr: Yes.

R: He said, "I'll stop it". But I haven't heard any more from him since, and I was trying to get him today.

H.M.Jr: Yes.

R: He had promised me in ten or twelve days he'd be ready. Now Mr. Burton is ready to pay. He's willing to settle with you gentlemen. We have a question here that is arbitrary in some instances, but he feels that he can't settle with a man that's making a hundred and fifty or two hundred dollars a month and who offers him a compromise. He's willing to take it up with the head of the Department, his business is too big to settle

- 3 -

that way, and he said "Well I agree with you". So I'm just wondering if you can help me out to talk to Mr. Helvering. I couldn't get him over the telephone.

H.M.Jr: But you didn't have any trouble getting me, did you?

R: Uh.

H.M.Jr: Didn't have any trouble getting me.

R: I didn't hear that.

H.M.Jr: I was easy to get wasn't I?

R: How's that?

H.M.Jr: You didn't have any trouble getting me.

R: Oh no, not at all. No sir. So what we want is to have this business man - he's nearly crazy, he wants to get through with it.

H.M.Jr: Well Congressman, I'll call up Mr. Helvering right away and ask him what it's all about.

R: That's it. Mr. W. T. Burton.
I submitted the case and we discussed it. He got all the files out, he's well posted and he told me, "I'm instructing my men to return all those papers to my office and when they do come back you bring your man and his bookkeeper and the whole business and the Department will attempt to make a settlement with him."

H.M.Jr: Well this is the first time I've heard this man's name I never heard it mentioned before.

R: Huh-huh.

H.M.Jr: I know nothing about it.

R: I know you don't, Mr. Secretary, I know that.

H.M.Jr: But I'll be glad to ask Mr. Helvering about it.

R: You do that and I'll be very thankful.

H.M.Jr: And I'll ask him to get in touch with you direct.

R: Thank you very much.

- 4 -

H.M.Jr: I don't know whether Mr. Helvering is in his office but I'll find out.

R: Well it don't matter, just so you give your attention to it. A memorandum from you will be very appreciated.

H.M.Jr: Well I'll call him up right away.

R: Thank you very much sir.

H.M.Jr: Goodbye.

R: Goodbye.

December 14, 1939.
3:56 p.m.

19

H.M.Jr: Hello.

Operator: Mr. Helvering.

H.M.Jr: Hello.

Guy
Helvering: Hello.

H.M.Jr: Guy?

H: Yes.

H.M.Jr: A Congressman, De Rouen, of Alabama, just called me up.

H: Yes.

H.M.Jr: About a taxpayer in his District by the name of Burton.

H: Yes.

H.M.Jr: And he said he's been waiting for ten or twelve days to hear from you and that you said you'd let him know. I don't know what it's all about.

H: Well he was in here and we haven't got the report on it. I wrote him yesterday.

H.M.Jr: Did you?

H: Yes.

H.M.Jr: Well -

H: He sent me a telegram on the 12th. I wrote him yesterday that I'd investigate it here, the report isn't on that. Mr. Wolf told me the boys were writing that report up now.

H.M.Jr: I see.

H: And it would be about two weeks before it was in here.

H.M.Jr: Well did you tell him that? Did you tell the Congressman?

H: Well I told him that it hadn't been received yet

and we expect it in the near future.

H.M.Jr: Well would you do this much for me? And tell him that you doubt whether, on account of the size or whatever it is that it'll be ready, let's say the first of January. That gives you time enough.

H: Yes.

H.M.Jr: What? So that he knows you see.

H: Yes.

H.M.Jr: Is that all right?

H: Yes. Of course I suppose he's sent you a letter before he got this one. Yes he was in here two or three weeks ago.

H.M.Jr: No, he just telephoned me. He telephoned me all the way from Alabama.

H: Today?

H.M.Jr: Just now. That's why I'm calling you. And all I'm asking, if it's two weeks just to tell him that it'll be another two weeks before you know what the answer is.

H: Yes.

H.M.Jr: See?

H: All right, I'll write him another letter.

H.M.Jr: I'd send him a telegram. Do you mind sending him a telegram?

H: No that's all right.

H.M.Jr: Right.

H: I'll fix it up.

H.M.Jr: Did you call me this morning?

H: Yes. I had a matter over here on this Finnish Release Fund.

H.M.Jr: Oh yes.

- 4 -

H: I talked to Gaston about it. Did he say anything to you?

H.M.Jr: No. Have you got it all cleaned up?

H: Yes, it's all right.

H.M.Jr: All right.

H: The only thing is I knew there had been a good deal of talk about it and there's several of the people that's interested in it. I just wanted you to know that I was treating them just like I did the Polish - these other relief funds and we're handling it the same way and somebody got the idea that our friend Herbert Hoover had horned in on this in a way he shouldn't, I guess the Red Cross, but I can't see anything in this setup -

H.M.Jr: (laughs) Oh I see. It's that kind of a thing is it?

H: Yes. I thought it was a good thing if he could handle it, why it's all right.

H.M.Jr: All right Guy, take care of yourself. Goodbye.

GROUP MEETING

December 14, 1939.
9:30 a.m.

Present: Mr. Gaston
Mr. Graves
Mr. Viner
Mr. Cochran
Mr. Thompson
Mr. Cotton
Mr. Bell
Mr. Harris
Mr. Duffield
Mr. White
Mrs Klotz

H.M.Jr: We talked at an executive session before the House Committee on Appropriations. Did you see this?

Bell: No, I didn't.

H.M.Jr: You were there when I talked yesterday, weren't you? I didn't mean to go up there secretly and talk.

"Secretary Morgenthau has told a House Appropriations subcommittee that he believes the national debt limit should be raised to 50 billion dollars, committee members said today. He emphasized that the 50 billion dollar figure was not a recommendation, but just his belief.

"At his recent appearance before an executive session of the House subcommittee, Morgenthau advocated both a reduction in expenditures and an increase in taxes as twin methods of attacking the problem of making federal outgo meet income."

Bell: Very secret, wasn't it?

H.M.Jr: In other words, if you want to subtract two from four and get two - the way to do is subtract.

White: In your comments with respect to what the debt limit ought to be, I wonder whether some consideration might be given to - why have it increased by five billion at a time? It raises the issue each time they come up. If your advice is asked for, I wonder whether you might not consider taking the position that there

- 2 -

ought to be a substantial leeway, since Congress has to appropriate the money anyhow.

H.M.Jr: What would you make it, two and a half or seven and a half?

White: I would make it fifteen - I would make it sixteen.

H.M.Jr: You had better talk with Jack Garner. He plays a higher stake game than I do.

White: Congress still has to appropriate the money. A mere increase in the debt limit doesn't spend the money but it takes it out of the discussion each two years.

H.M.Jr: They asked me would I be worried if the debt limit would be 50 and I said no. When they asked if I would be worried if it was 55, I said, "Come around and see me when it is 49."

White: That is different.

H.M.Jr: The answer is, "Why make it 55," because the deficit has been running about four billion dollars and I feel if you make it five all at once you take care of it for a year at a time. If I asked for 60, why then there would be no retarding factor.

White: I think you could more appropriately ask for 60 in the eighth year than you could in the first year, because you presumably - it is either for Republicans or Democrats.

H.M.Jr: We get used to most anything, but I couldn't ask - the way I feel, I couldn't ask for more than 50 because I don't know what would happen. I can say to these people, "I will go 50," and I don't think the country will go to hell, but I couldn't go beyond that. I gave what I thought was a very simple answer as to how I felt without going through a lot of funny business.

Where is George Haas?

Herbert?

- 3 -

Gaston: You might be interested in seeing the letter from the Attorney General to the Secretary of State on the matter of these trawlers. It quotes the assurance given by the French Government, which in turn is exactly in the words of this statute.

H.M.Jr: "After returning the matter to my Government, I am able to give you the assurance that these ships are not intended to be employed in hostilities against the subject citizens and property of other belligerents."

I hope he didn't raise his right hand and put his other on the Bible.

Gaston: That is our formal authority to let them go.

H.M.Jr: Did the Attorney General call up the Coast Guard and let them know?

Gaston: No, his assistant personally called up Mr. Cairns, who personally talked to me and I personally talked to the Coast Guard.

There is Admiral Stark's memorandum to the Acting Secretary on the subject of letting the Coast Guard have planes.

H.M.Jr: And it boils down and says no?

Gaston: Says they haven't got any and wouldn't let us have any if they had.

H.M.Jr: Stark is quite a fellow, isn't he? I have got to meet him.

What else?

Gaston: I have an appointment to see Mr. Farley at 10:30 on the subject of vacancies.

H.M.Jr: I will tell you something by and by.

Gaston: All right.

H.M.Jr: Anything else?

- 4 -

Gaston: That is all.

Cochran: Sterling opened up two cents higher in Amsterdam this morning. It is 3.95 $\frac{1}{4}$. Presumably it is caused by this sea battle down off Uruguay.

H.M.Jr: Don't need the stabilization fund if you've got a couple of good battles.

Cochran: That is right.

H.M.Jr: What else?

Cochran: That is all, sir.

H.M.Jr: Are you the first or the last of the three "E's"?

Viner: Last, always last.

H.M.Jr: Have you got enough to do? Are you going to help this fellow?

Viner: Yes.

H.M.Jr: I sent for some figures and I thought it would be very interesting inasmuch as the President is picking on me and my estimates. I asked O'Donnell to go back to January, '34 budget through and up to date on the estimates on expenditures, revenue and deficit and then the actual ones and let's see his batting averages on the expenditure side.

Bell: A little unfair. You can't compare them because the action of Congress subsequently made a difference. You can compare the last estimate.

H.M.Jr: I didn't intend to be fair.

Bell: Oh, excuse it.

H.M.Jr: I have got too many unseen minds and enemies. Let's take a look at it.

White: It is a weak argument to present.

H.M.Jr: That is all right.

- 5 -

White: I mean present to the President as an indication of his accuracy.

Bell: My accuracy.

H.M.Jr: You don't think those estimates on expenditures were nearly right?

White: If they weren't right, there wouldn't be any criticism because they were beyond his control.

H.M.Jr: How about an eighteen months guess as to what business is going to be, eighteen months hence?

White: Oh, I agree there is no justifiable criticism there.

H.M.Jr: As little Audrey says, two wrongs don't make a right. You never sat in with Bell and me in the period from the fifteenth of December to the fourth of January. Anything goes.

Viner: I think you mean Danny Bell's budget goes.

White: That is the first to go.

H.M.Jr: Remember that night we were over in the Cabinet room last year?

Gaston: Very well, yes.

H.M.Jr: It wasn't the night before Christmas, it was the night before the budget.

Harris: We had a Customs hearing before the Appropriations Committee yesterday. It went off very successfully and we were very friendly. It couldn't have been nicer.

H.M.Jr: Were you there, yourself?

Harris: Yes. They even took exception on their own account to the action of the budget group and intimated they were going to go back at them.

H.M.Jr: You can have a memorandum for me for the President

- 6 -

on those two jobs, one in New York and one in San Francisco.

Harris: Yes, I will have that probably during the day.

H.M.Jr: Anything else, Basil?

Harris: No.

H.M.Jr: Want anything?

Harris: No.

H.M.Jr: Gene, did you tell Pearson and Allen that I said that at my press conference they were untruthful?

Duffield: I told Bob Allen.

H.M.Jr: What did he say?

Duffield: He said, "Oh well, that is another one of Drew's stories."

H.M.Jr: The last time this happened and I said they weren't truthful in my press conference - was it you that called them up?

Gaston: No.

H.M.Jr: I loved Pearson's answer. He said, "You tell Henry I don't care what he says, I love him just the same." This time he didn't - he didn't get sore?

Duffield: No, he just said, "That is one of Drew's stories."

H.M.Jr: In other words, they can take it?

Duffield: Yes.

Columbia Broadcasting Company says they are asking you and three other Cabinet officers, whom they do not name, to participate in a broadcast December 31st on the activities of your departments for 1939, and to do a bit of forecasting for 1940. I guess the answer is no.

- 7 -

H.M.Jr: Yes.

Duffield: I called up the departments and agencies involved in that April period and they were all quite friendly and said they thought we had made the best of a very difficult situation. The only variation from that was the State Department. When McDermott talked to Herbert Feis, Feis wanted to know if there was any record of what had been told to the newspaper men about that period and I said no, there wasn't, but I could tell him generally what we had said, and I did.

H.M.Jr: To Herbert Feis?

Duffield: To McDermott for Feis.

Alsoop still wants to see you.

H.M.Jr: Let's wait until after Monday. Well, I will see him, but I won't talk about this. Let's let it go. I have got an awful busy week.

Duffield: There is one question which doesn't fall right within that other matter that he is interested in, but it was about the same period and that was whether you had played any part in the drafting of the national defense message last session.

H.M.Jr: Well now, he is getting into September, isn't he?

Duffield: No, he is thinking of the national defense message at the opening of the regular session of Congress last January.

H.M.Jr: Did I?

Duffield: There is no record of it.

H.M.Jr: I don't think - did I?

Klotz: I don't remember.

H.M.Jr: Herbert?

Gaston: I don't recall.

- 8 -

Bell: I may have something on that. I will look.

H.M.Jr: National defense message of the President last January?

Duffield: That is right. That is all I have.

H.M.Jr: You have turned him down, haven't you?

Duffield: That is right.

H.M.Jr: How much does he want to see me?

Duffield: Except for this one request, I think he has and will eventually concede that he has no legitimate grounds for seeing you.

H.M.Jr: I think we will sit tight. You don't advise me contrary, do you?

Duffield: No, sir.

H.M.Jr: Harry?

White: The Russians are just beginning to buy a lot of copper. Is it your thought that Gaston is to take care of that or do you want me to keep a little memorandum or follow it up? I wasn't sure whether you said Gaston was handling all Russian materials.

H.M.Jr: Not on strategic materials. This stuff that you get on a weekly basis - you get it on a weekly basis, don't you?

White: Yes.

H.M.Jr: No. That isn't Gaston, that is me.

White: Incidentally, there must be some error. I did not transgress by giving you those cables. I don't know where you got them. I only gave you one.

H.M.Jr: All right.

White: The French Ambassador stated to Major McHugh in what is purported to be a very frank conversation

- 9 -

that the Japanese attack on the Southwest was due deliberately with the intent of threatening and intimidating the French Government.

H.M.Jr: I saw that. I would rather get it twice than not get it at all.

White: That is all. Then you were going to set an hour for tomorrow, sometime before 2:00?

H.M.Jr: All right. 10:00 o'clock?

White: And Mr. Viner is going to be available for this afternoon's meeting. He is the only one left of that group and I think he should give that precedence. I gathered he had something else.

H.M.Jr: Tomorrow morning?

White: No, for this afternoon on the discussion of the Bank. Tomorrow morning, too.

Viner: That is all right.

H.M.Jr: Tomorrow morning?

White: Yes. This afternoon, particularly.

Viner: Just let me know the time.

H.M.Jr: What else, Harry?

White: That is all.

Thompson: I had a friendly hearing before the Committee yesterday afternoon. I think we are going to lose the administrative promotion program, plus Dan Bell.

H.M.Jr: How?

Thompson: Johnson said off the record that they didn't understand these things. The one man who knew all about them was Dan Bell and that he ought to bring him up there and put him on their side of the table.

H.M.Jr: It is very nice for Danny Bell, but they sure are doing me. Are they doing away with your position?

- 10 -

Bell: No, it is just side comments.

Thompson: Johnson wants to steal him.

H.M.Jr: O. K.

Prepared by: Mr. Murphy
Mr. Lindow
Mr. Tickton
Mr. Haas

TREASURY DEPARTMENT

CONFIDENTIAL

INTER OFFICE COMMUNICATION

DATE December 14, 1939

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Current Developments in the High-Grade Securities Markets

SUMMARY

- (1) All maturities of Treasury securities gained in the week ended Wednesday, December 13. The average yield on long-term Treasury bonds fell five basis points (Chart I). Three to five year notes gained relatively more than longer-term bonds (Chart II).

The new Treasury issues were well received. The bond is approximately in line with the market (Chart III), while the new note is out of line on the upside (Chart IV). The premium on the new bond at the close of the first day of trading was high as compared with the premiums on new issues in previous note refundings (Chart V).

- (2) Corporate bonds have reached new highs for the present recovery (Chart I). New bond offerings have been confined almost entirely to the corporate category. An offering of \$48 millions of bonds and debentures of one utility company last week has been lagging. A \$45 millions utility issue is being offered today.
- (3) In the period since the 1936-37 highs, municipal bonds have lagged, as compared with high-grade corporates and Treasuries, but have been catching up in the present recovery (Chart VI).
- (4) All of the Treasury bill holdings of the Federal Reserve banks have now run off. The outstanding supply of bills on December 6 was equally divided between weekly reporting banks and other holders (Chart VII).
- (5) British Government securities have shown little change. French 3 percent rentes rose sharply from 72.00 on Friday, December 8, to 74.75 on Wednesday, December 13. Scandinavian government issues have recovered slightly from the lows of last week. The Finnish Parliament has authorized a defense loan of 1.7 billion marks (about \$34 millions).

I. United States Government Securities

The strength of Government securities during the last week is reflected in a decrease in the average yield of long-term Treasury bonds from 2.41 percent on December 6 to 2.36 percent on Wednesday, December 13 (Chart I). All maturities of Government securities have gained during the period, as shown in the following table:

	: Average price
	: increase week
	: ended Wednesday,
	: December 13
	(In thirty-
	seconds)
<u>Notes</u>	
1-3 years	+ 5
3-5 years	+ 15
<u>Bonds</u>	
Under 5 years to call ..	+ 3
5-15 years to call	+ 14
Over 15 years to call ..	+ 20

It will be noted that 3-5 year notes increased slightly more than the bonds callable in from 5 to 15 years. In view of the fact that the amplitude of movement of short-term securities is customarily far less than that of longer-term securities, the indication is that 3-5 year notes gained substantially relative to the long market. The movement of 1-3 year notes was likewise somewhat stronger than would normally be expected. A large part of the gains made by both categories of notes took place on Tuesday of this week, the first day of trading (on a when-issued basis) in the new issues.

Both 1-3 year notes and 3-5 year notes are now higher in price than on August 19, the day preceding the beginning of the severe phase of the war crisis (Chart II).

The new Treasury issues were well received. The bond opened Tuesday morning on a when-issued basis at 101-22/32 bid and, after minor fluctuations, closed at the same figure. The note opened at 101-10/32 bid and rose throughout the day to close at 101-17/32. On Wednesday both the bond and the note rose 5/32, the bond closing at 101-27/32 bid, and the note at 101-22/32 bid.

Secretary Morgenthau - 3

The bond appears to be approximately in line with the market. This may be seen in Chart III, which shows as of the close on Wednesday the yields of all Treasury bonds with a two-year call period.

The new note appears to be out of line on the upside, as is shown in Chart IV. As of the close on Wednesday, its yield (.64 percent) was one basis point less than the $3/4$ percent notes due three months earlier and only one basis point more than the 1's due six months earlier.

Chart V brings up to date the comparison of rights values and premiums on new issues, presented last week (December 6) in a memorandum entitled "Setting for the Refunding of the March Notes". The chart compares the value of the rights on the maturing issue with the premium carried by the issues offered in exchange in each of the Treasury note refunding operations since the beginning of 1934.

The rights value of the March notes was 101-10/32 bid on November 30, presumptively before the market could have been influenced by any official intimations as to the character of the new securities. The premium of the new bond was 1-22/32 bid at the close on Tuesday, the second highest premium carried by any new issue covered in the chart. The excess of 12/32 in the premium over the rights value at the end of the preceding month is also among the highest shown on the chart.

II. Other Domestic Securities Markets

Corporate bonds have gained during the month thus far. The Treasury average of the yields on high-grade corporate bonds reached a new low for the present recovery movement at 2.84 percent on Wednesday, December 13, as compared with 2.90 percent on Friday, December 1 (Chart I).

Municipal securities meanwhile have held relatively stable. The Dow-Jones average yield of twenty 20-year bonds showed practically no change in the week ended December 9. This index is now only five basis points above the record low of 2.58 percent established in the week ended June 24.

New public offerings of corporate and municipal bonds in the week ended December 9 amounted to \$60.7 millions, as compared with \$58.1 millions the week before. Almost the entire amount

consisted of corporate issues, comprising mainly \$48 millions of bonds and debentures of the Public Service Company of Indiana.

Distribution of the issues of the Public Service Company of Indiana is reported to be lagging, despite the fact that a week has elapsed since the offering date. The issues consisted of \$38 millions of 4 percent 30-year first mortgage bonds offered at 102 to yield about 3.90 percent, and \$10 millions of 3-7/8 percent debentures due serially from 1940 to 1949 offered at prices to yield from .65 percent to 4.20 percent.

The bonds are rated Baa and the debentures Ba by Moody's Investors Service. The bonds are being quoted less 2-1/2 to 1-1/2 points for guaranteed investment, and are reported to be moving slowly with only odd lot transactions being made and the syndicate attempting to support the market with a bid at the offering price. The shorter maturities of debentures have sold well, but the longer ones have been heavy.

An underwriting syndicate is offering today at par a \$45 millions issue of 30-year 3-3/4 percent bonds of The Northern Indiana Public Service Corporation. The offering of \$28.6 millions of Consumers Power Company 3-1/4 percent first mortgage bonds, originally scheduled for Thursday, December 7, was delayed by hearings before the Securities and Exchange Commission on the underwriting arrangements which have provoked considerable controversy. This issue is expected to be floated within a few days.

III. Longer-Term Perspective of High-Grade Securities Markets

It was pointed out in our memorandum of December 6 that Treasury bonds have done less well in the upswing from the September lows than have either high-grade corporate or municipal bonds. Further light is thrown on this situation in Chart VI, which shows the major price swings (as reflected by yield movements) experienced by each type of issue between its pre-1938 high-- occurring around the end of 1936 -- and yesterday's close (December 13).

During the period covered, it is noted from the chart, corporate bonds have done best, with Treasury bonds second, and municipal bonds last. This is in contrast with the behavior of the three types of issues in the period subsequent to their war crisis lows when municipal bonds showed the most recovery, and Treasury bonds the least. The explanation for the relatively poor showing of municipals over the longer period covered in Chart VI lies principally in the fact that they suffered a much larger decline in the early part of 1937 than did either Treasury or high-grade corporate bonds.

Secretary Morgenthau - 5

In the upswing between the spring of 1937 and the summer of 1939, all three classes of securities did about equally well. Similarly, in the war crisis declines, all three classes lost about the same amount. In the recovery from the war crisis lows, however, municipals gained on both Treasuries and corporates, but by not enough to overcome the greater loss suffered in 1937.

IV. Government Securities Held by Banks

The Federal Reserve banks have now permitted the last of their Treasury bill holdings to run off. This is the first time since Treasury bills were first issued in 1929 that the Reserve banks have held no Treasury bills. The outstanding supply of Treasury bills, as of December 6, was equally divided between weekly reporting member banks and all other holders (Chart VII).

The \$161.7 millions of the March notes held by the Federal Reserve banks were tendered in exchange for \$100 millions of the new bonds and \$61.7 millions of the new notes.

Last week, some interesting information concerning the Government holdings of the Bank of Manhattan was released at the Bank's annual meeting. It was announced that the Bank held \$85 millions of direct and guaranteed Government obligations as of December 1, a reduction of \$30 millions from September 30. During the same period, all weekly reporting member banks in New York City increased their holdings of Government securities by around \$400 millions.

Most of the securities sold by the Bank of Manhattan must have consisted of longer maturities inasmuch as the average maturity of holdings decreased during the period from five years and nine months to four years and nine months. As of December 1, two-thirds of the Government portfolio of the Bank had a maturity of less than five years and over 90 percent of less than ten years.

V. Foreign Securities Markets

The price of British 2-1/2 percent consols has fluctuated within the narrow range of one-quarter of a point since December 1 and closed Wednesday, December 13, at 67-5/8 to yield 3.70 percent. Short-term money rates have not changed in several weeks, call money being quoted at 1 percent to .75 percent and 6-month bills at 1-9/16 percent; but the yield on the weekly offerings of 3-month Treasury bills has continued its gradual rise of the last five weeks, the offering of December 8 being sold at an average yield of 1.23 percent as compared with 1.19 percent the previous week.

French 3 percent perpetual rentes, after several weeks of relative stability, rose sharply this week, closing Wednesday at 74.75, to yield 4.01 percent. This represents a price increase of 2.75 points from Friday, December 5.

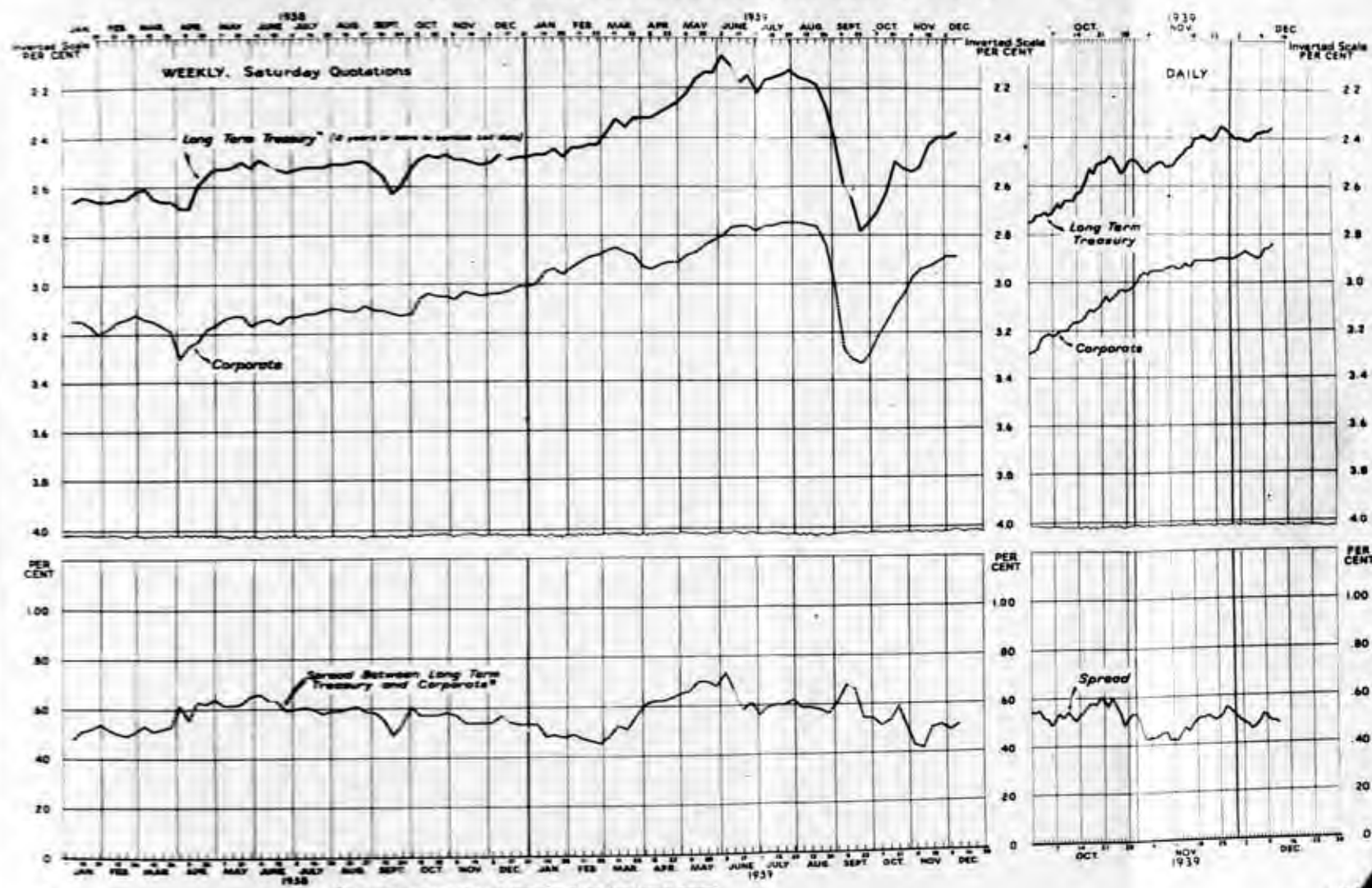
The following table compares the prices of representative Scandinavian government bonds on Wednesday, December 13, with their 1939 highs and lows and shows the net change from the high and low for each issue. At the present time, all three issues have recovered from their lows for the year made last week but the Norwegian and Danish bonds have recovered less than the Finnish issue.

	: High : for : 1939	: Low : for : 1939	: Wednesday: : Dec. 13 :	: Change : from : High	: Change : from : Low
Finland, 6's of 1945	107	32	40	- 67	+ 8
Norway, 4-1/4's of 1965	103-7/8	61-3/4	64-3/4	- 39-1/8	+ 3
Denmark, 4-1/2's of 1962	97-1/2	42-1/2	47	- 50-1/2	+ 4-1/2

The Finnish Parliament has authorized a defense loan of 1.7 billion marks, equivalent to about \$34 millions. On a per capita basis this sum is comparable with about \$1.2 billions in the United States.

Attachments

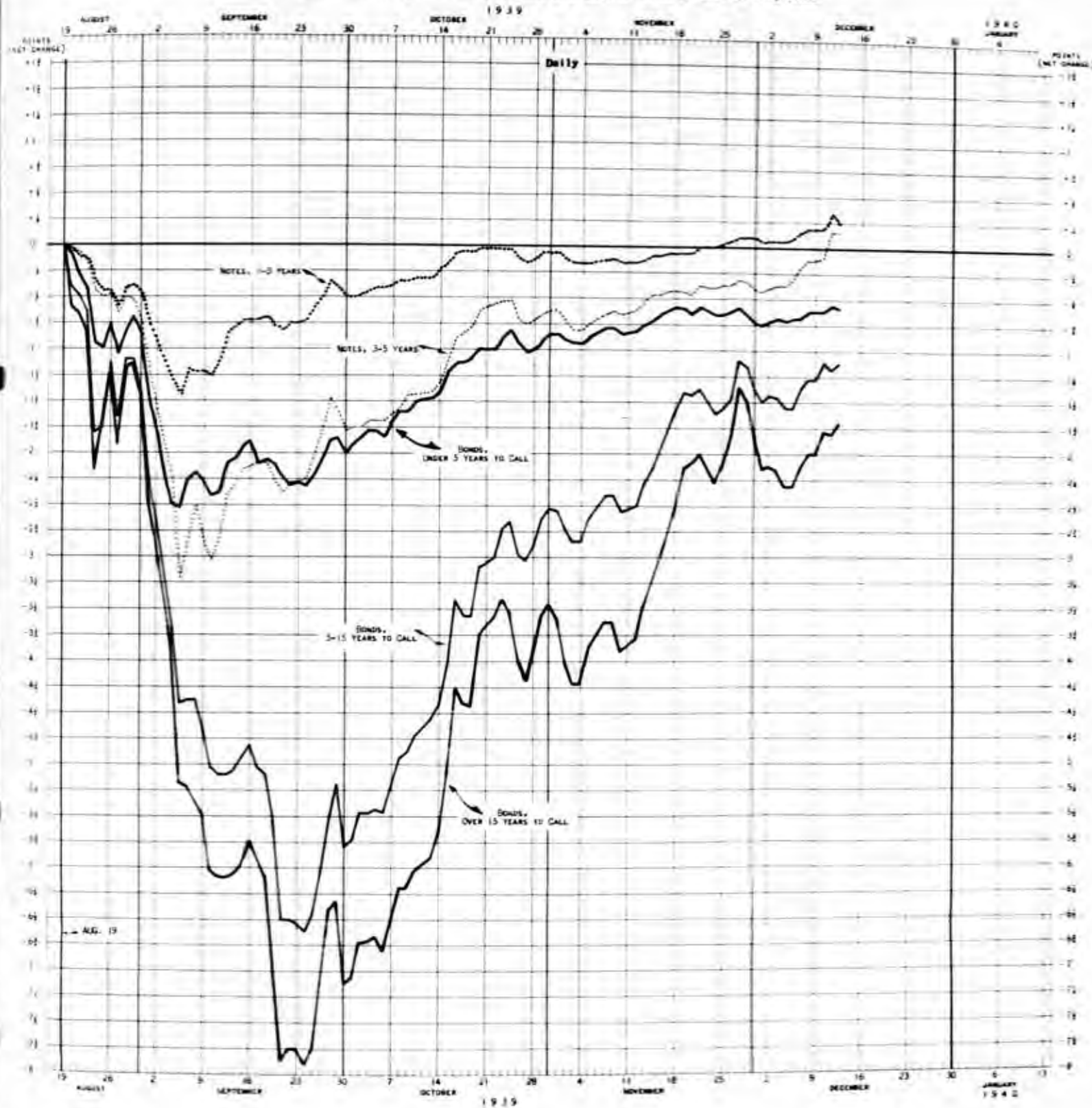
Chart I
COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY
AND AVERAGE OF HIGH GRADE CORPORATE BONDS



Office of the Secretary of the Treasury
Bureau of Governmental Statistics

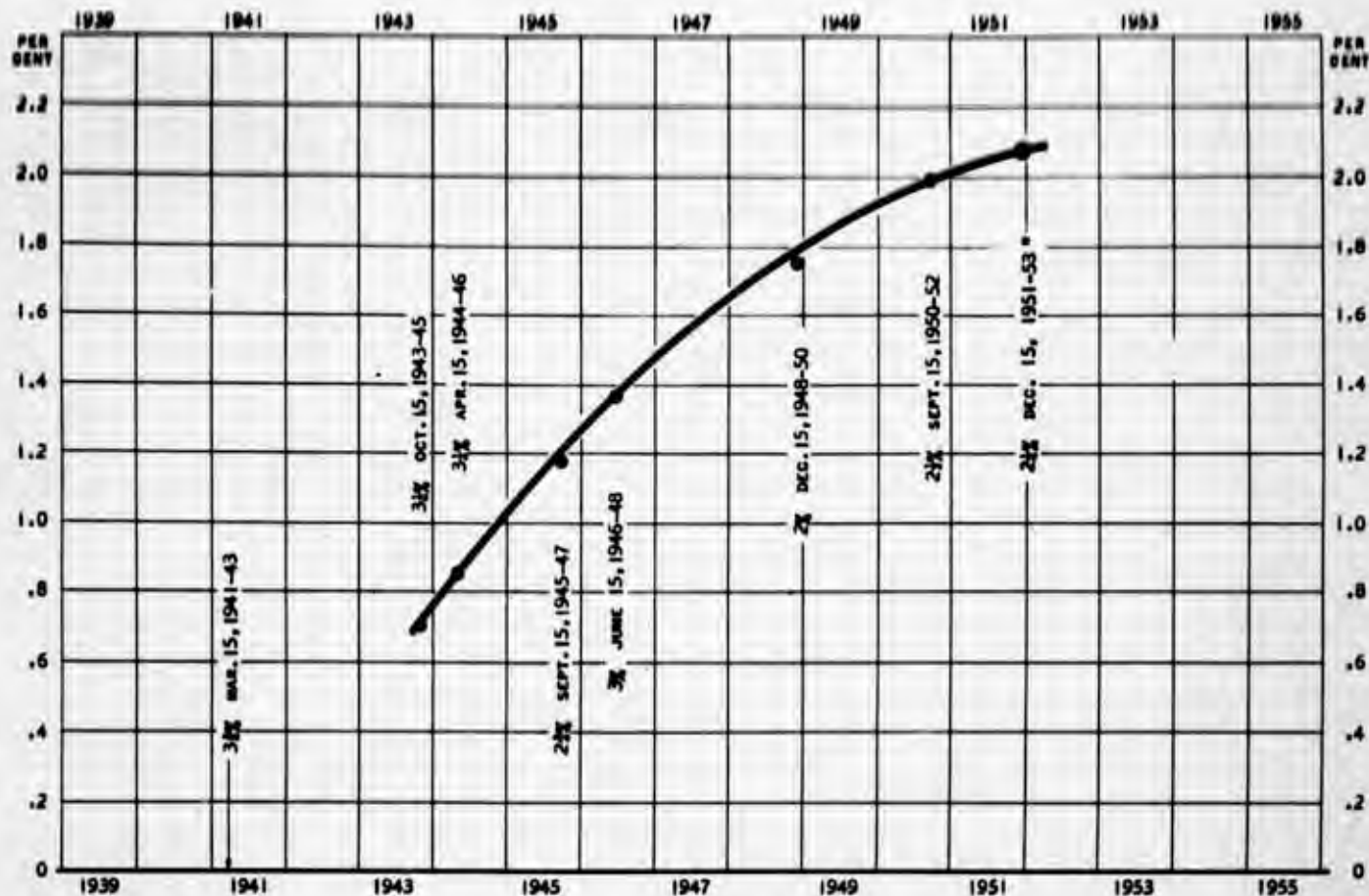
*Spread in this indicator change in comparison of Long Term Treasury average.

Chart II
CHANGES IN THE PRICES OF U.S. SECURITIES AFTER AUG. 19, 1939
Points Plotted Represent the Difference from Aug. 19 Price of Each Maturity Class



YIELDS OF TREASURY BONDS WITH A TWO YEAR CALL PERIOD

Based on Closing Bids, Wednesday, December 13, 1956



* WHEN ISSUED

YIELDS OF TREASURY NOTES Based on Closing Bids, Wednesday, December 13, 1939

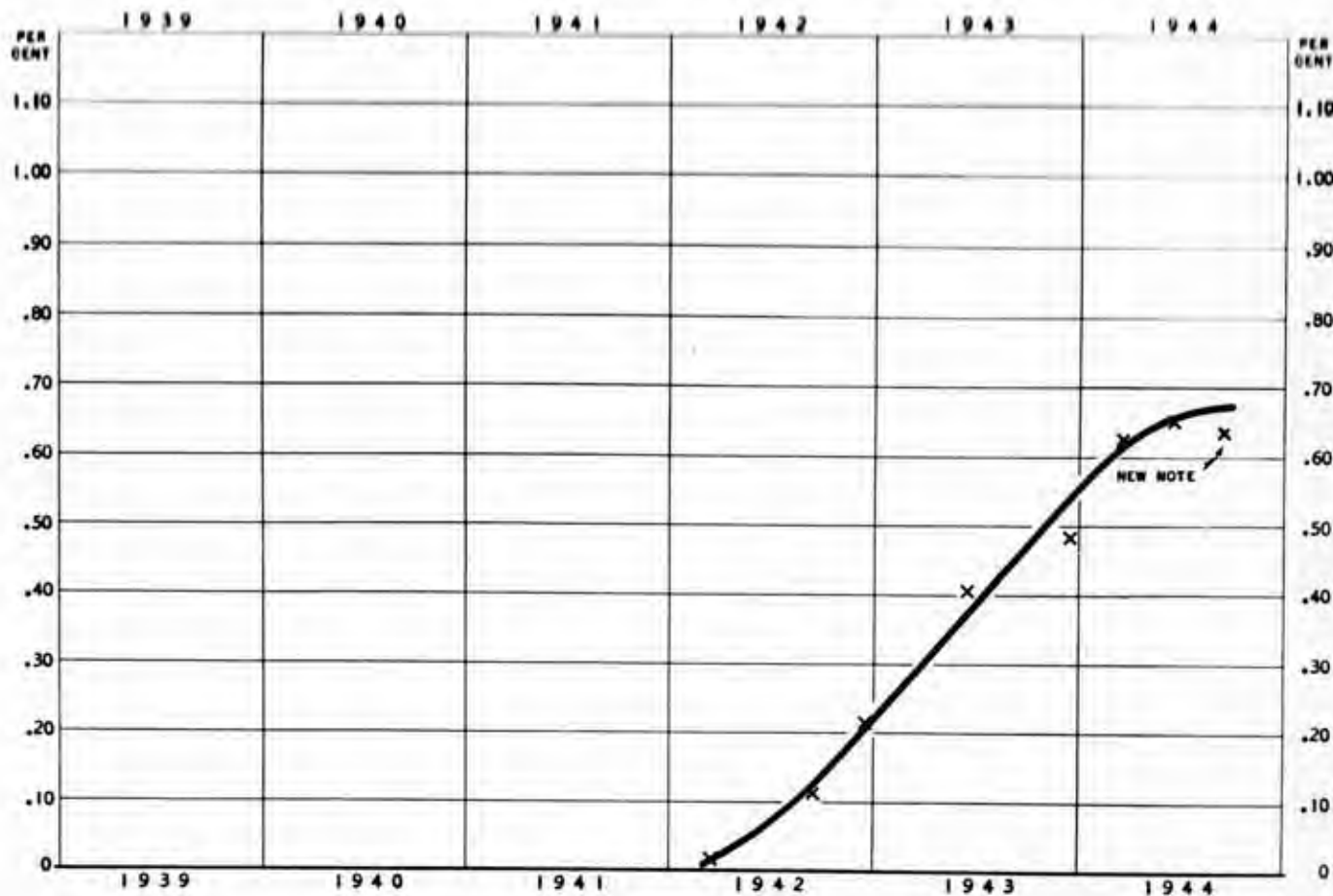
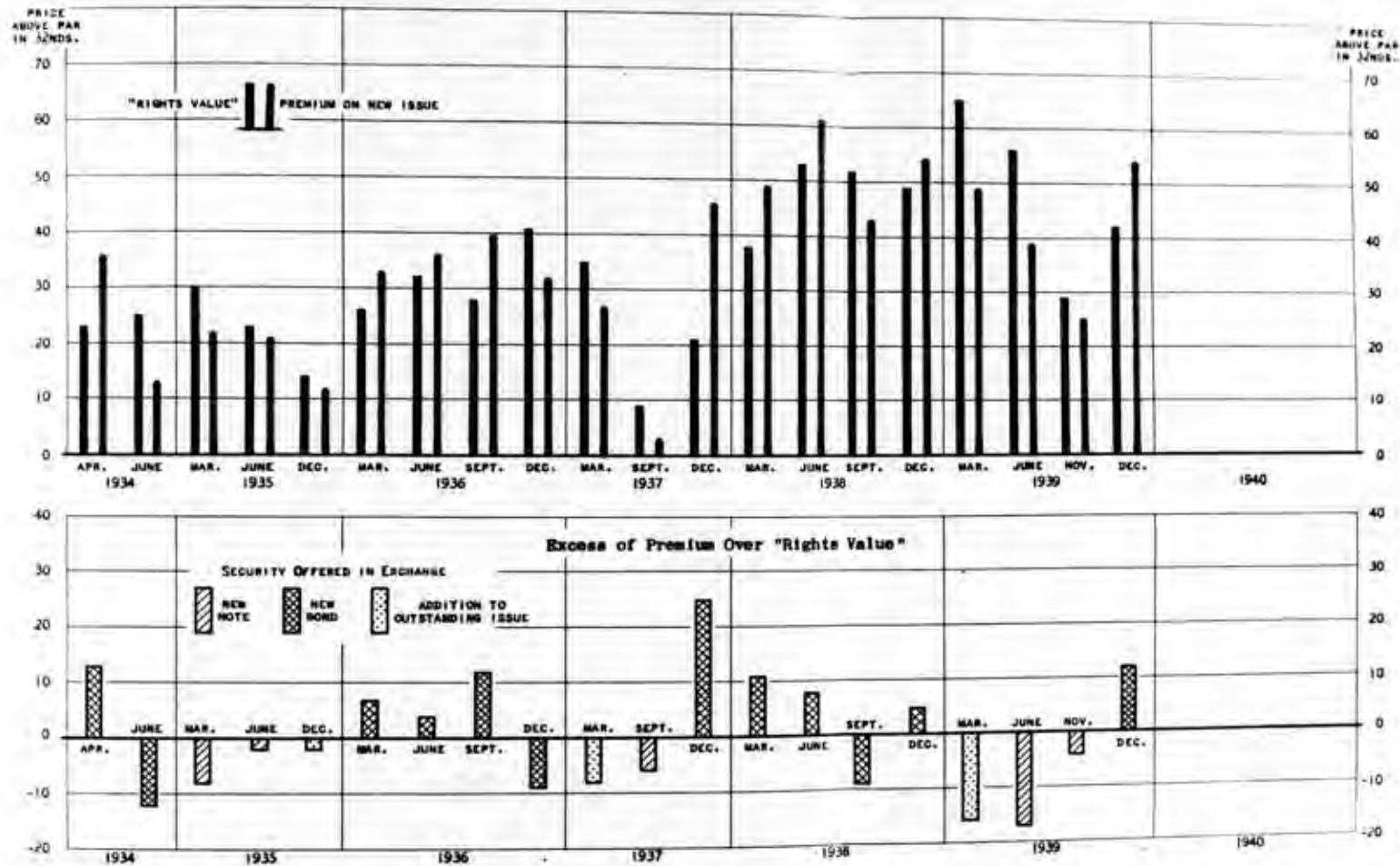


Chart V
 "RIGHTS VALUES" COMPARED WITH PREMIUMS ON NEW ISSUES*
 Exchange Offerings on Treasury Note Refundings, 1934 to Date



* WHEN MORE THAN ONE NEW ISSUE WAS OFFERED THE HIGHEST PREMIUM IS SHOWN

Office of the Secretary of the Treasury
 Division of Research and Statistics

Note: The rights values shown are as of the end of the preceding month;
 the premiums are as of the close of the first day of trading.

F - 141

CHART VI MAJOR MOVEMENTS OF THE YIELDS OF TREASURY, HIGH GRADE CORPORATE AND MUNICIPAL BONDS

Points Plotted Represent Changes from the Lowest Yield Reached by Each Class of Security Prior to 1938

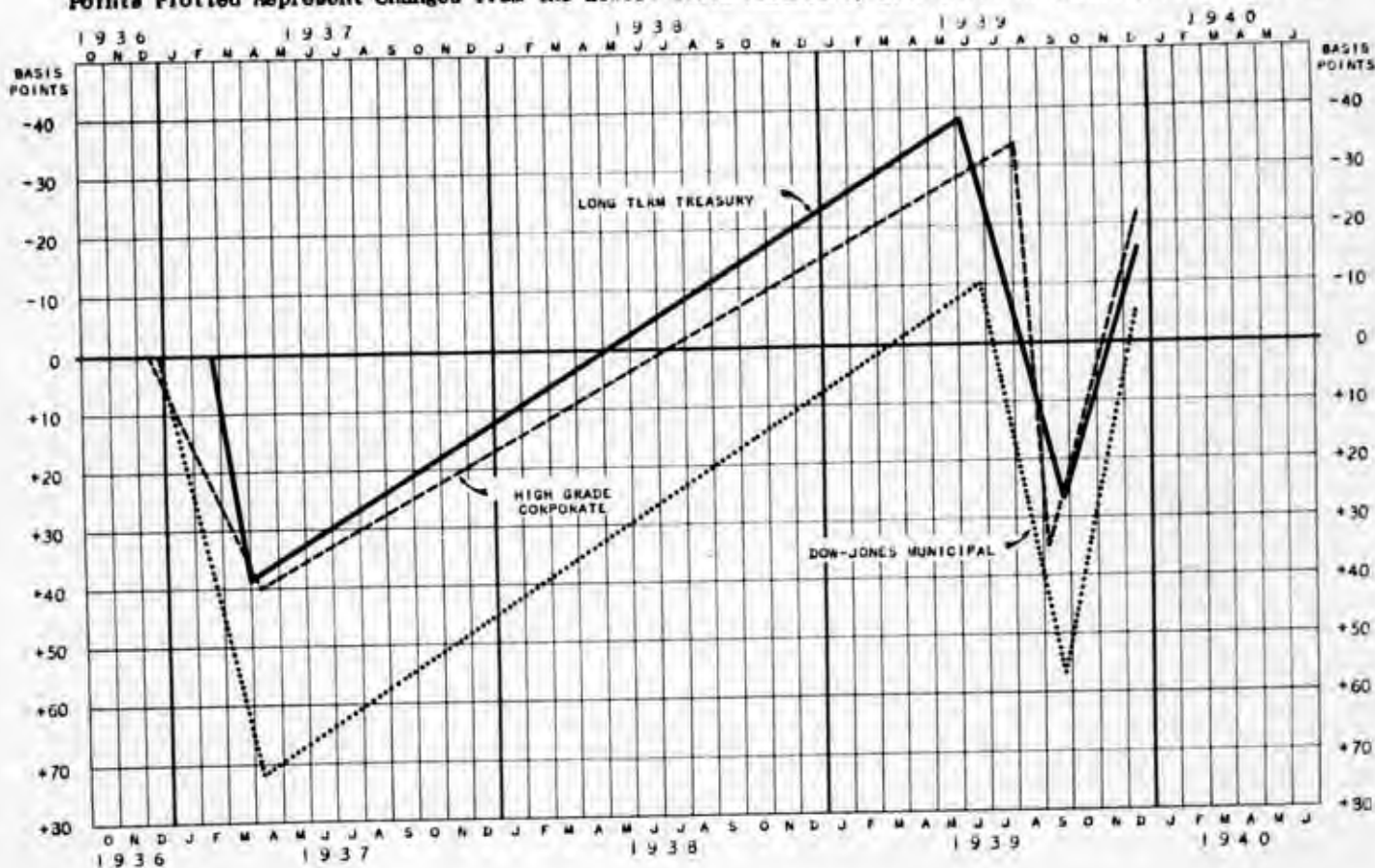
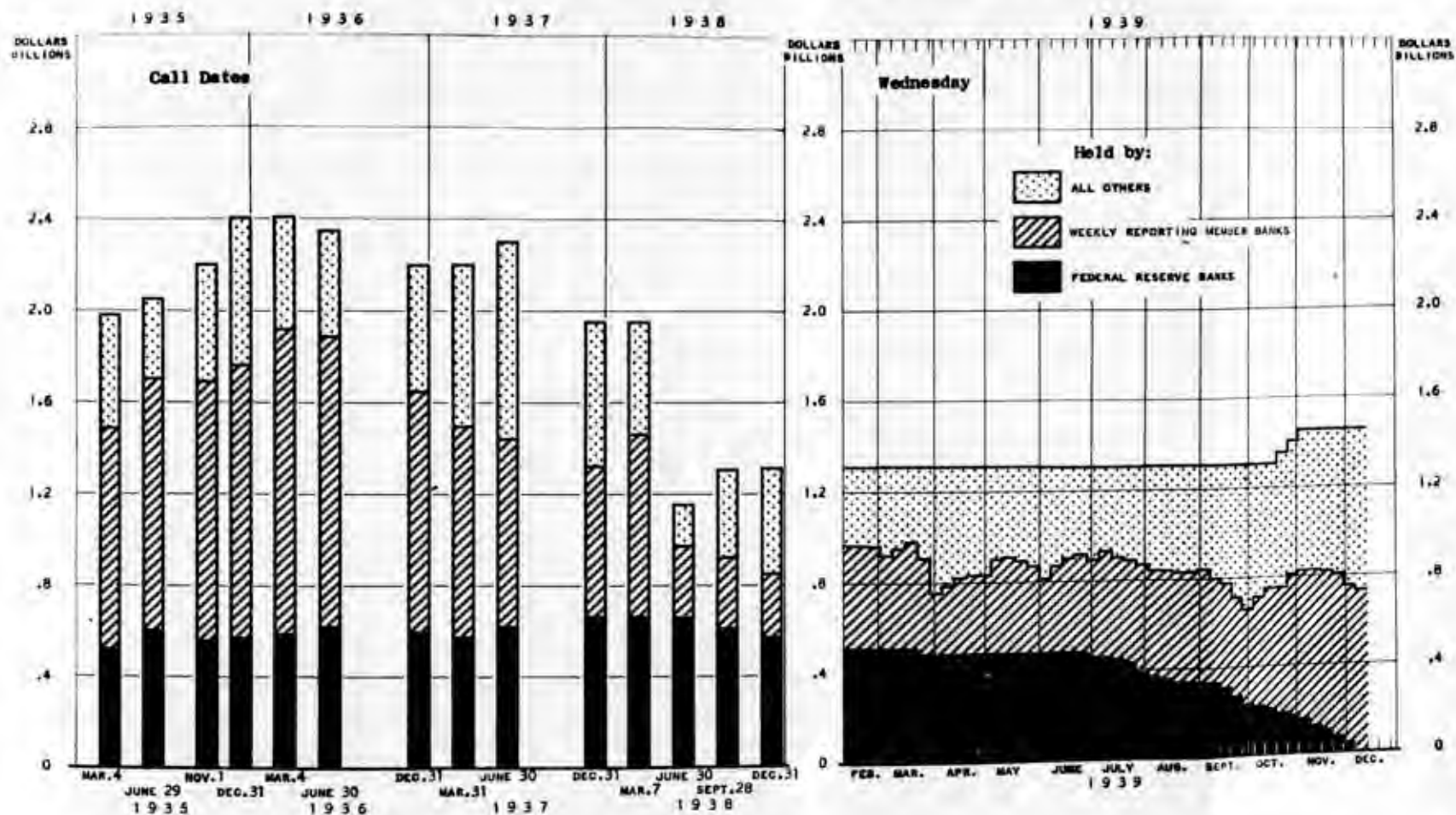


Chart VII
DISTRIBUTION OF OWNERSHIP OF TREASURY BILLS



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 14, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The foreign exchange market was active this morning but during the afternoon it quieted down. The volume of sterling transactions was only about half of that reported yesterday. At the opening, sterling was strong, being quoted at 3.95-1/4. The improvement in the rate was attributed to the covering of short positions abroad where the financial agreement between England and France was interpreted as bullish for sterling. About 10 o'clock, it reached the best price of the day at 3.95-1/2. About noon, the quotation was 3.94-3/4. During the afternoon there was some selling for Japanese account and sterling closed at 3.93-1/2.

Sales of spot sterling by the four reporting banks and the Federal Reserve Bank of New York totaled £523,000, from the following sources:

By commercial concerns.....	£ 162,000
By foreign banks (Europe, South America and Far East)....	£ 267,000
By Federal Reserve Bank of New York (for Latvia).....	£ 94,000
Total.....	£ 523,000

Purchases of spot sterling amounted to £484,000, as indicated below:

By commercial concerns.....	£ 184,000
By foreign banks (Europe and Far East).....	£ 300,000
Total.....	£ 484,000

In the reports of the two preceding days, it was stated that the British Control was purchasing cotton bills in a selective manner. Yesterday, Mr. Knoke had a talk with Bolton of the Bank of England and inquired into this question. Bolton explained that, under the present arrangement, exchange was given at the official rate against bills covering merchandise "actually on the move". In order to protect itself against being handed clean bills, that is, non-documentary bills which had nothing to do with actual merchandise operations, the Control was now insisting that any bill offered to it for settlement at the official rate would have to be guaranteed to have documents attached within 10 days; the Control considered this a reasonable time for the shippers to move the merchandise out of the warehouse, load it, obtain shipping documents, attach the documents to their draft and have it collected through their bank.

If the exchange transaction had to do with a sale of merchandise for forward delivery, the foreign seller could easily protect himself on the exchange risk by arranging with the British buyer to apply through his bank in England for foreign exchange for forward delivery at the official rate. The British buyer would describe the merchandise, produce the import license and on the bank's knowledge of the business, the exchange would be allocated. This was the only way the British Control could make certain that the foreign exchange applied for did not go into the wrong hands and did not serve speculative purposes. The foreign seller who had a contract for the sale of merchandise for forward delivery could protect himself as to the exchange rate in the future, as he had in the past, but instead of doing it in his own market as heretofore, the buyer would do it for him in London. The fact of the matter was that this was the kind of arrangement that had been contemplated from the outset but it had taken a long time for the British importers to realize that that was the way in which the business should be done. There had been a great deal of confusion particularly in Lancaster due to the fact that cotton dealers there were trying to do their business in war times as they had done it in peace times.

According to Bolton, then, the foreign shipper continues to have the same protection as in the past but, instead of covering his forward exchange in his own market, hereafter it will be up to the British buyer to do it in London. The official rate, of course, remains unchanged.

Today the following banks sold cotton bills to the Control on the basis of immediate mailing:

£ 7,000	by the Guaranty Trust Co.
3,000	by the Chase National Bank
1,000	by the City National Bank
<u>£11,000</u>	Total

The other important currencies closed as follows:

French francs	.0223
Guilders	.5309-1/2
Swiss francs	.2242-1/2
Belgas	.1654
Canadian dollars	12-3/4% discount

The Cuban and Mexican currencies showed some improvement from yesterday, being quoted at 11-5/8% discount and .1785, respectively.

We sold \$2,000,000 in gold to the Central Bank of Argentina to be added to its earmarked account.

We purchased the following amounts of gold from the earmarked accounts of the banks indicated:

\$25,000,000	from the Bank of Sweden
4,000,000	from the Netherlands Bank
<u>\$29,000,000</u>	Total

CONFIDENTIAL

The Federal Reserve Bank reported to us the following shipments of gold:

\$25,600,000 from Canada, shipped by the Bank of Canada, consigned to the Federal Reserve Bank of New York, for sale to the U. S. Assay Office at New York.

23,000 from Canada, shipped by the Royal Bank of Canada, consigned to its New York Office, for sale to the U. S. Assay Office at New York.

5,090,000 from Norway, representing two shipments by the Bank of Norway, consigned to the Federal Reserve Bank, to be earmarked for account of the Bank of Norway.

2,248,000 from England, shipped by the Bank of England, consigned to the Federal Reserve Bank for account of the Swiss National Bank. The disposition of this shipment is unknown at the present time but will probably be placed under earmark.

\$32,961,000 Total

We received from the State Department cables relative to the following gold shipments:

\$3,777,000 from Canada, shipped by the Bank of Canada, consigned to the Federal Reserve Bank of New York.

564,000 from England, shipped by Samuel Montagu and Co., London, consigned to the Guaranty Trust Company in New York.

279,000 from Sweden, shipped by Bolidens Gruvaktiebolag, Stockholm, consigned to the New York Trust Company.

\$4,620,000 Total

All of these shipments of gold will be sold to the U. S. Assay Office at New York.

The London prices for spot and forward silver were fixed at 23-3/8d and 23-9/16d, respectively, off 1/8d for each delivery. The U. S. equivalents were 41.54¢ and 41.41¢. Handy and Harman's price and the Treasury's price for foreign silver were both unchanged at 34-3/4¢ and 35¢, respectively.

We made five purchases of silver totaling 485,000 ounces, under the Silver Purchase Act. All of this silver was new production from foreign countries for forward delivery except 100,000 ounces which was inventory silver.

We also purchased 200,000 ounces of silver from Canada under our regular monthly agreement.

The Polish Financial Counselor called on me by appointment at 11:30 this forenoon. He is continuing his functions for the present, at least. His immediate task is to work out a statement, with the approval of the Bondholders Council in New York in regard to the necessity of default by Poland on future bond payments.

B. M. S.

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 14, 1939

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Livesey, from the office of Dr. Feis, sent these three cablegrams to me this noon and telephoned his regret that they had been held up in the Mexican section of the State Department. He thinks that one of the officers in that section, possibly Consul Bursley, may telephone one of us in the Treasury shortly to see whether we desire anything cabled to the Embassy in Mexico to allay the Mexican anxiety over our silver policy at the first of the year.

B. M. F.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Mexico City

NO.: 396

DATE: December 9, 1939, 3 p.m.

Today the Bank of Mexico withdrew from the foreign exchange market and stopped supplying dollar exchange to the banks associated with it. There was such a strong demand for dollars that private banks also stopped selling dollar exchange. At noon the banks were offering 5.10 pesos to the dollar but there were no sellers. At the close of business yesterday the stabilization fund of the Bank of Mexico had declined to \$700,000. In ten days peso deposits in private banks decreased from 15 to 20 percent. It is estimated by bankers that the dollar demand is approximately 5 percent above normal. The following reasons for the present difficulty are given by bankers: (1) reports that no more silver will be purchased by the Treasury after January 1, and (2) reports that income has declined greatly due to a drop in general exports and in exports of petroleum and the announcement which the Treasury has made to business concerns to the effect that because of the Government's need for money it will be necessary to impose an excess profits tax. The indications are that the peso will weaken rapidly, in view of the

the increasing demand for dollars and the lack of confidence which is increased by the Bank of Mexico's withdrawal from the exchange market. There were no runs.

DANIELS

RECEIVED

DEC 1 1964

EA:EB

JT

GRAY

MEXICO CITY

Dated December 11, 1939

Rec'd 5:45 p.m.

Secretary of State,
Washington.

398, December 11, 3 p.m.

Bank of Mexico did not enter exchange market today leaving rate of exchange to offer and demand but associated banks cooperated with Bank of Mexico to hold rate as low as possible. At 12:30 rate of exchange was 5.40 buying and 5.50 selling with resistance developing from dollar buyers. Dollar demand stronger than Saturday with purchasers unable to secure requirements. Gomez flew to Yucatan today to confer with the President and officials of the Bank of Mexico advise they are awaiting instructions from the President as to what course to pursue in the matter of exchange. This information is expected before the opening hour tomorrow. Officials of the Bank of Mexico said they did not anticipate any runs on banks and believe they can hold exchange situation in hand somewhere around 5.50 to the dollar.

DANIELS

NPL

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Mexico City

NO.: 402

DATE: December 13, 1939, 5 p.m.

Bank of Mexico still remaining out of exchange market for the purpose of guarding its reserves. Selling rate of dollars varied between 5.75 and 5.85 pesos December 12th and moved rapidly in the radius of 5.65 to 5.75 December 13th. Dollar transactions were small as holders of dollars refused to (*) at existing bank rates and therefore banks had very few dollars for resale.

It was stated by officials of the Bank of Mexico that in preference to permitting the rate to go higher than six to one, they would use their metallic reserve. No instructions have been received by the Bank of Mexico from the Finance Minister, who is still in (*) with the President. The decline in peso deposits since November 25, principally for the purchasing of dollars, has been estimated at 40,000,000, indicating that during that time 8,000,000 dollars have been purchased.

Silver coins are not being asked for by the public. This indicates that people have not begun to hoard pesos.

Bank of Mexico officials attribute present monetary disturbance principally to lack of exports; heavy imports; reports

(*) Apparent omissions.

reports indicating discontinuance of silver purchases
and today expressed disappointment over petroleum quotas
under Venezuelan treaty.

DANIELS

RECEIVED

NOV 1 1954

U.S. DEPARTMENT OF STATE
OFFICE OF THE SECRETARY
EA:EB

STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

54

DATE December 14, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

In accordance with the Secretary's instructions, I talked with the Belgian Ambassador by telephone this morning. He was very happy to arrange appointments with Mr. Theunis for Mr. White and Capt. Puleston. Mr. White is to go to the Embassy residence, 1750 Massachusetts Avenue at 4:30 this afternoon. Capt. Puleston is to go at 11:30 Friday morning.



STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

55

DATE December 14, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Chen stopped by to see me this forenoon. He stated that he had passed on to his Ambassador the Secretary's suggestion about a call at the White House. The Ambassador was delighted to have this suggestion and has already taken steps toward seeking an appointment. Mr. Chen does not expect this appointment before next week, so he is returning to New York today. He asked us to give him a telephone call if there is anything further we desire from him.

Chen told me that he had sent a cablegram, after the visit with us yesterday, inquiring as to how much Chinese tungsten could be shipped to the United States monthly.



STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION



56

DATE December 14, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

At 11 o'clock this forenoon Mr. Knoke telephoned me from the Federal Reserve Bank at New York to the effect that a confidential message for Governor Harrison had just been received from Under Governor Catterna of the Bank of England which reads as follows: "You are authorized to allow Mr. Morgenthau personal and confidential access to the special account on your books 'Bank of England A Account'". Mr. Knoke explained that this message had been both sent and received today.



STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

57

DATE December 14, 1939

TO Secretary Morgenthau
FROM Mr. Cochran

I talked by telephone this morning with the Secretary of the Finnish Legation and confirmed that the check to be presented to the Secretary tomorrow has actually been received. I gave the Legation the hour for the ceremony, and read to their Public Relations Officer, Mr. Hall, the text of the Secretary's remarks, as handed to me by Mr. Duffield. I have subsequently talked with Mr. Duffield in regard to the memorandum which the Finnish Legation had sent to his office, and which sets forth the ideas of the Finnish Minister. I agreed with Mr. Duffield that it would be well to limit the exchange to statements, and endeavor to avoid any significant remarks on the part of the Minister with respect to the military action against Finland.

December 14, 1939.

My dear Mr. Welles:

This will acknowledge your letter of December 13th in which you inform me that Dr. Stuart A. Rice has suggested that Mr. Winfield W. Riefler be designated a member of the Committee of which Dr. Rice is Chairman.

Mr. George C. Haas, Director of Research and Statistics, is in charge of work of this type in the Treasury. I therefore should like to have him receive the appointment to serve in this special capacity.

I am returning the letter of designation, which was addressed to Mr. Riefler, and if it is consistent with your wishes I would appreciate your arranging for the appointment of Mr. Haas.

Sincerely,

(Signed) H. Morgenthau, Jr.

ORIGINAL FORWARDED TO ADDRESSEE
FROM OFFICE OF THE SECRETARY

Honorable Sumner Welles,
Under Secretary of State,
Washington, D. C.

Enclosure. ✓

GR7/4be

By Messenger

12/15/39 10:45 a.m.

Copy to Mrs. Purcell



DEPARTMENT OF STATE
WASHINGTON

59

In reply refer to
HC

December 13, 1939

My dear Mr. Secretary:

You have, of course, been informed that on the recommendation of the Organizing Committee for the Eighth American Scientific Congress the Department has requested Dr. Stuart A. Rice, Chairman of the Central Statistical Board, to serve as Chairman of the Section on Statistics. Dr. Rice has suggested to the Organizing Committee and to the Department that Mr. Winfield W. Riefler, Special Assistant to the Secretary of the Treasury, be designated as a member of the Section Committee.

I enclose a letter of designation addressed to Mr. Riefler, and should you have no objection to his serving
on

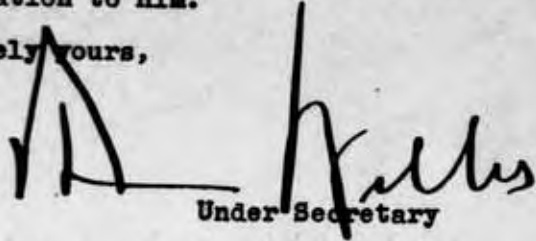
The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

on this Committee, it would be appreciated if you would forward this communication to him.

Sincerely yours,


Under Secretary

Enclosure:

Letter of designation.

C
O
P
I

DEPARTMENT OF STATE
Washington

01

December 13, 1939

In reply refer to
IC

My dear Mr. Riefler:

Dr. Stuart A. Rice, Chairman of the Central Statistical Board and Chairman of the Section on Statistics of the Eighth American Scientific Congress, has informed the Department of your willingness to participate in the work of that Section and has suggested that you be designated as a member of the Section Committee. I am gratified to learn of your interest in the Congress and I am pleased to inform you on behalf of the Department and the Organizing Committee of your designation as a member of the Committee on Statistics.

The formulation of the agenda of the respective sections should be completed at an early date and in order to expedite this work it will be necessary to convene within a very short time meetings of the several section committees. Arrangements have been made to defray from the special appropriation the traveling expenses of those committee members residing outside of the locality in which the meetings will be held.

You are authorized therefore to undertake travel in connection with your work on the Committee on Statistics of the Eighth American Scientific Congress in accordance with the provisions of the Standardized Government Travel Regulations. Such official travel may be undertaken only in compliance with specific instructions issued by the Department of State, either directly or through the Chairman of your Committee, setting forth the date and place of the authorized meeting. Transportation expenses from your home to the city in which the meeting is to be held and return to your

home are authorized. You will also be allowed \$5 per diem while in direct transit status to and from the meeting and while on official business in the city in which the meeting is held, in pursuance of this order. The expenses thus incurred are chargeable to the appropriation "1901113 Eighth American Scientific Congress, 1940-41". In the event that you are requested to attend a meeting to be held in the city of your residence, no transportation expenses or per diem will be allowable.

I enclose for your information a memorandum itemizing the expenses for which reimbursement may be claimed and containing instructions concerning the preparation and submission of vouchers.

A few additional committee meetings may be called prior to the convening of the Congress. It may not be necessary, however, for the full membership of the section committees to be present at all of the meetings but the Department will inform you either directly or through the Chairman of your Committee of the time and place of the meetings at which your attendance will be required.

Sincerely yours,

(Signed) Sumner Welles

Sumner Welles, Under Secretary
Chairman of the Organizing Committee
Eighth American Scientific Congress

Enclosures:

1. Travel Regulations.
2. Memorandum.

Enclosures - two mimeographed forms.

1. Eighth American Scientific Congress.
General Information Concerning Authority to Undertake Travel on
Official Business, Types of Expenditure for which Reimbursement
may be Claimed, and Preparation and Submission of Travel Vouchers.
2. Expense Sheet.

12-14-39 2



DEPARTMENT OF STATE
WASHINGTON

64

In reply refer to
Co

Sirs:

There is enclosed a copy of a statement in regard to the bombing and machine-gunning of civilian populations from the air which the President made in his press conference on December 2, 1939.

In view of the policy to which the President referred, the Department hopes that it will not receive any application for a license to authorize the exportation, direct or indirect, of any aircraft, aircraft armament, aircraft engines, aircraft parts, aircraft accessories, aerial bombs or torpedoes to countries the armed forces of which are engaged in such bombing or machine-gunning.

Should any manufacturer or exporter have already entered into contractual obligations, of which he finds

it

it impossible to divest himself, to sell or export airplanes or aeronautical equipment, for which licenses have been issued or for which he has heretofore intended to apply for licenses, to countries referred to above, it is suggested that he may wish to inform the Department of the terms of the contract before applying for licenses to export pursuant to it or before exporting under licenses already issued.

Your attention is invited to the fact that the President's statement refers not only to aircraft and those aircraft parts for which an export license is required but also to aeronautical equipment of all kinds and to materials essential to airplane manufacture.

Very truly yours,

For the Secretary of State:

Joseph C. Green
Chief, Division of Controls

Enclosure:

President's statement of
December 2, 1939

December 2, 1939.

The President, after consultation with the Secretary of State this morning, released the following statement at noon today: "The American Government and the American people have for some time pursued a policy of wholeheartedly condemning the unprovoked bombing and machine gunning of civilian populations from the air.

"This Government hopes, to the end that such unprovoked bombing shall not be given material encouragement in the light of recent recurrence of such acts, that American manufacturers and exporters of airplanes, aeronautical equipment and materials essential to airplane manufacture, will bear this fact in mind before negotiating contracts for the exportation of these articles to nations obviously guilty of such unprovoked bombing."

C O P Y

67



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
Co

July 1, 1938

As some misunderstanding appears to have arisen as to the purport of the statement made by the Secretary of State in his press conference on June 11 in regard to bombing civilian populations from the air, I am addressing this letter in regard to the matter to all persons and companies registered as manufacturers or exporters of airplanes or aeronautical equipment.

In view of the fact that the Secretary's statement definitely condemned bombing of civilian populations from the air, it should be clear to all concerned that the Government of the United States is strongly opposed to the sale of airplanes or aeronautical equipment which would materially aid or encourage that practice in any countries in any part of the world. Therefore, in view of this policy, the Department would with great regret
issue

-2-

issue any licenses authorizing exportation, direct or indirect, of any aircraft, aircraft armament, aircraft engines, aircraft parts, aircraft accessories, aerial bombs or torpedoes to countries the armed forces of which are making use of airplanes for attack upon civilian populations.

Should any manufacturer or exporter have already entered into contractual obligations, of which he finds it impossible to divest himself, to sell or export airplanes or aeronautical equipment, for which licenses have been issued or for which he has heretofore intended to apply for licenses, to any country which is engaged in bombing civilian populations from the air, it is suggested that he may wish to inform the Department of the terms of that contract before applying for licenses to export pursuant to it or before exporting under licenses already issued.

Very truly yours,

Joseph C. Green, Chief,
Office of Arms and Munitions Control.

59

(NOT FOR THE PRESS)
(FOR DEPARTMENTAL USE ONLY)

Department of State
Division of Current Information No. 115

MEMORANDUM OF THE PRESS CONFERENCE, SATURDAY, JUNE 11, 1938

AERIAL BOMBINGS

At the press conference this morning a correspondent said that there was a report in the morning newspapers to the effect that the Secretary was considering some plan in connection with the bombings, pointed toward discouraging the sale of American bombing planes abroad. Asked whether he could add anything to this report, the Secretary replied that with regard to the British invitation to participate in an investigation of bombings in Spain, the Department had not taken any affirmative action thus far. With regard to the bombing of civilian populations and the probable danger to Americans and American interests in other parts of the world, he said he had made repeated public statements condemning the bombing of civilian populations. He said that he was continuing to maintain that position and to declare to everybody that this Government does condemn the bombing of civilian populations or its material encouragement. He declared that he was saying this abroad and saying it at home to the American people and especially to the manufacturers of bombing planes.

A correspondent inquired whether in the last few days these well-known views had been expressed to the manufacturers of bombing planes. The Secretary said that he was saying these things to the American people just as he had said them for the benefit of other nations, that they had been said frequently in the past and will be said frequently in the future to the American people and to the manufacturers. A correspondent asked whether this meant that the Administration or the Government would frown on all future sales of American airplanes that could be used for bombing purposes or whether the Government would encourage them to pick their customers. The Secretary replied that his public statements condemning the bombing of civilian populations would discourage sales to regions where they would be used to bomb civilian populations.

SINO-JAPANESE

In response to a question the Secretary said that there had been no further confirmation of reports of the past few days that Japan was planning to return additional American property in China in Japanese-occupied areas.

M. J. McDermott.

65229

70

December 14, 1939

MEMORANDUM FOR THE PRESIDENT

Via Mr. McReynolds

In compliance with instructions contained in letter of the President, of December 7, 1939, creating an informal committee for contacts with foreign governments in all matters relating to their material requirements, the following weekly report is submitted:

At a meeting of the Committee today, at which were present all members, the following transactions were considered and acted upon:

- A. Clearance was given the Government of Finland for supplying 60,000 gas masks and the Minister of Finland was so advised.

The Committee informed the Goodyear Tire and Rubber Company, Akron, Ohio, and the Knovilton Company, Watertown, New York, manufacturers of gas masks that a clearance had been given to the Minister of Finland, authorizing direct purchase of 60,000 gas masks, less filter, for which a satisfactory substitute was indicated.

- B. There was also informally presented to the Committee for its consideration, a list of material, including airplanes and ordnance.

Inasmuch as the Committee was informed that steps had already been taken whereby the Government of Finland was to obtain deliveries of airplanes by direct contact with certain airplane manufacturers, it was not necessary for the Committee to further consider the matter at this time. This matter had been presented to both the War and Navy Departments prior to the time that the informal committee was organized.

The Committee was informed by the War Department representative that the ordnance materiel listed by the Minister of Finland was not available either from War Department sources or War Department contracts.

H. E. Collins
Director of Procurement

December 14, 1939

Memorandum to The Secretary

From Mr. Viner

Subject: Randolph Paul Tax Recommendations

I have read carefully the first section of Mr. Paul's recommendations, relating to changes in the income tax law which would result in increased revenues. The recommendations cover so wide a ground that even to read all of Paul's documents would require more time than is now available to me, and to comment on them all in any detail would require at the minimum a solid week free from all other activities. I therefore herewith submit instead my general impressions on Paul's recommendations, as far as I have examined them, and, in a supplementary memorandum, I make some specific comments on the detailed recommendations made by Mr. Paul in the portion of his documents which I have read.

(1) Some of Paul's recommendations seem to me to be in the right direction, though I find little novelty in them, and the failure to adopt them in the past has, I am sure, for the most part been due not to lack of awareness of them but to political obstacles; e.g., vested interests in the present tax status, or Congressional desire to give preferential treatment to certain activities, such as home-ownership or cooperative as distinguished from stock company enterprise. I am certain that your taxation staff will not be taken by surprise by those of the Paul recommendations for which a strong case can be made.

(2) Many of Paul's recommendations seem to me to be either definitely bad, or highly questionable, or to be less desirable than other methods of accomplishing the same objective, or to require very careful consideration before they are adopted.

(3) I think a general overhauling of the tax structure should not be framed in terms of its details, with the general principles to be inferred from the nature of the detailed changes recommended, which is Paul's procedure, but instead should start from general principles as to a desirable tax structure and move on to the detailed changes as an application of these principles.

(4) Paul treats loopholes, cushions, features favorable to large incomes, in isolation from the basic schedule of rates, whereas I think that these loopholes, etc., should be

appraised always in view of what that basic schedule is. Stated more expressly, I feel that although "loopholes", "cushions", etc., for large incomes would be inexcusable if the basic rates on such incomes were not unreasonably high, when these basic rates are both unreasonably high and for political and social-bias reasons are irreducible, a case can be made for the loopholes and cushions as operating to make the tax system as a whole a more reasonable one than it would be without them.

(5) I note that the President asks you merely to provide estimates of the revenue consequences of the adoption of Paul's recommendations, and does not ask for an appraisal of their merits. I would recommend that you carefully avoid any appearance of accepting these recommendations as if they were prima facie acceptable ones, and that you treat them as an assembly of specific recommendations, often unsupported by any real argument, ranging from good to good but politically impossible to questionable to outright bad, but deserving of careful consideration because of their source and their sponsorship.

(6) I should explain that I have not worked intensively in the taxation field during the last fifteen years or so, and that my comments are to be regarded as only semi-expert in character.

(7) I will not put any more time on the Paul recommendations unless you request me specifically to do so. The other assignments I have are heavy, and I will be able to find more time for this one only by dropping some of the other assignments.

December 14, 1939.

73

Supplementary Memorandum

to The Secretary

From Mr. Viner

Subject: Detailed Comments on Randolph Paul's
Recommendations for Income Tax Increases.

- (1) Personal Exemption provision "involves serious discrimination in favor of high bracket taxpayers."

Paul reaches this conclusion by comparing the value of the exemption to low bracket taxpayers (e.g., \$100 for a married person with a net income of less than \$4,000 as compared to \$1550 for a person with a net income in excess of \$100,000).

It seems to me that it is misleading to consider the comparative effect of the personal exemptions, deductions, etc., on low and on high bracket taxpayers respectively without reference to the schedule of surtax rates. The personal exemptions help in a mild way to make the high bracket surtax rates less oppressive. It is arguable, I think, that there should be a flat personal exemption (say \$100 of tax for a married person) for all taxpayers, but if this change were made the schedule of surtax rates should be made to rise less steeply for the large incomes, with no net increase in revenues necessarily resulting from the two changes combined.

- (2) Proposal for taxing stock dividends

Paul's argument assumes, without argument, that the Supreme Court decision in Eisner v. Macomber declaring stock dividends not to be income was economically wrong, and implies that all stock dividends are income. I don't think the issue is nearly as simple as this implies. The basic question is, when does income to a corporation become income to its stockholders and the issuance or non-issuance of stock dividends has little direct bearing on this question. I would venture the judgment that taxation of all stock dividends as income would make the tax system less equitable than taxation of no stock dividends as income, subject to the possibility that taxation of stock dividends would have as its chief effect suppression of the practice of stock dividends, which would, I think, be of minor consequence, but that bad rather than

good. It is not issuance of stock dividends but non-distribution in cash of corporate earnings, or non-taxability to shareholders of corporate income when earned by the corporation, which is the important means of making use of the corporate form to evade personal income tax.

(3) Trust Income

Recommendation seems O. K.

(4) Unreasonable Accumulations

Paul's suggested presumptions seem somewhat arbitrary. A properly drafted undistributed surplus tax, on an annual instead of a once-for-all basis and at a fair (and therefore moderate) rate per year, plus more use of the averaging method in taxing personal incomes, seems to me a better approach. Since the undistributed profits tax episode probably makes this approach politically impossible for the time being, I think the best legislative procedure would be experiment with spelling out "unreasonable" in the law. If Congress (or the Treasury) can't construct a reasonable definition of unreasonable accumulation, then it does not know what it is it wants to tax, and should leave it alone. Some of Paul's presumptions would have bearing on the definition of "unreasonable accumulation" but not all.

The argument upon page 10 that the 25 percent rate may be too low seems to overlook: (a) the fact that payment of the tax does not exempt the remainder of the accumulated surplus from full personal surtaxes if subsequently distributed; (b) that eventually much of it will be distributed; (c) that a part of the remainder will eventually be reached through the capital gains resulting to shareholders from non-distribution of earnings; (d) that another part would be reached if transfers of shares at death or through gifts were made subject not only to the estate or gift taxes but also to the capital gains tax on the excess of their value at the time of the transfers over their value at the time of their original acquisition; and that (e) the only portion which need escape eventual subjection to personal income or capital gains taxes is the portion which is lost by the corporation before distribution or before change of ownership of the shares.

- (5) Failure to treat rise in value of property transferred in charitable gifts as capital gains is a defect of present law as long as other capital gains remain taxable.

Paul's recommendation that such transfers be made deductible only in the amount of the cost of the property transferred to the donor when this is lower than its value at the time of transfer would in most cases result in the property being sold prior to the gift and the gift being made in the form of cash. When this is the result, the change in law would, I think, operate well, since the increase in value of the property would be taxable as capital gains to the donor. But where there are good reasons for the gift being made in kind, as is often the case (i.e., a gift of an estate to an adjoining public park or university, or a gift of an art collection to a city) the rise in value of the property would then under Paul's proposal be taxed at higher rates than the capital gains rate (if the donor was in a high bracket). Suppose that the capital gains tax is a percent and the income is for the most part in the top bracket where the personal surtax is at the rate of (a plus b). Suppose that the gift has a value at the time of gift of \$5,000,000 and that it was originally acquired at a cost of \$1,000,000. If the increase in value is made taxable at the capital gains rate of a, and at the same time \$5,000,000 is deductible from income, $\$4,000,000 \times \underline{a}$ is paid as capital gains tax and $\$5,000,000 \times (\underline{a} \text{ plus } \underline{b})$ is deductible from personal income tax. If Paul's recommendation were adopted, however, there would be no capital gains tax, but the deduction from personal income tax would be only $\$1,000,000 \times (\underline{a} \text{ plus } \underline{b})$, with the result that the net saving of taxation because of the gift would be only $\$4,000,000 \times \underline{b}$ less than under my proposal. Under my proposal there is no tax advantage or disadvantage as between making a gift in cash or in kind, whereas under Paul's proposal gifts in kind would receive much less generous treatment than gifts in cash.

(6) Deductions for non-business casualty losses

I like Paul's recommendation that they be treated as capital losses, but don't see the equity of his total elimination of tax rebate, which he seems to prefer, as long as capital gains, whatever the cause of the gain or the nature of the property, are taxable.

(7) Interest on non-business borrowings

I think there should be no deduction on this account. If home-ownership or other debt-creating activities are to be encouraged, the subsidy should be direct and on a non-arbitrary basis.

(8) Deduction of interest paid by corporations from taxable income.

I agree with Paul that such deduction is unfairly discriminating against equity financing, and that the law should treat dividend payments and interest payments alike. There is in fact much to be said for giving equity financing preferential treatment. But Paul seems to overlook the difficulties in the way of rapid introduction of this reform, for corporations which now have a high ratio of bonded indebtedness to equity capital (e.g., the railroads) might be forced into bankruptcy by such a change in the tax laws.

(9) Non-business bad debts

I would go further even than Paul recommends, and would allow no deductions, except where the loan was to a non-profit institution, a gift to which would have been deductible.

(10) Non-business taxes

I would go further than Paul, and allow no deductions whatsoever for local property taxes on owned residences, except in order to put home-owners and home-rentors on an absolute parity as far as Federal taxes are concerned, (where residence is also place of business, some adjustment would be equitable). As for other taxes, I would allow deduction only where they meet either of the following criteria: (a) when they are ordinary costs of doing business; (b) when they are not levied on essentially a benefit basis, with substantial and obvious relationship between tax levied and service rendered by the tax-levying authority.

(11) Optional valuation

Paul's recommendation that the value to be used by distributees of an estate for purposes of depreciation or calculation of gain or loss in case of subsequent transfer should be the value used for purpose of estate tax seems to me to be obviously a sound one.

(12) Husband and wife

I suggest as another solution of the difficulty caused by community property laws to universalize the tax situation existing in a community property state, i.e., to allot for purposes of income taxation all family incomes 50 percent to husband and 50 percent to wife (with appropriate changes in rate schedules and in treatment of single individuals).

(13) Income from governmental obligations

I agree that income from future issues of governmental obligations, Federal and State and local, should be taxed alike with other income, if constitutionally possible.

But the argument that to tax the taxable portion of an income of say \$200,000 of which say \$100,000 is tax exempt at the rate at which a wholly taxable income of \$200,000 is taxable would not be taxing non-taxable income, seems to me to be tricky. In such a case either non-taxable income is being taxed, or two taxable incomes of equal size are being taxed at different rates. Put in other words, to tax taxable income at a higher rate when non-taxable income is associated with it than when non-taxable income is not associated with it is in essence to tax the non-taxable income. To argue otherwise is akin to affirming that where land is legally taxable but improvements are not, the application of a higher rate to land when and because it had buildings on it does not really mean that the buildings are being taxed. The real and simple test as to whether non-taxable income is really escaping taxation is whether or not its possession makes any difference in the aggregate amount of tax payable.

(14) Capital gains

The treatment is too brief and too dogmatic to permit of useful comment. The topic is extremely complex, and I don't believe that the problem of capital gains taxation can be fruitfully discussed except with detailed reference to the income tax structure as a whole. It may be true that "The oft-repeated criticism that the taxation of capital gains impedes the mobility of capital, and discourages capital from venturing, is exaggerated" but it is none-the-less a valid criticism. It is also a valid criticism that if matched by parallel capital loss provisions it makes gross evasion of taxation possible, but if not so matched, it results in gross inequities as between different taxpayers, and that many kinds of taxable capital gains are not genuine income and would not be taxable at all under a proper income tax system. It seems to me that the most satisfactory compromise solution of the problem in the present income tax structure would be a capital gains tax at a variable rate equal to say one-quarter of the tax to which the highest bracket of a taxpayer's income exclusive of the capital gains is subject, paralleled by a similar capital loss deduction privilege, with treatment of capital gains as realized not only upon sale or exchange, but also upon transfer by death or gift inter vivos.

(15) Pre-March 1, 1913 income

Since the purpose of the income tax is supposed to be to tax income, and not to force distribution of earnings by corporations, if it should be decided to tax pre-March 1, 1913 incomes at this late date it would be unfair to shareholders of corporations who have retained such income if future distribution of such income were suddenly to be made taxable after a quarter-century of exemption, and any such step should not be made effective until ample time was afforded for tax-free distribution. It would clearly be arbitrary if distribution in 1939 of pre-March 1, 1913 income should be tax free, but distribution of such income on January 2, 1940 should be taxable at heavy rates.

(16) Interest earnings of insurance policy

I can't form an opinion on this without further study. No comment, therefore.

(17) Double loss deductions

No comment.

(18) Increase or decrease in value of property between acquisition and death

As long as capital gains are taxable, I would deal with this in the alternative manner recommended by Paul, namely, to treat transfer by death as a realization of gains (or loss) and subject to capital gains tax or loss deduction against the estate of the decedent (but spread over a number of years for purposes of computing the rate of capital gains tax - or loss deduction). I would aim to put capital gains closed by death on as near a parity with capital gains closed by sale as is practicable. For the distributees, the question of gain or loss to the decedent should be of no direct concern for taxation purposes, and they should be affected only as the capital gains tax (or loss deduction) affects the net amount of the estate left.

(19) Exemption of building and loan associations

This exemption constitutes a subsidy to one particular form of business organization. I would go further than Paul, and make such associations subject to the same income tax treatment as any other income earning corporation, but would make the change gradual so as to permit necessary adjustment of financial structure and practices, i.e., I would remove the exemption only partially at first.

(20) Mutual insurance companies

I would make provision for genuinely mutual local enterprises by exempting a maximum income, say \$10,000 a year, treating income in excess of this similarly to income of stock companies.

(21) Employees' Pension Trusts

To prevent the use of pension schemes as means of tax evasion for large salary men, Paul would limit the deductibility from corporation income tax of payments to pension trusts to say \$5,000 for any one employee. This seems a defensible proposal, but I would like to see the possibility canvassed of dealing with the problem from the employees' angle, i.e., allocating the taxable income to the employee when above a specified amount in the year of payment by the employer to the trust rather than in the year of payment by the trust to the employee.

(22) Depletion in mines

Recommendation for elimination of special depletion allowances approved. This is a notorious "special favor".

(23) Development expense

No comment.

(24) Treatment of non-resident individuals and foreign corporations

Paul's discussion too dogmatic and simplified to call for comment. The problem is complex, and has been intensively studied in the Treasury. The questions of double taxation, of foreign retaliation, of taxation reciprocity, and of the income base for applying graduated rates, all require consideration, as well as the possibilities of evasion.

B10229

80

December 14, 1939.

To: Secretary Morgenthau
From: McHugh

Mr. Hornbeck called at 1:45 and said to give this message to you immediately as you were going into a meeting somewhere at 1:50 and needed this information:

"With regard to the matter which Mr. Morgenthau was discussing with Mr. Hull this morning, this Department (State Department) has already been applying the principle which Mr. Morgenthau was discussing and we've been applying the same thing to Japan that applies to Russia under the announcement which was made the other day.

In the field of materials what we had to consider was molybdenum and aluminum but whatever materials would be included under the general principles in the case of one of the two countries would be applicable in the case of the other."

JT

GRAY

PARIS

Dated December 14, 1939

Rec'd 4:35 p.m.

Secretary of State,
Washington.

2976, December 14, 5 p.m.

FOR THE TREASURY.

In a strong, able, and well-planned address (with which he himself was exceedingly well pleased) Paul Reynaud last evening in the Chamber of Deputies reviewed his policies and discussed the war problems of France at some length.

He first described France at the outset of the war: an increase in the industrial production index in ten months from 83 to 100 to the 1928 level; proportionate increase in wage payments; a 20% increase in the volume of exports; a reduction in unemployment to the lowest point in six years and an augmentation of gold reserves of more than 33%. France he said, at the outbreak of war had twice the gold of 1914 but the losses of the last war and a seven year mismanaged economic crisis should not be ignored. France's currency had depreciated four fifths as a result of the war and the remaining fifth had been cut in half by the crisis whereas in 1914 after a hundred and twenty years of franc stability

the

-2- #2976, Dec. 14, 5:p.m., from Paris

the only memories of inflation were those of the Convention
and the Directory.

(END OF SECTION ONE)

BULLITT

EMB

JT

GRAY

83

PARIS

Dated December 14, 1939

Rec'd 4:25 p.m.

Secretary of State,

Washington.

2976, December 14, 5 p.m. (SECTION TWO)

He then in an opportune effort to offset the popular habit (unfortunately fostered by the French censor and information center) of underestimating Germany's strength outlined the force of the enemy. Specifically he pointed out that five of Germany's enemies in the last war are now neutral namely Russia, Rumania, Serbia, Italy, and Belgium. Germany's strength today he pointed out was due to the willingness to sacrifice. He asked rhetorically, however, why Germany was continuing her "prolonged military inactivity". Possibly "through fear - of a new Verdun possibly through hope - a hope that in a war of ennui the democracies in spite of their riches and their gold would succumb through their inability to impose sacrifices upon themselves comparable to those of the German people and because they were incapable of maintaining in the economic, financial, and moral domain a tension so extreme".

BULLITT

EMB

AC

GRAY

24

Paris

Dated December 14, 1939

Rec'd 6:47 p.m.

Secretary of State

Washington

2976, December 14, 5 p.m. (SECTION THREE).

In the face of this attitude of Hitler France had the choice of two policies, one which he called the "policy of the country's morale" based on the theory of minimum sacrifices, minimum taxation and minimum restrictions in order to keep up French morale. He went into the obvious arguments against such a policy. The second was that of "sacrifices" which the Government had adopted and which he considered essential for the hard war ahead. The pursuit of this policy fell roughly under four headings namely prices, foreign exchange, budget and credit. To combat a rise in prices and inflation speculation must be prevented. As a guarantee, he had adopted direct control of prices, compelled declarations of stocks and maintenance of September 1 quotations, and had imposed efforts to recover from scrap and to produce by ersatz. But direct control of prices

was

- 2 - #2976, DECEMBER 14, 5 p.m. (SECTION THREE)
from Paris

was not sufficient. Action had to be taken on other elements tending to raise prices. Hence, the Government's wage restrictions and its efforts through taxation (raising the salary tax from two to five per cent and fifteen per cent for the non-mobilized, lifting the ceiling on progressive tax rates on large incomes, etc.) to diminish not only the right but the power to purchase.

BULLITT

EMB

JT

GRAY

PARIS

Dated December 14, 1939

Rec'd 4:42 p.m.

Secretary of State,
Washington.

2976, December 14, 5 p.m. (SECTION FOUR)

The wage restrictions, he said, had been imposed in agreement with the representatives of the C.G.T. and other unions and war profits were being strictly limited. "War means sacrifices. That language is hard but it is true. The soldiers want neither a high cost of living for their wives nor nouveaux riches from the War." He then turned to exchange control and discussed its necessity in time of war. Exchange control "is only the instrument of a policy of foreign exchange which it was necessary to conceive and put into operation: to stimulate receipts in foreign currency; to restrain expenditures in foreign currencies". As to the farmer he said, "We must export or risk losing the war for lack of foreign exchange, but not export the products necessary for national defense or those which will deprive French industry of raw materials which it can feasibly process". He then gave some interesting figures on capital repatriation. He said, "We have reason to believe that

-2- #2976, Dec. 14, 5 p.m. (SEC FOUR) from Paris

that securities and foreign exchange repatriated since the beginning of the war total approximately 24,000,000,000 francs.

BULLITT

AC

GRAY

88

Paris

Dated December 14, 1939

Rec'd 4:22 p.m.

Secretary of State

Washington

2978, December 14, 5 p.m. (SECTION FIVE).

When to this is added the gold and foreign exchange turned into francs since the beginning of the war which is approximately 10,000,000,000 francs the total is 34,000,000,000. The stabilization fund has profited to the extent of these ~~10,000,000,000~~ ^{10,000,000,000}. The result is that the assets of the fund in spite of enormous purchases abroad are higher after three months of war than at the beginning.

Let us now add up. Let us add the return of capital in the months prior to the war to those since the war began.

We will leave aside foreign securities which were brought back during the ten months which preceded the war because it is difficult to estimate them. If we add to the 34,000,000,000 mentioned above the 23,000,000,000 of gold which returned during

- 2 - #2976, DECEMBER 14, 5 p.m. (SECTION FIVE) from
Paris

during the ten months which preceded the war we
reach a total of 60,000,000,000 in round numbers.
Think favorably, gentlemen: the total ^{gold} ~~from the~~
reserves ~~holdings~~ of the Bank of France in 1938 were only
100,000,000,000 present day francs.

BULLITT

EMB

CK

GRAY

Paris

Dated December 14, 1939

Rec'd 9:28 p.m.

Secretary of State

Washington

2976, December 14, 5 p.m. (SECTION SIX)

I hasten to add that this is now a closed book. The return of capital has ended. The fine weather is finished. We must now batter down the hatches to enter the storm. The storm is our expenditures, our huge purchases abroad to help our country live to the extent that it cannot live on itself, and to arm our soldiers. I have often told you this first truth: That our gold is our war treasure. It is necessary, therefore, to spend it, partly, at least, in the war. But to conserve the greater part of our gold reserves and our foreign portfolio to prime the pump of the post war. It is necessary to draw up a program, watch our accounts with an eagle eye, and often to make a choice. War purchases must be harmonized with the British program without competition between the two allies. Hence the importance of

-2-#2976, December 14, 5 p.m. (section six) Paris.
of the recent accord. In making these purchases for
national defense we must not fear to make them massive
and rapid especially at the beginning for it is
necessary to face expenditures first and it is wise
to stock since an increase in world prices is possible.
But nothing must be bought which is simply useful in
civil life: Foreign cigarettes, coffee, meat, manu-
factured articles."

BULLITT

EMB

RECEIVED

DEC 15 1943

EDA

GRAY

PARIS

Dated December 14, 1939

Received 9:07 p.m.

Secretary of State

Washington

2976, December 14, 5 p.m. (SECTION SEVEN)

He then compares sacrifices in Germany ration cards et cetera, and asks if the first sacrifices demanded of the country by taxation, price control, and exchange control are not "particularly benign in comparison" "these two controls would be in vain if we permitted the danger of internal inflation to develop. That is to say if we do not cover all our public expenditures either by taxation or by borrowing" he discusses his budget (which we have covered in previous telegrams) and then turns to borrowing: "all the measures taken converge toward the same objective: the success of our credit policy. Why control prices, why control foreign exchange, if not to prevent a capital export either toward real values in merchandise or foreign currency and securities which would turn it from subscription to public loans? It is the ensemble of our measures on prices, wages, income, foreign exchange, the budget which

EDA - 2 - #2976; DECEMBER 14, 5 p.m. from Paris
Section seven

which makes possible the financing of the burdens of war which otherwise would be impossible. The state is beginning to throw into the country billions and billions and billions. If all these billions were spent in purchases of consumer goods, a high cost of living, an indefinitely high cost of living would soon take place. If all these billions were going to escape abroad the franc would be totally depreciated.

BULLITT

RR

JR

GRAY

94

Paris

Dated December 14, 1939

Rec'd 2:50 a.m., 15th.

Secretary of State,
Washington.

2976, December 14, 5 p.m. (SECTION EIGHT)

If for one of these two reasons these billions do not return in the form of savings and subscription to the coffers of the Treasury the latter would have to print new money; thus it is necessary that these notes return almost automatically to the Treasury through subscriptions. What I have described is the necessity of the capital circuit which renders possible in time of war our price and foreign exchange policy." To those critics who say that the closed circuit is only a measure "to delay bankruptcy" he replies with a firm negative. The public debt in terms of the gold is less today than at the beginning of the war of 1914. As an example of how much that debt could be increased without bankruptcy he cited the British debt during the last war which he said on the 31st of March 1919 was twelve times as great as in 1914. "If we assume that the Europe after the war will be so constituted that we can reduce to one-tenth the murderous military charges which weight on us in 1939 it would mean a budgetary economy of fifty billions. These fifty billions are
the

-2- #2976, December 14, 5 p.m. (SECTION EIGHT) from Paris.

the annual service on one thousand billions of supplementary loans to be issued during the war without the post war tax payer being in any greater danger than the pre-war tax payer was."

BULLITT

HPD

BSM

GRAY

Paris

Dated December 14, 1939

Rec'd 11:12 p. m.

Secretary of State,
Washington.

2976, December 14, 5 p. m. (SECTION NINE)

Turning to the utilization of France's gold reserves for purchases abroad he says, "To pay the Americans for an airplane the Treasury must send to New York a certain number of gold bars. How does it obtain these bars? It buys them from the Bank of France. With what? With banknotes (or credits which are the same thing) if these banknotes are borrowed by the state from the public they are definitely withdrawn from circulation. Thus by reducing the means of payment in French economy all the harmful consequences of a credit deflation would ensue. If on the other hand the state borrows from the Bank of France for the total gold which it purchases the state remains a debtor but the value of the means of payment in the country would not be changed. There is therefore no monetary inflation each time the state borrows from the Bank of France to buy gold. Just as borrowing by the state from the bank

1s

ham -2- No. 2976, December 14, 5 p.m.(Section 9) from Paris

is an unhealthy operation when its objective is to throw paper money into circulation to permit the state to pay its internal expenditures so the operation is legitimate when it permits the state to pay for a purchase abroad, an airplane for example, which makes France stronger, makes her currency safer".

BULLITT

RR
WNC

HSM

GRAY

Paris

Dated December 14, 1939

Rec'd 12:45 a. m., 15th

Secretary of State,
Washington.

2976, December 14, 5 p. m. (SECTION TEN).

The currency rise from 120 billions to 149 billions, he said, is merely "normal" in view of the war-time needs and war-time payments at the beginning of the crisis. He pointed out that the state has drawn but 10 billions on its banknotes authorized advance and that this was drawn only to the extent that the discount portfolio of the bank diminished. "As these banknotes correspond to the permanent needs of the public for the duration of the war it is well that in the future their counterpart in the balance of the bank should become a public and permanent counterpart. The 10 billions which we have already drawn and those which we shall draw for the same reason tomorrow will not constitute inflation." He then points out that no increase in the bank discount rate was necessary as happened in 1914 and the fact that no moratorium was necessary.

BULLITT

RR

JR

GRAY

Paris

Dated December 14, 1939

Rec'd 12:16 a.m., 15th.

Secretary of State,
Washington.

2976, December 14, 5 p.m. (SECTION ELEVEN).

"far from requesting the Bank of France to reduce its portfolio of commercial advances, I have asked it to receive in a liberal spirit for rediscount drafts drawn on those mobilized. For the future I have myself consented to special advances for markets of the state and to facilitate private credit I have just reduced by half the taxes on security issues".

The remainder of his speech was devoted to the recent French-British monetary accord and the advantages to be derived therefrom. He added little, however, to what we have already telegraphed except to stress the "enormous" raw material resources of the British Empire which will now be available shortly without payment of gold.

BULLITT

JLP

HSM

GRAY

100

Paris

Dated December 14, 1939

Rec'd 1 a. m., 15th

Secretary of State,
Washington.

2976, December 14, 5 p. m. (SECTION TWELVE)

The Bank of France statement dated December 7 published today revealed no changes of importance with the exception of a substantial increase of 659 million francs in "open market" operation to a total of 5,758 millions. Commercial advances increased 184 millions. Advances to the state under the 25 billion franc authorization of September 1 last remained unchanged at 10 billion francs. Note circulation increased 86 million francs to a total of 149,456 million. Current and deposit accounts decreased 677 millions. As total demand liabilities thus decreased by 590 millions the ratio of gold cover moved up from 59.41 per cent to 59.63 per cent.

Moderate selling on the eve of the mid-month settlement brought lower prices at the opening of today's session. The market improved later, however, and at the close most securities showed very moderate gains. Some profit-taking which took place in rentes led to slightly lower prices but sales being well absorbed. (END OF MESSAGE).

KLP

BULLITT

C O P Y

December 14, 1939

101

CABLE FROM LONDON
Received by Federal Reserve Bank of New York

Sent and received 14 1205/39 Confidential for Harrison

You are authorized to allow Mr. Morgenthau personal
and confidential access to the special account in
your books "Bank of England A account".

TEST OK

CATTERNS

BANK OF ENGLAND

RECEIVED

RECEIVED

DEC 19 1939

THOMAS W. MORGENTHAU
Office of the Secretary
Treasury Department
Washington, D. C.

CLIMAX MOLYBDENUM COMPANY
500 FIFTH AVENUE
NEW YORK

102

TELEPHONE PENNSYLVANIA 6-8787
MINE AND MILL, CLIMAX, COLORADO
CABLE ADDRESS "MOLYBDENUM" NEW YORK

December 14, 1939



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

Dear Mr. Secretary:

I am enclosing a letter and memorandum containing the data which form the basis of the observations which we desire to submit to you at our conference tomorrow. On the chance that you may have an opportunity to read these before our appointment with you and thus save you some time I am sending these papers to you by special messenger. I am not sending the technical data referred to in the letter but will hand these papers to you tomorrow at our conference.

Very truly yours,

CLIMAX MOLYBDENUM COMPANY


Max Schott,
President.

MS:MEG

Enclosures

CLIMAX MOLYBDENUM COMPANY
400 FIFTH AVENUE
NEW YORK

103

TELEPHONE PENNSYLVANIA 4-1821
WIRE AND MILL, CLIMAX, COLORADO
CABLE ADDRESS "MOLYBDENUM" NEW YORK

December 14, 1939



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

Dear Sir:

Since our conference with you in Washington last Saturday, December 9th, I have given, in conjunction with our metallurgical staff, serious consideration to the effect of a Molybdenum embargo against certain countries. Realizing the importance of this matter and of your interest in it, we have tried to view it objectively and not to be influenced, any more than is natural, by the special interests of the Climax Molybdenum Company.

It goes without saying that we shall abide by whatever policy our Government ultimately decides is best. At this juncture, however, we should like to submit to you our opinion that our refusal to sell Molybdenum to certain countries will not vitally handicap their war preparations and activities. Unless the U. S. Government and the Allied Governments radically alter their present position towards Russia and Japan, those two countries will still be able to obtain other commodities of far greater relative importance than Molybdenum — for instance, the scrap iron and steel which Japan has been and still is freely buying in this country and elsewhere. Under such conditions we fear that if the Molybdenum producers are singled out for refusal to sell to Russia and Japan it will merely antagonize those countries against the future use of Molybdenum, without vitally damaging their war efficiency. Also, Japan and Russia would of course correctly conclude that such refusal is by request of the U. S. Government. Whether this would have any consequences embarrassing to the U. S. Government is something which you can judge better than we.

The foregoing opinion that the lack of Molybdenum will not vitally affect said countries is based on knowledge that Russia can produce iron, manganese and chromium in excess of its requirements, that it has a small Molybdenum production, and that Germany produces some Vanadium, and on our assumptions that Russia can continue to receive Tungsten from China and that Japan will continue to receive Nickel from Canada. If Russia and Japan should be entirely or largely deprived of Nickel and Tungsten, then the situation would be different because without Nickel, Tungsten and Molybdenum, Russia and Japan would without question be seriously handicapped.

Of all the wartime manufactures involving the use of alloy steels it is armor plate for which Nickel and/or Molybdenum are considered the most essential to produce the best ballistic properties. The total amounts of Molybdenum and Nickel required for this type of steel are very small; for example, the production of 50,000 tons of armor plate would only require between 250,000 and 400,000 pounds of Molybdenum. The quantity of Molybdenum required for armor plate is so small that we think it reasonable to assume that Germany, Russia and Japan will have enough Molybdenum still on hand from their recent

December 14, 1939

PAGE NO. -2-

large purchases and from Russia's own Molybdenum resources to enable them to manufacture good armor plate for some time to come.

The greatest advantage of Molybdenum is its economy compared with other alloying elements, but in wartime economy is a secondary consideration. It is the opinion of our metallurgical department that in wartime any country with a sufficient supply of iron, manganese, chromium, tungsten and vanadium can produce alloy steels of adequate quality except for armor plate.

High speed steel tools are of first importance in the production of ordnance and armament materials. During the World War, Tungsten was indispensable as a basic metal for high speed steels. The reason for this was that the physical properties which Molybdenum imparts to steels and the method of using Molybdenum had not been fully determined. In fact, the total world production of Molybdenum during the World War probably did not exceed 1,000,000 pounds; and about half of that quantity was unused at the end of the War. However, since that time the Molybdenum production of the world has increased to about 35,000,000 pounds per year and the applications of Molybdenum in iron and steel have tremendously broadened. Today, one of the increasing applications of Molybdenum in the U.S.A. is in high speed steels. This is due to the fact that the cutting properties of the Molybdenum types are equal to the Tungsten high speed steels which were exclusively used prior to the advent of Molybdenum high speed steels. The advantage of Molybdenum high speed steel is its economy; it costs materially less. This subject is taken up in some detail in the attached memorandum on the replacement of Tungsten and Nickel by Molybdenum.

There are a number of different Molybdenum high speed steels on the market. The percentage of the important alloying elements contained in such steels is as follows:

<u>Molybdenum</u>	<u>Tungsten</u>	<u>Chromium</u>	<u>Vanadium</u>
8.00%	1.50%	4.00%	1.00%
9.00	0	4.00	2.00
6.00	6.00	4.00	1.50

The standard Tungsten high speed steel carries the following percentage of these alloys:

<u>Tungsten</u>	<u>Chromium</u>	<u>Vanadium</u>	<u>Molybdenum</u>
18.00%	4.00%	1.00%	0

It will be seen from the above analyses that the use of Molybdenum high speed steels in this country has the effect of reducing to at most one-third, the amount of Tungsten required for these steels, as compared with the Tungsten needed for the standard Tungsten steel. It will also be seen that there is on the market a Molybdenum high speed steel which calls for no Tungsten addition. The amount of Tungsten which is required by the other types of Molybdenum high speed steels can be supplied from our domestic mineral resources.

In other words, the advent of Molybdenum in the high speed steel field has made the United States independent of what was formerly an indispensable, strategic, rare metal of which two-thirds of the amount required under normal conditions, and a much larger proportion under war conditions, had to be imported.

The question now under discussion is: what is the situation with regard to the elements needed for the manufacture of alloy steels, and especially High Speed Steels, in such countries as Russia, Germany and Japan?

- 3

RUSSIA:

This country can produce Iron, Manganese and Chromium in excess of its requirements.

As to Tungsten, if Russia can secure sufficient supplies from China it would make Russia independent of Molybdenum for high speed steels. The reason that Russia has used Molybdenum during the last few years in such large quantities is presumably its great economy compared with other alloying elements. We do not know to what extent the Russians are still using Tungsten High Speed Steels. They are familiar with the Tungsten type of steel. The Molybdenum High Speed Steel is a development which has been promoted by the Climax Molybdenum Company in Russia only during the past three years.

As stated above, Nickel and/or Molybdenum are required in high grade transient steels; but the quantities needed for this purpose in any country are small. According to the Mineral's Year Book of 1938, which is a Government Publication, the Russians have located a large number of Nickel deposits and have built and are building refineries, which, according to this publication, are placing them in the position of being second to the Sudbury Deposits of Canada in quantity production.

Little appears to be known about the Vanadium supply of Russia, but they have apparently been getting along for years without importing any appreciable quantities.

For your information we attach a memorandum entitled "Present and Prospective Molybdenum Production in Russia".

Taking it all in all, the Russian situation is such that the cutting off of a supply of Molybdenum will not, in our opinion, affect in any material way their ability to produce the alloy steels required for war purposes.

GERMANY:

This country is very much dependent on imports of essential war materials and we refer you in this connection to a report made by Charles Will Wright, Foreign Mineral Specialist, Bureau of Mines, attached to Foreign Service, U. S. Department of State; the issue of May 1939 "Mining and Metallurgy", of which we enclose a copy. Mr. Wright does not specifically refer to Molybdenum in his article or in the statistical data included therein. The fact is that the Germans have been large importers of Tungsten and Molybdenum during the year 1937 and 1938. We have no reliable information with regard to their imports of Tungsten during 1939. Since the outbreak of the war they have received no Molybdenum from the U. S.

Shortly after the outbreak of war we advised our German customers that we were prepared to live up to our contracts provided that the buyers come and get the material at the U. S. seaports cash against railroad bills of lading. Because of the Allied blockade the Germans have of course been unable to do so. Therefore our contracts with Germany, while legally still in effect, are in fact suspended.

As far as the German needs of Chromium, Manganese and other essential materials

For the manufacture of alloy iron and steel are concerned, they are probably depending very largely on Russia, at least for their future supply. Over 40% of the iron supply (in ore) we understand, is still coming from Sweden. The Germans during the last war succeeded in producing the amount of Vanadium which they absolutely needed by manufacturing it from the slag of low grade Vanadium containing iron ores. This was an expensive operation, but expense was a secondary consideration and they no doubt can do the same thing today. Since the last war an additional source of supply has been developed from oil ashes or flue dust.

JAPAN:

Japan is dependent upon imports for almost all of the materials that go into alloy steels and iron. Their most essential need is iron and steel scrap, and they have been obtaining large quantities from the U.S.A. since the beginning of the Chinese war. They secure Manganese ore by imports from South America and the question of their being able to obtain any Manganese or Chromium supply from Russia is a matter of the relations between these two countries. We do not know to what extent Japan is able to obtain any Tungsten supply by imports from South America, Russia and China. We understand that some Tungsten has recently been re-shipped from this country to Japan.

To what extent they may be affected in their war efficiency by cutting off the Molybdenum supply is largely a question of whether or not they will be able to obtain a sufficient Tungsten supply to get along without Molybdenum.

They should have no difficulty in getting the amount of Nickel which they absolutely require as long as the present arrangements with the International Nickel Company continue.

IRELAND AND FRANCE:

We have contracts with certain French and English groups for the requirements of their respective national territories, which contracts, are subject to the provision that the domestic supply of the United States takes precedence over their requirements.

In the communications exchanged between us and our English and French customers about a month ago they evidenced anxiety with regard to our ability to supply them with the amounts of Molybdenum which they might need. They were particularly interested in the quantities which we were shipping to Russia and Japan. We asked them to give us an estimate of their requirements for the year 1940 and they gave us an estimate of 6,000,000 lb. of Molybdenum for England and 4,000,000 to 5,000,000 lb. of Molybdenum for France. They asked whether we would guarantee to supply these amounts and we assured them that we would furnish up to the estimated amounts.

Very truly yours

CLIMAX MOLYBDENUM COMPANY

Max Schott
Max Schott
President

CLIMAX MOLYBDENUM COMPANY
500 FIFTH AVENUE
NEW YORK

TELEPHONE PENNSYLVANIA 8-8787
NINE AND MILL CLIMAX COLORADO
CABLE ADDRESS "MOLYBDENUM" NEW YORK



**MEMORANDUM INDICATING WHERE MOLYBDENUM CAN REPLACE
NICKEL AND/OR TUNGSTEN WITH AN ECONOMIC ADVANTAGE
IN THE U.S.A. AS WELL AS FRANCE AND ENGLAND,
WITHOUT SACRIFICING PHYSICAL PROPERTIES**

The Replacement of Tungsten by Molybdenum:

The substitution of Molybdenum for Tungsten and conversely the substitution of Tungsten for Molybdenum, is a long established widely recognized metallurgical principle. This principle applies explicitly in the case of High Speed Steels. In every Government tool steel specification, or in every high speed tool that is now being supplied to the Government containing Tungsten, the Tungsten can be replaced economically and efficiently with a Molybdenum containing composition. The replacement may be in all or in part.

As early as 1930 the Watertown Arsenal published data establishing the feasibility of the substitution of Tungsten with Molybdenum in High Speed Steels. A full report covering this work is entitled "The Substitution of Molybdenum for Tungsten in High Speed Steel" by Captain S. B. Ritchie, and will be found as Watertown Arsenal Experimental Report No. 359 dated June 30th, 1930. This work was also published in "Army Ordnance" July and August 1930.

Since that time extensive development work has made such substitution not only entirely practical, but economically desirable. Recent tests and commercially produced steels have confirmed the above statements.

The Replacement of Nickel by Molybdenum:

The substitution of Molybdenum for Nickel is not necessarily a direct replacement, according to metallurgical principle, as is the case of the substitution of Molybdenum for Tungsten. While Nickel and Molybdenum do not have similar fundamental effects on steel properties, they lend themselves to the production of steel types which are remarkably similar. Experience over the last twenty years indicates that these types compete in industry.

Replacement of Tungsten in the U.S.A.:

Although one or two of the Arsenals are using Molybdenum High Speed Steel (we understand Rock Island has standardized on this material) most of the

Army production units and, as we understand it, all Navy Yard and Gun Factories are using some form of Tungsten High Speed Steel. In view of the facts which have already been established as to the economy of replacing Tungsten by Molybdenum in High Speed Steel, it should be to the interest of the above to alter their specifications to one of the Molybdenum High Speed Steel types already on the market.

Reports of some of the tests, and also descriptive matter, which illustrate the practicability of this replacement are attached hereto.

Replacement of Tungsten in England and France:

Similar replacement of Tungsten by Molybdenum is perfectly feasible in both England and France.

General Comments Concerning Relative Advantages of Molybdenum and Tungsten in High Speed Steel:

The progress which has been made in recent years in this and some other countries in substituting Molybdenum for Tungsten in High Speed Steel is based strictly on economic factors. Progress in the change from the formerly standard Tungsten steels to Molybdenum High Speed Steels could be expedited to the interest of the country as a whole, and to the Metal Industry in particular, by the attitude of the Government in advocating that the mineral resources of this country should be given preference over materials which must be imported.

The Government would be entirely safe and justified in taking this position for the following reasons:

MOLYBDENUM HAS THE ADVANTAGE OVER TUNGSTEN BECAUSE —

- 1) It imparts at least equal properties in High Speed Steel.
- 2) The speculative feature of the Tungsten purchases in the past is eliminated. This is due to the fact that the price of Tungsten is subject to great changes, whereas the price of Molybdenum in the U.S.A. has been stable for many years, and has never been increased.
- 2) The industry is assured of a steady supply of Molybdenum and, since the industry, particularly the Climax Molybdenum Company, is prepared to place stocks on consignment at the consumer's plant, there is no necessity for tying up working capital in Molybdenum as has been the case with Tungsten.

Replacement of Nickel by Molybdenum in the U.S.A.:

To date free competition in some types of ordnance material has been effectively restricted by the Government specification of a minimum Nickel content in these materials of 2.75%. The elimination of any specified minimum of any alloying element will open such specifications to admit the economical use of those types of steels based on Molybdenum as the important alloy constituent.

Specifically this change would make it feasible to specify Molybdenum in Navy armor plate and heavy forgings.

Replacement of Nickel by Molybdenum in England and France:

The replacement of Nickel by Molybdenum in England and France can be made economically in a similar fashion to that described above. As we understand it, several British Government specifications include Molybdenum (with Chromium and Nickel). Our latest information from French sources indicates that very little Molybdenum is specified in similar applications in France.

The replacement of Nickel by Molybdenum in England and France has met with considerable resistance in the past owing to the fact that both the French and British Empires produce large quantities of Nickel within their boundaries.

SUMMARY

This report has only dealt generally with the question of replacing Tungsten and/or Nickel with Molybdenum. As all engineers and metallurgists realize, it is impossible to write specifications in which Molybdenum has replaced Nickel without carefully examining each application beforehand.

If at any time a decision is made to undertake such a change the Climax Molybdenum Company's metallurgical staff is in a position to supply or obtain all the information necessary for this purpose.

CLIMAX MOLYBDENUM COMPANY

Carl M. Loeb, Jr.
Carl M. Loeb, Jr.
Vice President in Charge of
Metallurgical Developments

December 14, 1939

CLIMAX MOLYBDENUM COMPANY
500 FIFTH AVENUE
NEW YORK

110

CLIMAX MOLYBDENUM CO. 8-4787
A. W. AND WILL CLIMAX, COLORADO
CLIMAX ADDRESS: "MOLYBDENUM" NEW YORK



PRESENT AND PROSPECTIVE MOLYBDENUM PRODUCTION IN
RUSSIA, JAPAN, GERMANY AND COUNTRIES CONTIGUOUS
TO THESE.

It must be borne in mind that Molybdenum is a rare mineral only in the sense that large deposits are rare in which the Molybdenum minerals are sufficiently concentrated to form economic ore bodies under normal conditions. Wherever granitic rocks occur and wherever intrusive or extrusive igneous rocks are found the Molybdenum minerals are common. In the United States, Canada, Mexico and South American there are thousands of deposits but only a few of them can be profitably operated under normal conditions. The same is true of Russia, Japan, Finland, Sweden and Norway and the Balkan States.

For several years it has been difficult to get authentic data regarding developments in Japan and Russia so that we cannot state that the following data are authentic. They have been derived through published reports and from correspondence with European customers.

Russia

Metal Bulletin (England) September 11, 1934, No. 1922.

Deposit of Molybdenite discovered at Karobi 158 kilometers from Kutars in the Caucasus. Mineral content not high but is uniform. The mine to be equipped for handling 500 metric tons per day.

Die Chemische Industrie, No. 47, November 25, 1933.

The Trust Apatite is at present organizing the mining and concentration of Molybdenum ore from Tachtarmutshork occurrence on the Kola Peninsula. Plant to be established in the building season of 1934. This deposit is located in the area near the heavily mineralized section of Finland.

Die Chemische Industrie, No. 45, November 7, 1936, states the Russians are developing a Molybdenum deposit in Maljtschik.

From a European correspondent December 5, 1936 -

The Trans-Caucasian Institute for mineral Raw Materials states that successful tests have been made for separation of Copper and Molybdenum from the deposit at Pirdondan. Ore reserves of 18,400,000 metric tons available containing 13,600 tons Mo and 133,234 tons Copper. The Mining Journal (England) of April 25, 1936 also carried the same information. Russian engineers who have visited Climax have told us

that other large Copper properties which the Russians are developing also carry some MoS₂ and that they expected to recover this along the lines used by several big American Copper producers.

Metal und Erz, November 1938, No. 22, 35th edition, page 601.

Several Quartz Molybdenite veins in granite being exploited 580 km from Burenja in the Amur District.

Sa Industrialisazijn, No. 66, March 21, 1937 states that two deposits near Bureja, one on the Tyrna River, the other on the Kindalj River, show promising Molybdenite deposits and Die Chemische Industrie, No. 13, of March 27, 1937, page 294, states that a concentration plant was put into operation in Tschikojje, East Siberia, and that another large deposit was discovered near Umalta. Mining and concentrating operations were to be enlarged at both places in 1937.

Sa Industrialisazijn, No. 33, March 5, 1937.

The Umalтинacher ore occurrence is of greatest interest and takes first place in extent. The importance of this deposit has increased considerably after the successful exploitation drillings done in 1936. The administration for Raw Materials "Glawredmet" is now in position to considerably increase the capacity of the Umalтинский Mine.

Chemische Industrie, No. 35, August 28, 1937, page 796.

Systematical exploration work of the Seralinsker Rayon in the territory of Krasnojarsk has disclosed substantial deposits of lead which carry large Molybdenum contents. (Probably Wulfenite the Lead Molybdate).

A translation from a report entitled "Ore Dressing of Molybdenum Ores, Institute of Mechanical Treatment of Useful Ores, Federal Government, Mining Publication, N.K.T.P. Moscow U.S.S.R".

Translated by N. Vishnersky of Salt Lake dated September 18, 1936.

The foreword says: The extremely low percentage of Molybdenum in the large ore bodies (.4% to 3.0%) renders extraction of the mineral a very serious one. By flotation it has been proven possible to concentrate these ores. The aim of this text is to acquaint a wide circle of those interested in the metallurgy of the Soviet Union with regard to treatments of ores such as those of Tschikojiski, Jankanski and Chibinski. Other experiments in concentration were on ores containing relatively high percentages of Copper as compared to Molybdenum. The ore bodies of this type are immense. Enough Mo can be derived from these deposits to supply the needs of the country.

Die Ostwirtschaft Edition April 5, 1939.

Since 1935 Molybdenite occurring in the North Caucasus has been introduced into the steel industry. The mineral deposit of Karatschal contains several Molybden mines.

Another Molybdenite deposit near Sangesur, Trans-Caucasia, is being operated. Molybdenite ore is also found in the middle part of Russia near Knobkovo, at Kodsharak, Agarak, Kaplantschal and Frido Udan. Molybdenum ore is found with the Copper deposits at Konrad, Almalyk and Boschtschekulj, Ridder, Syrjansk, Smeinogorsk Kolyan, Krassnojarsk and Kongarow.

If the Russians take over Finland they will acquire the Matavara deposit, which has just been equipped with a mill. According to the owner, Mr. Groenblom, he expected to be ready by November 1939 to mill 600 metric tons per day and produce 1,000,000 pounds Mo per year.

Sweden and Norway have a great number of Molybdenum deposits. One of them, the Knaben mine, has been producing for years and is now outputting about 900,000 pounds Mo per year. The following Swedish deposits have operated in the past and with an increased price could produce substantial amounts:

Near Langevand
Flottorp
Rogaland near Moi
Ovedal
Hommen
Bankehei
Drangedal
Sira
Kvinn

It is probable that under pressure Sweden and Norway could produce 1,500,000 pounds Mo per year.

Japan

Japan may produce a considerable amount of Mo from Japanese deposits and from recent discoveries in Korea and Manchucua. We have, however, been unable to learn anything definite about these deposits or their potential production.

Germany

There are very few deposits of Mo in Germany. Some production is being made as a by-product from the Copper mines of Mansfield.

Germany, however, has access to the Swedish and Norwegian ores and the Vulfenite ores recovered from Lead operations in Yugo-Slavia and will receive the Matavara concentrate from Finland if Russia does not conquer that country.

CLIMAX MOLYBDENUM COMPANY

D. F. Ealey
D. F. Ealey
Vice President

December 14, 1939

TREASURY DEPARTMENT
Office of the Secretary
Secret Service Division

103

MEMORANDUM

113

December 14, 1939

To: Mrs. Klotz
From: Chief Wilson

For your information we attach
itinerary of the President's trip to
Hyde Park, Thursday, December 14, 1939.

Memorandum of Operating Stops
Trip of the President to Hyde Park, N.Y.

Thursday, December 14, 1939

Lv. Washington (B&O)	11:59 p.m.
Pass Park Junction.	3:15 a.m.
Pass Boundbrook Junction	4:35 a.m.
Ar. Claremont	5:20 a.m.
Lv. Claremont.	5:30 a.m.
(Water stop 5 minutes at Cornwall)	
Ar. Highland	8:30 a.m.

December 14, 1939.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston



I talked to the Postmaster General in his office this morning about appointments to existing vacancies, particularly the positions of Collector of Customs and Comptroller of Customs at San Francisco. For Collector of Customs Senator Downey, under date of December 4th, recommended Calvin Cooke of Oakland, California. Representative Buck on November 21st recommended Paul R. Leake of San Francisco, proprietor and editor of the Woodland Democrat. Mr. George Creel wrote to Mr. Harris on December 5th that he saw the President on December 1st and that the President approved the appointment of Paul Leake as Collector and that of Mrs. Alice M. Rosseter, Regional Director of the National Labor Relations Board, as Comptroller of Customs. The President had previously been advised by William G. McAdoo, National Committeeman for California, that Mr. Creel would make certain explanations to him personally. It appears, therefore, that Mr. Leake has the endorsements of Mr. McAdoo and Mr. Creel in addition to that of Congressman Buck. Mr. Leake has also been endorsed by G. C. Hamilton, General Manager of the McClatchy newspapers of Sacramento.

We have also opposing recommendations for the Office of Comptroller. Senator Downey has endorsed Frank Snook of San Francisco and as indicated above Mr. McAdoo has endorsed Mrs. Alice M. Rosseter.

I explained to Mr. Farley that we would prefer not to fill the position of Comptroller of Customs at San Francisco at this time and asked him for his suggestions as to the Collectorship. Without hesitation he advised that we investigate immediately Mr. Paul R. Leake and recommend his appointment if he stands up under investigation. He suggested that if possible recess appointment be made so that the man could hold office and draw salary while the matter was being ironed out with Senator Downey. This can be done if the investigation is completed quickly enough, since the vacancy occurred two days after the adjournment of the special session of Congress. Mr. Farley suggested that if we were forced to it we might consider later the appointment of Downey's candidate for Comptroller so as to split the patronage between the two factions.

Mr. Farley brought up the matter of the vacancy in the Appraiser's job at New York caused by the death of Mrs. Lynch. He thought that Harry Foley, at present Surveyor of the Port of New York, should be rewarded by promotion to the more important job of Appraiser. He was not insistent on our filling the other job, that of Surveyor, which

would be made vacant by Foley's promotion, but if we should decide to fill it he suggested the name of Harold Payson, who has been active in the Democratic State organization and for whom both he and Vincent Bailey are very anxious to do something. Payson is now working as a clerk in Jim Mead's office but Farley said deserves a better job. He said an appointment for Payson would be satisfactory to Senator Wagner and would please Senator Mead very much.

I have recommended to Mr. Harris that he request an investigation immediately of the qualifications of Mr. Leake to be Collector of Customs in San Francisco.

JCH



A. S. GOSS
LAND BANK COMMISSIONER

FARM CREDIT ADMINISTRATION
WASHINGTON, D. C.

17

December 14, 1939

The Honorable
The Secretary of the Treasury

Dear Mr. Secretary:

As requested, I am enclosing a brief statement of a plan of organization which I feel would be the most effective type for assuring the efficient operation of the Farm Credit Administration. I have given this matter a great deal of thought, and if it is given further consideration would be glad to discuss with you some of the details of amendments necessary to assure a sound system of cooperative control.

Sincerely,

A. S. Goss
Land Bank Commissioner

Enclosure

FORM OF ORGANIZATION FOR FARM CREDIT ADMINISTRATION

The Farm Credit Administration is a cooperative business organization which of necessity is in competition with financial institutions. Owing to the nature of the institution, it is impossible for the thousands of employees in the field units to be given the protection of civil service. In this respect it differs from most Government institutions. Because of this difference and because the bond market demands a reasonable continuity of lending and collection policies, I believe the soundest form of organization would consist of a bipartisan board serving for staggered terms of office. This board should be a policy-making board only and should employ operating department heads, thus avoiding the mistakes and conflicts which have arisen in many board operations.

It is essential that the Farm Credit Administration work very closely with the Treasury Department. It is also essential that we work very closely with the Department of Agriculture. I believe this can be accomplished by the establishment of a board consisting of five appointed directors with the Secretary of the Treasury and the Secretary of Agriculture serving as ex officio members. This would enable these two great Departments to keep in close touch with the operations of the Farm Credit Administration and would assure a coordination of fiscal and agricultural policies such as is needed. In other words,

it would place the Farm Credit Administration squarely between these two agencies, exactly where we belong.

In the present case it seems to me that possibilities of misunderstanding and illwill could be eliminated by appointing Governor Hill and Dr. Black as members of this board, probably naming someone else as chairman.

I know how deeply the farm loan associations and production credit associations feel on this matter and as a means of allaying the antagonism which has just started, such a move would have the whole-hearted approbation of the whole cooperative credit system. There is coming in a strong wave of resentment from the field because the interests of the stockholders of the system have not been given consideration and I believe that the present trend is heading directly for a serious conflict which could be avoided along the lines I have suggested.

A. S. Goss
12/14/39

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 14, 1939

TO Secretary Morgenthau
FROM Mr. Haas *HA.*

Den Bell and I would like to talk to you before use is made of these figures. We both have serious doubts as to their usefulness.

Prepared by: Mr. O'Donnell
Mr. Tickton

Comparison of President's January Budget Message Estimates of Receipts, Expenditures
and Gross Deficit with Actual Receipts, Expenditures and Deficit,
Fiscal Years 1934-1939

121

(Dollar figures in millions)

Fiscal year ended June 30	Actual 1/	Estimate issued in January of:		Difference of actual amounts from January estimate issued:		Percentage difference of actual amounts from January estimate issued:	
		That year	Preceding year	That year	Preceding year	That year	Preceding year
Receipts							
1934	\$ 3,116	\$ 3,260	\$ 2,792	\$ - 144	\$ + 324	- 4.4	+ 11.6
1935	3,800	3,712	3,975	+ 88	- 175	+ 2.4	- 4.4
1936	4,116	4,411	3,992	- 295	+ 124	- 6.7	+ 3.1
1937	5,294	5,828	5,654	- 534	- 360	- 9.2	- 6.4
1938	6,242	6,321	7,294	- 79	-1,052	- 1.2	- 14.4
1939	5,668	5,520	5,919	+ 148	- 251	+ 2.7	- 4.2
Expenditures							
1934	6,371	9,891	3,820 2/	-3,520	+2,551	- 35.6	+ 66.8
1935	7,583	8,581	4,487 2/	- 998	+3,096	- 11.6	+ 69.0
1936	9,069	7,645	8,520	+1,424	+ 549	+ 18.6	+ 6.4
1937	8,546	8,481	6,753 3/	+ 65	+1,793	+ .8	+ 26.6
1938	7,691	7,615	7,695 4/	+ 76	- 4	+ 1.0	- .5
1939	9,268	9,592	7,070 3/	- 324	+2,198	- 3.4	+ 31.1
Gross deficit							
1934	3,255	6,631	1,028 2/	-3,376	+2,227	- 50.9	+ 216.6
1935	3,783	4,869	512 2/	-1,086	+3,271	- 22.3	+ 638.9
1936	4,953	3,234 3/	4,528	+1,719	+ 425	+ 53.2	+ 9.4
1937	3,252	2,653	1,099 3/	+ 599	+2,153	+ 22.6	+ 195.9
1938	1,449	1,294	401 4/	+ 155	+1,048	+ 12.0	+ 261.3
1939	3,600	4,072	1,151 3/	- 472	+2,449	- 11.6	+ 212.8

Treasury Department, Division of Research and Statistics.

December 14, 1939

NOTE: The comparison of the actual receipts with the estimates does not measure the accuracy of estimating these receipts since the actual results are frequently affected by changes in the tax laws, such as the changes in rates, the addition of new taxes or the invalidation of existing taxes. Moderate further discrepancies, not reflecting efficiency of estimating, may arise because of administrative regulations, court decisions, and other interpretations which affect the timing and even the amount of tax liability.

With respect to expenditures, the comparison of the actual with the estimates does not measure the accuracy of the estimates because the actual results frequently reflect supplementary requests for appropriations for recovery and relief not included in the original budget estimates. Moreover, the removal from the budget in January 1939 of expenditures of the RFC and other self-financing agencies make the estimates made in prior years not comparable with actual results in subsequent years.

On basis of daily Treasury statement as revised July 1, 1938. Trust funds excluded. Expenditures include debt retirement.

Excludes relief program.

Includes only \$1,000 millions for relief program.

Includes only \$1,500 millions for relief program as shown in footnote to budget tables; excludes estimate for Civilian Conservation Corps.

102

Comparison of President's January Budget Message estimates of total receipts
with actual total receipts 1/, fiscal years 1927-1939

(money amounts in millions of dollars)

Fiscal year ending June 30:	Actual receipts	Estimate issued in		Difference of actual		Percentage difference of	
		January of:		receipts from January		actual receipts from	
		That	Preceding	That	Preceding	That	Preceding
		year	year	year	year	year	year
1927	4,006.1	3,912.3	3,716.1	+ 95.8	+ 290.0	+ 2.4	+ 7.8
1928	3,907.0	3,944.1	3,852.2	- 37.1	+ 254.8	- .9	+ 7.0
1929	3,805.1	3,676.9	3,675.1	+ 226.2	+ 228.0	+ 6.2	+ 6.2
1930	4,048.6	4,117.1	3,687.2	- 68.5	+ 361.4	- 1.7	+ 9.8
1931	3,189.6	3,705.8	4,093.4	- 516.2	- 905.8	- 15.9	- 22.1
1932	2,005.7	2,258.9	3,955.7	- 253.2	- 1,950.0	- 10.4	- 49.5
1933	2,079.7	2,467.9	2,576.5	- 388.2	- 496.8	- 15.7	- 19.5
1934	3,115.6	3,259.9	2,791.8	- 144.3	+ 325.8	- 4.4	+ 11.6
1935	3,800.5	3,711.7	3,974.7	+ 88.8	- 174.2	+ 2.4	- 4.4
1936	4,116.0	4,410.8	3,991.9	- 294.8	+ 124.1	- 6.7	+ 3.1
1937	5,295.8	5,828.2	5,654.2	- 534.4	- 360.4	- 9.2	- 6.4
1938	6,241.7	6,320.5	7,295.6	- 78.8	- 1,051.9	- 1.2	- 14.4
1939	5,667.8	5,520.1	5,919.4	+ 147.7	- 251.6	+ 2.7	- 4.5

Average percentage difference (ignoring sign)

6.0

12.7

The comparison of the actual results with the estimates does not measure the accuracy of estimating since the actual results are frequently affected by changes in the tax laws, such as the changes in rates, the addition of new taxes or the invalidation of existing taxes. Moderate further discrepancies, not reflecting efficiency of estimating, may arise because of administrative regulations, court decisions, and other interpretations which affect the timing and even the amount of tax liability.

1/ General and special accounts, on the basis of the daily Treasury statement (unrevised).

Division of Research and Statistics - December 14, 1939

BK 229
123

RE SALE OF MOLYBDENUM TO JAPAN

December 14, 1939.
12:05 p.m.

Present: Mr. Cochran
Mr. Viner
Mr. White

H.M.Jr: Mr. Hochschild informed me over the telephone today that a representative of the Japanese was in to see Climax Molybdenum and asked whether they could buy 75 tons and they told him no, they wouldn't have it, and the Japanese asked if this was on orders from the Government and they were told no, it was not.

They then went around to see the Kennecott Copper Company and the same performance took place. Kennecott is particularly worried because they make large sales of copper to Japan. I told Mr. Hochschild what the President told me to tell him, but he wasn't satisfied.

I then called up Steve Early and told him that I was fearful that we might have a repetition of what we had in connection with the purchase of French planes, where due to an accident to a bomber the public became aware that the French were negotiating for planes and it made the front page, that this transaction contained similar dynamite if it became public through the Japanese or some other channel, and what did he think, and he said he thought the President ought to have the State Department write a similar letter to the Molybdenum people as they did to the airplane people. I asked him whether he would speak to the President and he said he was too busy, that I should do it. I asked for an appointment to have lunch at 1:53.

Then I asked to see Mr. Hull, because I figured that he ought to know, to get it from me first hand. He dropped everything and saw me for about 45 minutes. I told Mr. Hull the story of molybdenum. His reaction was that he would very much dislike to include the Japanese in this embargo, as it would mean going back and reopening the July, 1938, statement, which was directed at the Japanese. He told me that when he took the Russian embargo statement to the President, that the President included in addition to airplanes -

- 2 -

and put in his own handwriting - the words "Molybdenum" and "Aluminum." I asked to see this statement, because I didn't remember it and when we looked at it we found that it read "Materials essential to airplane manufacture," and did not mention molybdenum and aluminum, and Mr. Hull was not cognizant of that factor. His whole attitude was that he didn't want to do something which would at this time arouse the Japanese.

He then sent for Hamilton of the Far East Division and put the thing perfectly fairly to Hamilton without indicating how he felt, and Hamilton, much to my surprise, instantaneously said, "I think this is a good thing and that the Japanese should be told." Two or three times Mr. Hull wanted to send for Joe Green, but I dissuaded him.

He then sent for Dr. Hornbeck and again I almost fell out of my chair when Hornbeck agreed that this ought to be done. He said, "As a matter of fact, we are working on several other ways to put the screws on the Japanese and this is just what we ought to do." All three then very carefully read the letter and they agreed that this letter should in fairness go to the American manufacturers of molybdenum. If I didn't hear from Mr. Hull again, it was all right, but he was going to consult with Joe Green between then and 1:53.

Then, in order that Mr. Hull should have the whole picture, I told him about my talking to Purvis about International Nickel, that International Nickel was not selling to Russia, that he, Purvis, thought they should also not sell to Japan, but that he would have to take it up with the British Government. I told Mr. Hull that if International Nickel refused to discontinue sales to Japan, he always could have an out.

The thing that surprised me was how timid Mr. Hull was about doing anything to offend

- 3 -

the Japanese and how very positive his two experts in the Far Eastern Division were that we should do this, and that they had other things under consideration along these lines. Isn't that surprising?

White: He didn't indicate what they are bringing pressure for?

H.M.Jr: Raw materials. So then I said, "Well, of course I suppose you could include gasoline and things like that," and he said, "Oh no, gasoline wouldn't be included because it is not a material." I said, "That is right. That makes it easier, too, for us." Isn't this surprising, that Hamilton and Hornbeck should....

White: They probably have negotiations on foot to bring pressure to bear on Japan not to come to arrangements with Russia, I take it, and that is probably why - I don't understand why Hull wouldn't be cognizant of that.

H.M.Jr: To me it was a most illuminating and surprising meeting.

White: They didn't indicate why they were bringing pressure, did they?

H.M.Jr: No, but definitely that these two men, Hamilton and Hornbeck, are in favor of putting the screws on Japan and they think it is a good time to do it. I told Hornbeck on the way out of the meeting yesterday with the financial attache of Japan and how he told us that their currencies are blocked all over the world and the only place they can get free exchange is by selling us gold and they expect to sell us a lot of gold during the next two or three months, so Hornbeck said, "Well, that is good news, that they rely on us as a sole supply."

White: We could make it a little bit more inconvenient, but we haven't got....

H.M.Jr: This takes care of all the objections you (Viner) had yesterday. I feel as though I had been your

father confessor.

Viner: I am very happy that this is regularized now.

H.M.Jr: And I just want to say to you, and will you please tell this to Stewart, that having an hour and a half yesterday to put myself on the operating table prepared me just as to how to act today. You see, if I hadn't had the hour and a half yesterday, my instincts wouldn't have been forming as to what to do, but my instincts told me if the President called up Hull without my going, Hull would have said, "No, don't do it." He had forty-five minutes. He prepared himself and two people said yesterday, "This is right," so when Hull calls the President he will say, "Yes, let this letter go," unless Mr. Joe Green drops the usual Green monkey-wrench into the thing.

Cochran: He didn't call Duvall in, did he?

H.M.Jr: No.

Cochran: Because those two are really the Chinese part of the Far Eastern section. Duvall is the Japanese part.

C A B L E

127

From: Treasury Attache Nicholson
Shanghai, China

Date: December 14, 1939

For Secretary of Treasury:

Current situation Shanghai, Hongkong for week ending December 13th. Exchange during week was quiet and comparatively steady with further large import transactions in raw cotton. Estimated circulation of military yen notes now amounts to yen one hundred million. Volume one stock exchanged declined moderately during week with little change in general price level. Estimated Hong Kong Chinese hold overbought position in Chinese national notes amounting to one hundred to two hundred million dollars. Shanghai municipal council estimates a deficit for the year 1939 of \$6,000,000. against \$2,000,000. estimated beginning of year. Increase entirely due to additional expenditure caused by fall in exchange. November general living cost of workers Shanghai 254.54 compared with 248.22 in October. Principal element contributing to increase was food during week, price of rice touched a record high of forty six Shanghai dollars per bag of approximately 180 lbs. Immediately outside the boundary the price is only thirty two dollars but Japanese Military do not permit free entry although indications are that considerable quantities have been shipped to Japan to relieve the severe shortage there. Total trade Hong Kong October was 12.4% over corresponding month last year. Greatest participant was United States which doubled volume of year ago. Direct trade with China was very small and Europe fell off greatly on account of war. Business with French Indo China, Kwangchowwan and Macao increased greatly representing

largely indirect transit trade with free China areas replacing former direct trade. Agreement has recently been reached whereby number of British ships navigating the West River and Japanese government chartered vessels calling Hong Kong will both be doubled. Hong Kong Chinese fisherman's union reports that from September 1937 to September 1939, Japanese naval operations were responsible for destruction of 759 Chinese fishing boats and deaths of 12,732 Chinese fishermen and members of their families.

NICHOLSON

December 14, 1939

129

My dear Mr. President:

I am sending you herewith copy
of a cable from Dr. Kung concerning
the production of tungsten and tin in
China. With it I am sending a map
showing the producing centers.

(12/11/39)

Sincerely yours,

The President,

The White House.

December 14, 1939

My dear Mr. President:

I am sending you herewith copy of a cable from Mr. Wang concerning the production of tungsten and tin in China. With it I am sending a map showing the producing centers.

Sincerely yours,

The President,

The White House.

December 14, 1939

My dear Mr. President:

I am sending you herewith copy of a cable from Dr. Kung concerning the production of tungsten and tin in China. With it I am sending a map showing the producing centers.

Sincerely yours,

The President,

The White House.

Prepared in office of



Martin Moore
Bureau of the Budget

Approximately December 15, 1939.

APPROPRIATIONS AND EXPENDITURES

132

1940 and 1941 (TENTATIVE)

(General and Special Accounts, Excluding Old Age Reserve)
(In millions)

"A" Program	Appropriations		Expenditures	
	1940	1941	1940	1941
I. Legislative and Judicial	\$ 32.9	\$ 35.6	\$ 32.0	\$ 35.0
II. Civil Departments and Agencies				
Federal Security Agency	822.5	808.3	800.0	796.0
Federal Works Agency	19.7	31.3	423.6	159.2
Veterans' Administration	557.1	578.5	548.0	572.0
Other Independent Offices	410.9	512.3	440.4	508.4
Agriculture	1,131.1	877.2	1,181.0	1,050.0
Commerce	38.1	34.5	37.0	34.0
Interior	78.3	66.8	87.0	70.0
Justice	39.6	40.2	44.0	39.5
Labor	28.7	33.3	27.0	32.0
Post Office (Postal deficit)	39.0	56.9	40.0	55.0
State	19.7	18.8	18.2	18.0
Treasury (Excluding Old-Age Reserve)	414.5	224.7	406.6	224.0
War - Civil and Panama Canal	72.6	56.7	64.0	62.0
District of Columbia (U.S. share)	6.0	6.0	6.0	6.0
III. National Defense				
War	660.2	690.5	625.0	700.0
Navy	720.8	904.5	705.0	845.0
IV. General Public Works	751.7	498.6	714.0	610
V. Relief (W.P.A. and Farm Security)	1,620.0	1,125.0	1,550.0	1,125.0
VI. Interest on the Public Debt	1,050.0	1,120.0	1,050.0	1,120.0
VII. Supplemental items	100.0	100.0	100.0	100.0
Total "A" Program	8,613.4	7,819.7	8,898.8	8,161.1
"B" Program				
I. War	119.4	121.4	75.0	125.0
II. Navy	138.5	122.7	68.0	165.0
III. Coast Guard	4.5	7.8	3.7	7.6
IV. Federal Bureau of Investigation	1.5	2.5	1.3	2.4
V. Public Works				
War	.6	12.5	.5	10.0
Navy	7.5	1.2	6.5	2.0
Panama Canal	-	34.0	-	25.0
Total "B" Program	272.0	302.1	155.0	337.0
Total excluding debt retirement	8,885.4	8,178.0	9,053.8	8,498.1
Estimated receipts (excluding taxes applicable to Old Age Reserve)	-	-	5,070.5	5,348.0
Net deficit	-	-	3,983.3	3,149.1
Debt retirement	584.6	586.8	100.0	100.0
Gross deficit	-	-	4,083.3	3,249.1

Declassified

December 15, 1939

After the movietones were taken today of the Finnish Minister presenting the check to Secretary Morgenthau in payment of the debt installment, the Minister stayed behind and the following is a record of their conversation:

Minister: I thank you for this \$10,000,000, but it does not help us very much. First we need much more money. I think you have seen the application I gave to the State Department.

HM,Jr: I have not seen the one you gave to the State Department. I saw the one you gave me about a month ago.

Minister: No. I gave one to the State Department. The one I gave you was before we went to war. Now we are in war and the situation has changed. The day after war broke out I got a telegram from my Government that we need at least \$60,000,000.

HM,Jr: I have not seen this memorandum.

(At this point the Minister read to the Secretary a copy of the memorandum which he had sent to the State Department.)

Minister: Our situation is this: I told you at the Gridiron Dinner that we cannot hold on without support. I have been to see the people in Wall Street and there is nothing that they will do.

HM,Jr: Of course, there is no use crying over spilled milk, but you and I talked about this two months ago and I offered to go to Congress and ask for a loan for you.

Minister: Don't you think you could go now?

HM,Jr: Well

(At this point, HM,Jr sent for Duffield and asked him for the various contributions which had been received for the re-

-2-

(lief of Finland. Duffield produced them but said that all the letters authorizing us to turn the money over to Finland were not in as yet and as they came in the checks would be turned over to the Minister.)

HM, Jr (Continuing) Well, of course Congress is only two weeks off. I do not think they will give you more than \$10,000,000 unless by direction of Congress.

Minister: What we need now is guns and airplanes and shells.

HM, Jr: There is only one man who can settle that and that is the President.

Minister: The President has been so wonderful and he really understands better than any head of State in the world. Could you not arrange for us to go over to see him?

HM, Jr: I will ask him the next time I have lunch with him what he has in mind.

Minister: There is no use getting any commodity credits at this time.

HM, Jr: I understand you are getting 40 Brewster planes. Are they fighting planes?

Minister: Yes. Now I am out to get 20 light bombers. We still have funds to pay for these.

HM, Jr: Can you get delivery of these?

Minister: Yes. I have not the right to buy anything unless I get one month's delivery. The first planes will be in Finland the end of January.

HM, Jr: Is that story correct that these Italian bombers have Italian crews?

Minister: We don't know. One week ago they told me that some of the planes came in boxes through Germany.

-3-

HM, Jr: I see what you have in mind. I will talk to the President the next time I see him, but I do not know how far he wants to go. As you know, I have no money to give you.

Minister: I know that, but some people think you have the money and if that goes back to Finland they will be furious with me and feel that I cannot get it.

Did my Government ask you for a loan when you were in Europe?

HM, Jr: No, they did not.

Minister: Our fight, what we stand for, is dependent on arms and money. I do not want to go alone to the President. I should like to go with you. I have already seen him three times.

HM, Jr: I will see him early next week.

oOo-oOo

December 15, 1939

Received today from the Envoy
Extraordinary and Minister Plenipotentiary
of Finland a check drawn on the National
City Bank of New York in the amount of
\$234,693, the proceeds of which are to be
applied on account of the indebtedness of
the Government of Finland to the United
States.

Secretary of the Treasury

RECEIVED

December 15, 1939

Received today from the Envoy
Extraordinary and Minister Plenipotentiary
of Finland a check drawn on the National
City Bank of New York in the amount of
\$234,693, the proceeds of which are to be
applied on account of the indebtedness of
the Government of Finland to the United
States.

Secretary of the Treasury

DWB:HLB

December 15, 1939

Received today from the Envoy
Extraordinary and Minister Plenipotentiary
of Finland a check drawn on the National
City Bank of New York in the amount of
\$234,693, the proceeds of which are to be
applied on account of the indebtedness of
the Government of Finland to the United
States.

Secretary of the Treasury

END:HLA

December 15, 1939

Received today from the Honorable
Extraordinary and Minister Plenipotentiary
of Finland a check drawn on the National
City Bank of New York in the amount of
\$234,693, the proceeds of which are to be
applied on account of the indebtedness of
the Government of Finland to the United
States.

Secretary of the Treasury

ENCLOSURE

12-15-39
240

Indebtedness of Finland to the United States

1. Original indebtedness incurred in June, 1919 and July 1920, in connection with purchase of relief supplies on credit. Obligations bear interest at the rate of 5% and matured on June 30, 1921 \$8,281,926.17
2. Interest was accrued on indebtedness at rate of 4-1/4% to December 15, 1922, amounting to \$1,027,389.10, on which Finland paid \$309,315.27, during funding negotiations. Interest of \$718,073.83 was added to original principal 718,073.83
3. Principal of debt as funded December 15, 1922. Debt bears interest at 3% for first 10 years, and at 3-1/2% for remaining 52 years 9,000,000.00
4. Payments made by Finland from December 15, 1922 to June 15, 1939, inclusive

Principal	\$ 880,668.30	
Interest	<u>4,466,615.20</u>	
Total	5,347,283.50	
5. Total payments by Finland
Prior to funding
Interest \$309,315.27

Under funding and moratorium agreements
Principal 880,668.30
Interest 4,466,615.20

\$5,656,598.77
6. Balance of indebtedness
Principal \$8,119,331.70
Interest (postponed under moratorium agreement). 113,825.86

\$8,233,157.56
7. Amount payable December 15, 1939
Principal installment. \$74,000.00
Semi-annual interest (3-1/2% per annum). 141,662.50
Moratorium annuity (Interest at 4% per annum) 19,030.50

\$234,693.00

Total

Washington Daily Merry-Go-Round

(Trade Mark Registered)

By DREW PEARSON and ROBERT S. ALLEN

As far as the Republican executive committee is concerned, you can put down those dates and place for the party's 1940 convention.

Chicago, July 18 or 22. Final decision is up to the national committee, which will meet in Washington in late January or early February. But in the secret deliberations of the executive committee last week, sentiment was practically unanimous for the above set-up.

The leaders favored Chicago because of its central location, plus the fact that it is neutral territory, since Illinois has no favorite son. Also, it is in the heart of the farm belt, which the Republicans are convinced will be the major battlefield of the campaign.

The July dates were a compromise. The O.C.P. chiefs abandoned hope of holding their convention after the Democrats. They saw in Roosevelt's suggestion that both parties delay separating their tickets until late August or September an ultimatum that the Democrats intended to stall until fall. The Republicans can't wait that long, since the offensive is up to them.

At the same time they didn't want to pick a date that would give Roosevelt a chance to crow. July 18 or 22 meets this requirement, and unless something unforeseen develops at the national committee session to upset the plan, such a date will be adopted.

NOTE: Republican chiefs believe that if they meet late in July, the Democrats will hold their convention early in August.

Finnish Aid

Despite his disclaimers of any special plan regarding the \$234,000 Finnish debt payment, the President will make a specific recommendation to Congress on what to do with it. He will propose that the money be returned to the "people of Finland" to help them repair the ravages committed by Russian aggression.

The President wants the fund used to such a war as to make it clear to the rulers of Moscow that the American people condemn their brutal attack on a small and peaceful neighbor. His recommendation will be made in a special message following the budget message.

NOTE: Several Congressmen are reported to be planning to jump the gun on Roosevelt on the first day of the session by introducing bills for the return of the Finnish money.

Finnish Minister

To the fact that Finland pays her debt, add the fact that she has a minister in Washington who is extremely popular with the press.

Hjalmar Procopé did something the other day which newsmen have not seen since the days of Irish Minister Michael MacWhite. After a conference with State Department officials, instead of scurrying off to his car as most diplomats do, he came to the press room for a chair.

He shook hands genially all around, sat down on the couch amid a litter of newspapers, and offered himself for questions.

He kept his good humor even when someone asked him if the new Communist government at Tbilisi was representative of all Finland. "Good Lord, no!" he said, and took out a pocket atlas to illustrate its insignificance.

He thanked everybody when he went away, then bobbed back to say he would like to have any late news that might come in that evening.

Go West, Girls

If you are looking for a husband, don't come to Washington. That is the advice drawn from a study of census figures,

which show that there are 100 women to 88.6 men in the District of Columbia.

Probably this advice doesn't apply to those who whirl in the upper brackets of social Washington. The debutante with a good family background and a fairly fat bankroll can always make off with a young diplomat, an eligible man about town, or, if worst comes to worst, a young New Dealer.

In fact, many doting mammae bring their daughters to Washington expressly for the purpose of exposing them to its social and diplomatic glamour. And many foreign offices, in turn, send their young diplomats to Washington to let them look over the field of American heiresses.

But for the everyday run of Washington womanhood, the Census Bureau is right. The Capital of the United States is no happy hunting ground for husbands.

NOTE: The Census Bureau also says that the highest percentage of marriageable men is concentrated west of the Mississippi, especially in the Rocky Mountain area. Nevada, with 40 per cent more single men than women, is not only the easiest place to lose a husband, but to catch one. Wyoming, Montana, and Arizona have the next highest surplus of men.

Secret Landing Fields

It is supposed to be a military secret, but the Russians have built a series of strategically important air bases reaching through Turkistan to the Chinese border.

They are big airdromes, capable of handling big Russian bombers. The fields are not yet quite completed, but will be in a few weeks.

This chain of landing fields has the diplomats worried. They don't know whether it is for the purpose of giving aid to China against Japan, or whether it is the start of a Soviet propaganda drive to India.

The British don't seem terribly upset, but they are watching the air bases very, very carefully.

Mail Bag

Secretary of the Treasury Morgenthau, Washington—You are one up on us in regard to the failure of the Customs Bureau to put the new \$1.50 sugar tariff into effect until half a day after it was announced, giving importers time to bring large amounts of sugar into the country under the 50-cent tariff. We find that Secretary Wallace rather than you was responsible for the delay. The Agriculture Department apparently forgot to insert the tariff change in the Federal Register, at which time it became law, until half a day after the President announced it.

Capital Stuff

As a re-election campaigner last year, Ohio's ex-Senator Mel Bulkley was a washout, but not last week during SEC hearings on the \$28,000,000 Michleken Consumers Power Company bond issue. As attorney for Cyrus Eaton, Cleveland investment dealer, Bulkley handed Morgan and Wilkie representatives all over the place. . . . Young Gov. Payne Rainer of Kansas got one of the biggest hands at the Oridiron Club dinner. Rainer and boyish-looking Rainer, an ex-newspaperman, made a hit with the correspondents, who particularly liked the fact that he wasn't running for something. . . . Arthur J. Fletcher, enforcement director of the Wage-Hour Administration, who comes from North Carolina, is trying to get Secretary Perkins and North Carolina Representative Graham Barden together, to work out a compromise on the Barden amendments that would get the wage-hour law.

(Copyright, 1939, by the Authors)

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE December 15, 1939

TO Secretary Morgenthau

FROM Mr. Haas

Subject: A very brief exposition of the estimates of Federal revenues for the 1941 Budget: revised estimate for the fiscal year 1940 and original estimate for the fiscal year 1941.

The attached tables show in detail and in summary form the present estimates of receipts for fiscal years 1940 and 1941 compared with actual receipts in fiscal year 1939.

The tax revenue from practically every major source is directly dependent, although in varying degree, upon business conditions during the period in respect of which the tax is levied. In making these estimates of future revenue it was, therefore, necessary to forecast the general business situation for the period ending in June 1941. In forecasting the business trend for 1940 we have given consideration to the unusual degree of uncertainty in the present outlook due to the unpredictable course which the European war may take. It is recognized that conditions may change overnight either to the advantage or to the disadvantage of business in this country.

Certain facts seem sufficiently clear, however, to warrant our belief that the forecast outlined below is a reasonable expectation for 1940, and neither too optimistic nor too conservative. It is clear that industrial production in the last quarter of 1939 has exceeded actual consumption; that new orders in recent weeks have shown a steep decline; that the bunching of orders for steel and other products this fall, due to war-stimulated fears, has taken considerable potential business from 1940; and that this foreshadows a corrective decline. Such a decline can be avoided only if large war orders come in soon, or if expenditures for capital equipment in early 1940 should undergo a marked expansion. Neither of these possibilities can at present be anticipated.

On the other hand, no maladjustments have as yet occurred that would warrant a business setback comparable to that of 1937. The business situation was sound before the war began and remains fundamentally sound. Following the expected decline, an improving business trend seems probable during the second half of the year.

After a careful weighing of these diverse influences we have accepted as a reasonable expectation an average of 111 for the Federal Reserve Board index for the calendar year 1940. In other words, if this forecast is realized, it will mean that the average index in 1940 will be higher than the 1939 average, and higher than the average for any other year since 1929, but not as high as in the last quarter of the current year.

Forecasts of advisory group

The forecast of the business level for 1940 is the same as an average of the estimates of eleven economists engaged in forecasting business trends -- eight representing business and banking institutions and three representing Government agencies -- whose opinions were solicited as an aid in appraising the business outlook. The average expectation of the eleven economists was that industrial production, as measured by the FRB index, would be lower in 1940 than during the closing months of 1939, but would be higher than in any other year since 1929. An FRB index of 111 was the average expectation for 1940, as compared with an index of 105 for 1939. The current level of the index (November) is about 125.

Each of the individual estimates of industrial production in 1940, given in the table below, represents a considered opinion made with the assistance of an independent research staff.

Individual estimates of average FRB index in 1940

	Calendar year	1st 6 months	2nd 6 months
Messers.:			
Lichtenstein	121	115-120	125
Crews	96	100-105	90
Hayford	114	110-115	116
Andrew	118	115	120
Naess	105	110	100
Ayres	110	115	105
Roberts	109	109	109
Crum	107	116	98
Thomsen	112	109	115-116
Nathan	110	112-114	108
Garfield	116	113	120
Average	111	112	110

It has been assumed that the Bureau of Labor Statistics Index of Wholesale Commodity Prices (1926 = 100) will average 79.2, two points higher in calendar year 1940 than the level of 77.2 which is estimated for calendar year 1939. For fiscal year 1941 this index is estimated to average 81.0.

Fiscal year 1940

Fiscal year 1940 receipts are now estimated at \$5,644 millions, which is \$24 millions less than the actual receipts of \$5,668 millions in fiscal year 1939. In spite of the approximately equal magnitude of the two totals, the composition of the total revenues in each of the two years differs.

Percentage distribution of total revenues and receipts in fiscal years 1939 and 1940

Source	: Actual	: Estimated
	: 1939	: 1940
Internal revenue:		
Income taxes	38.5	34.6
Tax on unjust enrichment	.1	.1
Miscellaneous internal revenue taxes	39.4	41.7
Employment taxes	13.1	14.7
Total internal revenue	91.1	91.1
Railroad Unemployment Insurance Act	-	.1
Customs	5.6	5.0
Miscellaneous revenues and receipts	3.3	3.8
Total	100.0	100.0

The two principal items of decrease are the expected revenues from income taxes and from customs. The decrease in the income tax receipts is explained partly by the fact that fiscal year 1939 receipts reflect the upward effect of the undistributed profits tax whereas no comparable effect is felt in the income tax receipts in fiscal year 1940. The customs estimate is lowered because of the disruption of international trade caused by the war.

Other taxes, the yield from which responds more quickly to improvement in business than do the income tax receipts will nearly offset the estimated decrease in income tax and customs.

Income taxes. Whereas the \$2,182 millions of income taxes collected in fiscal year 1939 represent collections of liabilities on incomes in calendar years 1937 and 1938, the estimate of \$1,953 millions for fiscal year 1940 represents collections of liabilities on incomes in calendar years 1938 and 1939. Thus a portion of the liabilities for calendar year 1938 appears in each fiscal year's collections. The decrease of \$229 millions in the estimated income tax for fiscal year 1940 (as compared with fiscal year 1939) is partly attributable to the higher level of incomes in calendar year 1937 as contrasted to the estimated incomes in calendar year 1939. Some of the decrease is, however, due to legislative changes. Receipts in fiscal year 1939 partly reflect collections in respect of calendar year 1937 liabilities when the undistributed profits tax of the Revenue Act of 1936 was in force and partly reflect the legislative changes made by the Revenue Act of 1938 wherein the undistributed profits tax was practically eliminated and the more liberal treatment of capital gains and losses was enacted. The changes made by the Revenue Act of 1938 are fully reflected in the fiscal year 1940 estimates. The Public Salary Tax Act of 1939, effective beginning with calendar year 1939 incomes, will be only partially reflected in the fiscal year 1940 receipts, and the individual income tax provisions of the Revenue Act of 1939 will not affect the fiscal year 1940 receipts to any appreciable extent.

The decrease of \$98 millions in the current corporation income tax collections and of \$127 millions in the current individual income tax collections reflect the estimated lower levels of incomes and the legislative changes referred to above. The estimated \$18 millions excess-profits tax collections for fiscal year 1940 represents a decrease of \$9 millions from the actual receipts in fiscal year 1939. This reduction is due not only to lowered income levels in 1939 as compared to 1937 but also to the fact that the tax liabilities in the calendar year 1939 are based on the capital stock declaration made in August 1939, whereas the 1937 calendar year liabilities were based on a declaration made in July of the preceding year.

Tax on unjust enrichment. This tax is really a back income tax but was separated on the daily Treasury statement originally because of the interest in the item when it was a current tax and of much larger magnitude than at present. The collection of the tax is now an administrative matter and the estimate shown represents the Bureau of Internal Revenue's estimate of the net amount of unjust enrichment tax which will be collected after offsets are allowed certain unjust enrichment taxpayers for claims for refunds of processing taxes.

Miscellaneous internal revenue. Miscellaneous internal revenue receipts in fiscal year 1940 are estimated at \$2,356 millions, an increase of \$124 millions or 5.6 percent, over the receipts of \$2,232 millions in fiscal year 1939. Each of the large groups of taxes on commodities is estimated to yield more revenue in fiscal year 1940 than in fiscal year 1939. Stamp taxes are, however, expected to yield \$433 thousands less than the \$41,083 thousands yielded in fiscal year 1939. This reduction is attributable largely to a decrease in silver bullion sales and transfers and to the repeal of the tax on sales of produce for future delivery by the Revenue Act of 1938. The reduction in the estimate of the tax on toilet preparations is attributable to modification of this tax in the Revenue Act of 1939.

The capital stock tax for fiscal year 1940 is estimated at \$132 millions, an increase of \$5 millions over the actual collections of \$127 millions for fiscal year 1939. This estimated increase is due to a higher declaration of aggregate capital stock value because of increased earnings anticipated by numerous corporations for calendar year 1939.

Estate tax receipts in the fiscal year 1940 are estimated at \$338 millions, a slight increase over receipts in fiscal year 1939. The estimated increase is principally attributable to a single exceptionally large estate tax already received in the early months of the current fiscal year. Estimated collections from the gift tax in fiscal year 1940 are \$33 millions, an increase of \$5 millions over actual receipts in fiscal year 1939.

Employment taxes. Total employment taxes for fiscal year 1940 are now estimated at \$827 millions, an increase of \$87 millions over the \$740 millions receipts in fiscal year 1939.

Receipts under the Federal Insurance Contributions Act, formerly title VIII of the Social Security Act, are estimated at \$599 millions as compared with \$530 millions in the fiscal

Secretary Morgenthau - 6

year 1939, an increase of \$69 millions or 13 percent. The estimate of \$599 millions will be the highest figure attained since taxes were first received under this Act in 1937. The estimated increase in revenues is the result of an anticipated higher level of taxable payrolls and a net increase in coverage brought about by the Social Security Act Amendments of 1939, approved August 10, 1939. The major changes in coverage under this Act were the inclusion of service on American vessels, employees of member banks of the Federal Reserve System, individuals aged 65 and over, and the exclusion of certain groups of farm workers. Inasmuch as the inclusion of individuals aged 65 and over was made retroactive to January 1, 1939, taxes for five quarters will be collected in the fiscal year 1940. The other major changes in coverage become effective January 1, 1940, so that revenues from such coverage will be included in the fiscal year 1940 receipts to the extent of only one quarter's liability.

The Federal Unemployment Tax Act, formerly title IX of the Social Security Act, is expected to yield \$105 millions as compared with \$101 millions in the fiscal year 1939. Here again, as noted above in the case of the Federal Insurance Contributions Act, the higher level of taxable payrolls contributed toward the rise in receipts. Another element making for higher receipts is the fact that this is the first time that all liabilities collected within a fiscal year are based upon the 3 percent rate of tax. On the other hand, the Railroad Unemployment Insurance Act, placing employees of railroads under a separate unemployment compensation system, became effective July 1, 1939, and therefore such taxes upon railroads will not be included in Federal Unemployment Tax Act receipts as was the case heretofore. Generally speaking, the passage of the Social Security Act Amendments of 1939 does not affect receipts under this tax in the fiscal year 1940 because the amendments become effective on January 1, 1940, and payment of the calendar year 1940 liabilities will be made partly in the fiscal year 1941 and partly in the fiscal year 1942.

The Carriers Taxing Act of 1937 is expected to return \$124 millions, a gain of \$15 millions over receipts of \$109 millions in the fiscal year 1939. This increase results primarily from the higher level of railroad payrolls in April 1939-March 1940, the period for which liabilities are paid in the fiscal year 1940, as compared with payrolls in the corresponding period a year ago. A relatively small part of the gain is attributable to the rise in the rate of tax from 2 3/4 percent on both employees and employers on calendar year 1939 liabilities to 3 percent on both employees and employers on calendar year 1940 liabilities, one quarter of which will be collected in the fiscal year 1940.

Railroad Unemployment Insurance Act. Beginning July 1, 1939, carriers were required to pay contributions under the Railroad Unemployment Insurance Act (approved June 25, 1938) rather than under the Federal Insurance Contributions Act, formerly title IX of the Social Security Act, and 10 percent of the contributions received will be deposited to the credit of the Railroad Unemployment Insurance Administration Fund. Although the new Act will be in effect throughout the fiscal year 1940, receipts which are estimated at \$5 millions, will include contributions covering only three quarters because of the lag of one quarter in making payments under this Act.

Customs. Customs receipts for fiscal year 1940 are estimated at \$283 millions. This represents a decrease of \$36 millions from the actual receipts of \$319 millions in the fiscal year 1939. Customs receipts for the fiscal year 1940 through December 9, 1939 were running \$12 millions above receipts in the corresponding period of fiscal year 1939. This excess was largely in the nature of non-recurring demand caused by panicky consumer purchasing of sugar and imported liquor immediately following the outbreak of the war. For example, the volume of imports of liquors in September has been exceeded in only two months since the repeal of the 18th Amendment, namely in December 1936 and December 1937. Total duties collected on liquor in September 1939 amounted to \$5,161 thousands as compared with \$1,930 thousands in August 1939, \$2,537 thousands in September 1938, and a monthly average of \$2,091 thousands in the first eight months of calendar year 1939. Sugar imports in September 1939 brought in \$8,346 thousands as compared with \$5,313 thousands in August, \$5,188 thousands in September 1938, and a monthly average of \$2,975 thousands for the first eight months of calendar year 1939.

The future effects of the war on customs receipts have been estimated by making an analysis of each of the leading dutiable commodities with reference to the demand, supply and price of such commodities and the country of origin. Commodity experts in various governmental departments were consulted in this connection. The disruption of international trade because of the war has a direct effect on dutiable imports. For example, shipping facilities have been upset both directly by the war and indirectly by the Neutrality Act of 1939. The diversion of men from productive work to war-time activities has taken place not only in belligerent nations but also in neutral nations. Imports from Germany, including Austria, Czechoslovakia and Poland, have, to all intents and purposes, ceased.

There are many indirect effects of the war which tend to lower the customs receipts. An example is the change in the conditions of importing sugar. On September 11, 1939, the President removed the marketing quotas established under the Sugar Act of 1937. This automatically raised the duty on imports from Cuba from .9 cent a pound to 1.5 cents a pound and tended to keep such imports out of our market. As a result it is estimated that we will receive from Cuba only enough sugar to make up the deficiency that cannot be supplied by domestic beet and cane sugar and duty-free imports from the Philippine Islands, Puerto Rico and Hawaii.

In the case of other products, we will be forced to turn to domestic production. There will be a new demand by belligerents for products we normally import so that such imports will not be available to us, at least in the usual volume.

Miscellaneous revenues and receipts for fiscal year 1940 are estimated at \$214 millions, an increase of \$26 millions over actual receipts in fiscal year 1939.

Fiscal year 1941

Fiscal year 1941 receipts are estimated at \$5,951 millions, an increase of \$283 millions over actual receipts in fiscal year 1939 and of \$307 millions over the estimated receipts in fiscal year 1940. Each of the broad classifications of revenue with the exception of customs contributes to this increase. In the case of customs receipts, the entire fiscal year 1941 reflects war conditions whereas the first portion of fiscal year 1940 was not affected in the same manner.

Income taxes. Total income tax receipts for fiscal year 1941 are now estimated at \$2,191 millions, an increase of \$238 millions over estimated income tax receipts for fiscal year 1940. The major income tax changes effected by the Revenue Act of 1939 will apply to incomes received in the calendar year 1940 and will therefore be reflected in income tax collections in the last half of fiscal year 1941. The most important provisions of the Revenue Act of 1939 are those relating to the corporation tax rates, the more liberal treatment of capital losses and the allowance of an operating loss carryover. The full effect of the Revenue Act of 1939 on corporate incomes will not be reflected in corporation income tax receipts until fiscal year 1943 because losses incurred prior to calendar year 1939 are not allowed as part of the two-year operating loss carryover.

The current corporation income taxes for fiscal year 1941 are estimated at \$1,044 millions, an increase of \$179 millions over the estimated receipts for fiscal year 1940. Since collections in respect of calendar year 1939 liabilities are common to fiscal years 1940 and 1941, the increase in the estimates for fiscal year 1941 as contrasted to fiscal year 1940 reflects the forecast of better business conditions in calendar year 1940 than obtained in calendar year 1938.

Individual income tax receipts are estimated at \$870 millions, an increase of \$60 millions over the estimated receipts for fiscal year 1940. In the case of the individual income tax receipts, we have had a steady decline in the amount of incomes going to individuals in the highest net income brackets. This trend is more than offset by the expectation of generally higher incomes in the calendar year 1940 as contrasted to calendar year 1938.

The excess-profits tax for fiscal year 1941 is estimated at \$22 millions, an increase of \$4 millions over the estimate for fiscal year 1940. The estimated higher calendar year 1940 income levels account for the estimated increase in the excess-profits tax revenues.

Tax on unjust enrichment for fiscal year 1941 is estimated at \$4 millions, a decrease of \$2 millions from the estimate for fiscal year 1940. Since this tax is in the nature of a back tax, the Bureau of Internal Revenue expects that the revenues will decrease as the outstanding cases are settled.

Miscellaneous internal revenue receipts in fiscal year 1941 are estimated at \$2,393 millions, an increase of \$37 millions over the estimate for fiscal year 1940. In general, the principal sources of revenue are expected to continue to increase in line with our expectation of higher consumer incomes and price levels. Certain minor sources of revenue are expected to show decreases because of special situations. For instance, the revenues from the excise tax on imported distilled spirits are expected to be reduced by \$1,700 thousands as a result of lower imports from Canada. The reduction of \$200 thousands in the estimated revenues from the tax on chewing and smoking tobacco results from a continued diversion of consumption of chewing and smoking tobacco to cigarettes.

The capital stock tax for the fiscal year 1941 is estimated at \$137 millions, an increase of \$5 millions over the estimated receipts of \$132 millions for fiscal year 1940. The increase is attributable to the fact that corporations are expected to declare higher capital stock values in 1940 because of the estimated increase in earnings of that year over 1939.

Estate tax receipts in fiscal year 1941 are estimated at \$329 millions, a decrease of \$9 millions from the estimated receipts in fiscal year 1940. The decrease is caused by the exceptionally large collection from one estate, referred to above, which was received early in fiscal year 1940. Gift tax receipts are estimated at \$33 millions.

Employment taxes. Receipts under the Federal Insurance Contributions Act, formerly title VIII of the Social Security Act, are estimated at \$633 millions. This represents a gain of \$103 millions over receipts of \$530 millions in the fiscal year 1939 and \$34 millions over estimated receipts in the fiscal year 1940. The major part of the rise in estimated receipts in the fiscal year 1941 is attributable to the inclusion of a full year's receipts from groups brought under this Act by the Social Security Act Amendments of 1939 as compared with receipts of only three months' liabilities for such groups in the fiscal year 1940. Such gains are somewhat offset by the receipts of four quarters' liabilities from individuals aged 65 and over in the fiscal year 1941 as compared with the receipt of five quarters' liabilities in the fiscal year 1940.

Receipts from the Federal Unemployment Tax Act, formerly title IX of the Social Security Act, are expected to decline to \$94 millions from fiscal year 1940 estimated receipts of \$105 millions and fiscal year 1939 receipts of \$101 millions. The drop to \$94 millions will be the first since taxes under this Act and its predecessor were first received in 1936. The passage of the Social Security Act Amendments of 1939 is primarily responsible for the decline in revenues, because it effected a decrease in coverage of individuals' wages which more than offset a net increase in coverage of employees. Another reason for the decline is ascribable to the fact that railroad employees were removed from coverage under this Act by the Railroad Unemployment Insurance Act which became effective July 1, 1939.

Receipts from the Carriers Taxing Act of 1937 are estimated to rise to \$135 millions as compared with anticipated receipts of \$124 millions in the fiscal year 1940 and receipts of \$109 millions in the fiscal year 1939. The increase of \$11 millions over fiscal year 1940 receipts is largely the result of the advance in the rate of tax from $2\frac{3}{4}$ percent on both employees and employers on liabilities prior to January 1, 1940, to 3 percent on both employees and employers on liabilities upon which taxes will be received in the fiscal year 1941.

Railroad Unemployment Insurance Act. Receipts under the Railroad Unemployment Insurance Act are estimated at \$7 millions, an increase of \$2 millions over fiscal year 1940 estimated receipts of \$5 millions. The major part of this gain results from the fact that receipts in the fiscal year 1941 will include liabilities of four quarters whereas receipts in the fiscal year 1940 will include liabilities of only three quarters.

Customs. The customs estimate for fiscal year 1941 is \$273 millions. This represents a decrease of \$10 millions from the estimated customs receipts of \$283 millions in fiscal year 1940. Customs in fiscal year 1941 appear unlikely to be enlarged by the extraordinary receipts which marked a brief interval in fiscal year 1940, immediately following the outbreak of the European war.

TREASURY DEPARTMENT

153

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE

December 15, 1939

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Budget estimates of revenues and estimates of national income.

In the Budget Message of the President in connection with the Budget of the United States Government for fiscal year ending June 30, 1940, the President said:

"The Budget and the National Income

"Taxation yields almost all of the income of the Government, leaving less than 5 percent to come from miscellaneous sources. Revenue from taxes depends mainly on two factors: The rate of taxation and the total of the national income. This holds true not only of direct taxes on personal and corporate income but also of what are known as ad valorem taxes or other forms of indirect taxes, for the very good reason that the volume and value of goods produced or articles imported vary with the rise or fall of the Nation's total income.

"We can and do fix the rate of taxation definitely by law. We cannot by a simple legislative act raise the level of national income, but our experience in the last few years has amply demonstrated that through wise fiscal policies and other acts of government we can do much to stimulate it.

"Today the Nation's income is in the neighborhood of 60 billion dollars a year. A few years ago it was much lower. It is our belief that it ought to be much higher.

"In order that you may know the amount of revenue which the Government may expect under the existing tax structure as the national income rises, the following table is submitted. It shows the estimated revenues which may be derived when national income reaches certain levels between 70 billion and 90 billion dollars.

"Estimated Federal receipts ^{1/} by principal sources,
at certain assumed levels of national income
based on December 1938 tax rates
(in billions of dollars)

National income	70	80	90
Income taxes	2.5	3.9	5.7
Miscellaneous internal revenue	2.2	2.6	3.1
Customs	.4	.5	.7
Miscellaneous receipts	.2	.2	.2
Pay-roll taxes	.7	.8	.9
Total	6.0	8.0	10.6

^{1/} Tax liabilities excluding trust accounts. Pay-roll taxes at calendar year 1938 rates.

"The table is not intended to indicate the national income for any particular year and, of necessity, the estimates are rough and may vary somewhat either way. Since taxes are paid from one month to fifteen months after income is realized, the achievement of a 90 billion dollar national income in one year will not, for instance, mean tax collections of 10 billion dollars in that same year. This table is an indicator and not a gauge."

This statement was based in part upon the attached table and comments prepared by the Division of Research and Statistics of the Treasury Department.

In our suggested statement we emphasized that "There is no one answer as to the amount of revenue which will be received by the Government at a given level of national income. The distribution of that national income and its trend -- upward, downward, sidewise, or irregularly fluctuating -- also influences the amount of the revenues."

While the Budget Message of the President indicated this fact in an indirect way by stating "the estimates are rough and may vary somewhat either way", the Budget Message did explain very carefully that the estimates were estimates of tax liabilities and not estimates of revenues to be collected in the year when the national income reached the indicated level.

The Budget Message said "Since taxes are paid from one month to fifteen months after income is realized, the achievement of a 90 billion dollar national income in one year will not, for instance, mean tax collections of 10 billion dollars in that same year."

The present estimates of revenues for fiscal years 1940 and 1941 are substantially consistent with the indicated tax liabilities at various levels of national income contained in the President's 1940 Budget Message. The following tabular presentation shows the estimates of national income for calendar years 1937-1940, inclusive.

National income 1/
(in billions of dollars)

Calendar year	:	National income paid out	:	National income produced
1937		70.7		71.9
1938		65.0		64.0
1939		69 *		68.5 *
1940		73 *		73 *

1/ U. S. Department of Commerce, Bureau of Foreign and Domestic Commerce.

* Estimated by Robert Nathan, Research Division of the Bureau of Foreign and Domestic Commerce, December 15, 1939.

The Budget and the National Income

Taxes yield practically all of the revenues of the Federal Government. While tax rates are one factor of importance in determining revenues, the amount of the national income is also important. There is no one answer as to the amount of revenue which will be received by the Government at a given level of national income. The distribution of that national income and its trend — upward, downward, sideways, or irregularly fluctuating — also influences the amount of the revenues.

I fully recognize the difficulties of estimating the revenues which will most probably be associated with given future levels of national income. Nevertheless, I feel it highly important that for policy formulation purposes you have before you an indication of the relative magnitudes of the revenues which the Government may expect to receive at varying improved levels of our national income. It is estimated that at national income payment levels of \$70, \$80, \$90 and \$100 billions, the revenues of the Federal Government at calendar year 1958 tax rates would be \$6.0, \$8.0, \$10.6 and \$15.9 billions, respectively. The evidence of the estimates, therefore, indicates that we should strive to increase national income payments as one method of achieving a balanced budget.

COPY

Estimated Federal Receipts* by Principal Sources, at Various
Assumed Levels of National Income Based on December 1958
Tax Rates

(In billions of dollars)

	National income paid out			
	\$70	\$80	\$90	\$100
Income taxes	2.5	5.9	5.7	8.0
Miscellaneous internal revenue	2.2	2.6	3.1	3.8
Customs	.4	.5	.7	.8
Miscellaneous receipts	.2	.2	.2	.2
Payroll taxes	.7	.8	.9	1.1
Total	6.0	8.0	10.6	15.9

* Tax liabilities excluding trust accounts. Payroll taxes at
calendar year 1958 rates.

COPI

157A

THE WHITE HOUSE
WASHINGTON

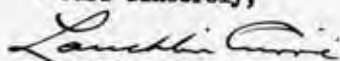
December 15, 1939

Dear Mr. Secretary:

With reference to our telephone conversation to-day, I think you will be interested in the fact that from June 30, 1933 to June 30, 1940 the Federal Government will have expended on relief, work relief and grants for local public works the enormous sum of nearly seventeen and a half billion dollars. In addition, during this same period, the Federal Government increased its grants for public roads by a billion dollars over the preceding seven years. In other words, the expenditures of the Federal Government on services formerly the responsibility of state and local public bodies amounted to over \$18 billion, which is one aspect from which the increase in the Federal debt and the decline in non-federal public debt may be viewed.

In this connection I await with interest the figures on the outstanding debt of non-federal public bodies as of June 30, 1939, I requested of you on December 8th.

Yours sincerely,


Lauchlin Currie
Administrative Assistant
to the President

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

1578

*Will you Currie
this today*

THE WHITE HOUSE
WASHINGTON

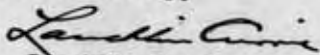
December 15, 1939.

Dear Mr. Secretary:

Attention: Mrs. Klotz.

I would appreciate it if you would
inform me as to the present status of
the borrowing authority of the Reconstruc-
tion Finance Corporation.

Yours sincerely,



Lanchlin Currie
Administrative Assistant
to the President.

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury.

157C

RECONSTRUCTION FINANCE CORPORATION

(as of November 30, 1939)

(in millions of dollars)

	Amount author- ized	Notes out- standing	Balances which may be issued	Undis- bursed commit- ments	Unob- ligated bal- ances
<u>I. General Purposes:</u>					
Original Act as amended	3,300.0				
Act of Jan. 20, 1934 (Public 84) ..	850.0				
	4,150.0				(For details, see attached sheets)
Less:					
S.I.S. Act 6/16/33	400.0				
Act of Feb. 24, 1938	1,633.3	2,033.3			
	2,116.7	377.3	1,739.4	728.5	1,010.9
<u>II. Loans, purchases of stock, securities, etc:</u>					
Insurance companies, Acts 6/10/33 and 1/31/35	75.0	26.7	48.3	-	48.3
Federal Deposit Insurance Corp., Act 6/16/34	250.0	-	250.0	-	250.0
Public Works Adm. Act 6/19/34	250.0	127.3	122.7	23.3	99.4
Mortgage loans, Act 1/31/35	100.0	36.0	64.0	-	64.0
	675.0	190.0	485.0	23.3	461.7
<u>III. Unlisted:</u>					
Preferred stock, etc., of banks and trust companies, Act 3/9/33 ..	598.3	541.4	56.9	56.9	-
Grand Total ...	3,390.0	1,108.7	2,281.3	808.7	1,472.6

Division of
Accounting and Warrants
December 6, 1939

RECONSTRUCTION FINANCE CORPORATIONNOTES OUTSTANDING

(as of November 30, 1939)

1. General Purposes:

General account (balancing amount)\$ 377,295,005.22

II. Loans, purchases of stock, securities, etc.:

Loans secured by preferred stock, insurance companies	26,620,183.99
Preferred stock - insurance companies	100,000.00
Securities purchased from Public Works Adm.....	127,289,612.85
Stock, R.F.C. Mortgage Company	25,000,000.00
Stock, National Mortgage Association of Washington	11,000,000.00
Total	190,009,796.84

III. Preferred stock, etc. (unlimited):

Loans secured by preferred stock banks and trust companies	6,424,667.01
Preferred stock, capital notes and debentures, banks and trust companies	534,999,476.43
Total	541,424,143.44

Grand total1,108,728,945.50

Division of
Bookkeeping and Warrants
December 6, 1939

RECONSTRUCTION FINANCE CORPORATIONUNDISBURSED COMMITMENTS

(as of November 30, 1939)

1. <u>General Purposes:</u>	
Loans for reorganization or liquidation of closed institutions	\$ 15,611,121.95
Other loans	<u>712,859,237.48</u>
Total	<u>728,470,359.43</u>
II. <u>Loans, purchases of stock, securities, etc.:</u>	
Federal Emergency Administration of Public Works	<u>23,261,000.00</u>
III. <u>Preferred stock, etc., (Unlimited):</u>	
Loans secured by preferred stock:	
Banks and trust companies	25,138,000.00
Preferred stock, capital notes and debentures	<u>31,822,100.00</u>
Total	<u>56,960,100.00</u>
Grand Total	<u>808,691,459.43</u>

Division of
Bookkeeping and Warrants
December 6, 1939

THE INCOME CERTIFICATE PLAN FOR AGRICULTURE

An analysis based on
"Certificate Plan" bills
introduced during the
1939 regular session
of Congress

A Memorandum Prepared in the
Treasury Department
Division of Tax Research
December 15, 1939

CONTENTS

159

Page

Summary	1 - viii
-------------------	----------

Foreword.	1
-------------------	---

I. Introduction	2 - 7
---------------------------	-------

II. Relation of the Plan to the Agricultural Program	8 - 12
--	--------

1. Acreage allotments and conservation payments	8
2. Crop loans	9
3. Marketing quotas	10
4. Parity payments.	11
5. Crop insurance	11
6. Appropriations to encourage domestic consumption and exports.	11

III. Essential Details of the Certificate Plan. . . .	13 - 21
---	---------

1. Certificate allotments	13
2. Certificates issued.	14
3. Apportionment formulae	14
4. Distribution to producers.	16
5. Price of certificates.	16
6. Sale of certificates	17
7. Ineligible producers	18
8. Purchase of certificates	18
9. Monthly returns.	20
10. Miscellaneous provisions	20

IV. Tax Features of the Certificate Plan Compared with Processing Taxes.	22 - 31
--	---------

1. Commodities taxes.	23
2. Rate of tax.	24
3. Base of tax.	24
4. Compensation tax	25
5. Conversion factors	25
6. Exemptions and refunds	26
7. Tax load	26
8. Date of termination.	26
9. Tax administration	26

CONTENTS (continued)

	<u>Page</u>
V. Incidence of Proposed Certificate Taxes.	32 - 36
VI. Analysis of Certificate Plan	37 - 55
A. Effects on agricultural producers.	38
1. Amount of benefit payments.	38
2. Regularity of benefit payments.	40
3. Volume of exports	41
4. Miscellaneous considerations.	43
5. Degree of applicability	43
6. Different quality products.	45
7. Landlords and farm labor.	46
B. Effects on agricultural trades.	48
1. Margin of profit.	48
2. Volume of trade	49
3. Business methods.	49
C. Fiscal effects	50
1. Distribution of tax burden.	50
2. Federal expenditures.	52
3. Fiscal administration	53

THE INCOME CERTIFICATE PLAN FOR AGRICULTURE

161

S u m m a r y

1. The plan.

The income certificate plan is a combination of processing taxes and benefit payments. It takes its name from the certificates which would be employed to make benefit payments to producers of certain agricultural commodities and to collect taxes on the occasion of the first domestic sale of these commodities in processed condition. Both operations would be conducted by the Secretary of Agriculture independently of the United States Treasury.

2. Objective of plan.

The certificate plan is a device to enable producers of selected agricultural commodities to obtain the equivalent of parity prices for part or all of their production, without at the same time affecting their competitive position in foreign markets. ^{1/} It is a method for providing one type of agriculture benefits - parity payments - outside of the Budget and without direct recourse to the general fund of the Government.

3. Mechanics of plan.

The Secretary of Agriculture would issue certificates to correspond in volume to the estimated domestic consumption (and in some cases normal exports) of a given agricultural commodity. These certificates would be distributed to producers in accordance with their marketing quotas. To receive the certificates producers would have to comply with the requirements of the agricultural program. The certificates would have a cash value generally equal to the excess of the parity price of the commodity (or cost of production, if it is higher) over its average farm price. In effect, the producer would receive on that portion of his production required for domestic consumption (and in some cases for exports) a total amount equal to its parity

^{1/} Parity price is the price that will give the commodity the same purchasing power with respect to articles farmers buy as such a commodity had during the base period (1909-1914 for most commodities; 1919-1929 for some commodities).

price or cost of production whichever was greater. Part of that amount would come from the sale of his produce at prevailing farm prices; part of it from the sale of his share of the certificates.

The producers would realize the value of their certificates by selling them through the facilities of a pool operated by the Secretary of Agriculture, to those required to buy them. The certificates would have to be purchased by those making the first domestic sale of all articles processed or manufactured from the farm commodity affected. Persons making such first sales would be required to make a monthly return to the Secretary of Agriculture showing the quantities of such manufactured articles sold by them. They would have to attach to these monthly returns, an amount of certificates corresponding to the physical quantity of the particular agricultural commodity used in the manufacture of the sold article.

4. Legislative history.

The certificate plan is advanced by its sponsors in an attempt to place part of the agricultural program on a permanent financial basis, without dependence upon annual Congressional appropriations. At the 1939 regular session of Congress six bills were introduced, which provided for the application of the plan to cotton, rice and wheat. The Senate Committee on Agriculture and Forestry has held hearings on the plans for wheat and rice; the House Committee on Agriculture on the plan for rice. The rice plan has been approved by the Senate Committee and by the Secretary of Agriculture. The Director of the Budget has reserved judgment "as to the relationship of this legislative proposal to the program of the President."

5. Relation to the agricultural program.

The certificate plan is proposed as an addition to the present agricultural program. It not only leaves the principal features of the present program unchanged but is in fact conditional upon the retention of that program. The certificate plan can be coordinated with the acreage allotment, soil conservation, crop loan and marketing quota features of the present agricultural program. In the case of the commodities to which it applies, it will replace the so-called parity payments now made from general revenues. (Appropriation for parity payments for the 1940 program, \$225,000,000).

6. Tax features.

(a) Commodities taxed. Adoption of the certificate plan would be equivalent to the enactment of a processing tax. The certificate tax, however, would differ in some respects from the invalidated processing taxes. Certificate taxes would be imposed on specific commodities presumably by the enactment of separate bills applying to each individual commodity. The bills thus far introduced would tax cotton, rice and wheat.

(b) Tax rates. The rate of the certificate tax on rice is specified at 1 cent per pound of clean rice. Rates on cotton and wheat would be set at the beginning of each crop year. For cotton the rate would be equal to the excess of the parity price or cost of production, whichever is higher, over the estimated average farm price, including parity payments. For wheat the rate would be 120 percent of this excess. A compensating tax is imposed on imports. No floor stock tax is provided. On the basis of current data, it is estimated that the tax rates indicated by the certificate plans would impose a 7.1 cents tax per pound of lint cotton and a 45.1 cents tax per bushel of wheat. Under the processing taxes the rate on cotton was 4.2 cents and the rate on wheat was 30 cents.

(c) Base of tax. The tax would be levied with respect to each commodity on a quantity basis - so many cents per pound or bushel - without regard to variations in type, grade, or price. It would be collected on the occasion of the first domestic sale of any article manufactured wholly or partly from the given agricultural commodity.

(d) Exemptions. The sale of commodities for export would be exempt. To prevent pyramiding, articles processed or manufactured from another article which had previously been taxed would be exempt.

(e) Tax load. On the basis of price conditions as of November 15, 1939, and on the basis of available estimates of volume of consumption (both sets of data from Department of Agriculture sources), it is computed that the certificate plan would impose an annual tax of approximately \$11,000,000 on rice, \$238,000,000 on cotton, and \$240,000,000 on wheat.

(f) Date of termination. The certificate plans contain no specific provision regarding length of time for which the taxes are to remain in effect. They would presumably continue until repealed.

(g) Administration. Responsibility for the collection of taxes, for the distribution of benefits, for the receipt of monthly tax returns, and for all determinations is vested with the Secretary of Agriculture.

7. Incidence.

The ultimate burden of the certificate tax would in a general way tend to be distributed in the same manner as was the burden of the invalidated processing taxes. The incidence would vary from commodity to commodity and no generalization is possible. However, since its sponsors do not propose to apply the plan to those commodities where the tax burden would be shifted to agricultural producers, the cost of the plan would fall largely or entirely on the agricultural trades and consumers. Under the processing taxes the bulk of the burden is believed to have rested on consumers. Consumers would be especially likely to bear the burden of certificate taxes falling on those commodities which, like flour, tend to be consumed in fixed quantities, without much regard to price.

8. Effects on agricultural producers.

(a) The certificate plan would afford large benefit payments to the producers of agricultural commodities affected. These benefit payments would probably be considerably higher than are likely to be made available through appropriations from the general fund of the Treasury. They would be in lieu of parity payments, but probably would be additional to most of the other categories of Federal agricultural expenditures.

(b) In the long run, the certificate plan would probably provide benefit payments with greater regularity than would direct Congressional appropriations.

(c) The plan would not affect adversely the competitive position of the American farmer in the foreign markets. On the contrary, it could be so devised as to place the American farmer in an advantageous position with respect to exports.

(d) The plan would provide a kind of gratuitous crop insurance. It would assure the growers a minimum annual revenue without regard to the actual yield of their acreage.

(e) The plan would make the control of the volume of agricultural production relatively more easy to enforce.

(f) The plan could not be applied with uniform effectiveness to all commodities. It could not serve effectively to raise the income of farmers producing commodities for which the domestic demand is appreciably reduced as the price increases.

(g) Since the certificates for any one agricultural commodity would have a uniform price, the plan would afford relatively larger benefit payment to producers of a low priced variety than to producers of a high priced variety product. Producers near to market might have a combined price and benefit in excess of their parity price, at the same time producers far from market received less than their parity price.

(h) Land owners would stand to be the largest gainers. Agricultural labor would probably be a substantial loser. Sharecroppers and tenant farmers would gain in some, but lose in other respects.

9. Effect on agricultural trades.

Processors and distributors of agricultural commodities and their products would be adversely affected.

(a) Because the margins of profits of processors and distributors are small, any substantial part of the tax burden which they would have to absorb would severely cut their profits.

(b) Reduced consumption resulting from the imposition of these heavy taxes would reduce the volume of the processors' and distributors' trade.

(c) Periodic changes in tax rates would be likely to disrupt processors' and distributors' business methods.

(d) Processors and distributors would bear the bulk of the burden of tax compliance, through advancing the amount of the taxes, filing monthly tax returns, and maintaining prescribed records.

10. Fiscal effects.

(a) Distribution of tax burden.

(1) The certificate plan imposes what in effect amounts to a processing tax on some necessities. The burden would fall in large part on consumers. It would be a regressive tax, imposed not only without regard to tax-paying ability but without regard to the price of the consumed commodity.

(2) The imposition of a tax of this magnitude, superimposed on the present tax system, would severely affect the purchasing power of the lower income classes.

(3) Unlike some of the regressive taxes already on the statute books, the certificate tax is proposed as a relatively permanent levy.

(4) The burden would be particularly heavy in the case of the unemployed, the under-employed and those individuals who are themselves engaged in the production of depressed commodities. This group would include producers of agricultural commodities not covered by the plan.

(b) Governmental expenditures.

Adoption of the certificate plan would greatly increase total public expenditures for the benefit of agriculture. Whether on balance it would increase or decrease expenditures from the general revenues of the Government cannot be forecast with assurance.

(1) On the one hand, if the certificate plan is adopted, that portion of parity payments now financed from general revenues, which is expended in behalf of the commodities covered by the plan, could be eliminated.

(2) Expenditures for subsidizing agricultural exports might be reduced.

(3) The enactment of the plan might weaken agriculture's resistance to reductions in Congressional appropriations.

(4) On the other hand, if the plan were adopted, it might result in increased expenditures on behalf of the producers of non-certificated commodities in order to give them benefit payments on a par with those obtained by the producers of commodities covered by the certificate plan.

(5) If the plan resulted in reduced consumption and increased surpluses, the net cost of crop loans might be increased.

(6) The increased cost of living, resulting from the adoption of the certificate plan, might indirectly raise Federal expenditures for relief purposes. Increases in unemployment, which the plan might cause, would have the same effect.

(c) Fiscal administration.

(1) The tax features of the certificate plan are (almost of necessity) insufficiently integrated and so are likely to create inequities.

(2) Because of the severity of the tax burden, tax evasion would be stimulated, especially by farm and rural consumers of taxed products.

(3) The plan would sanction large public expenditures outside of the Budget, exempt from periodic executive and legislative review. In consequence, a safeguard against unwise allocation of public funds would be sacrificed.

(4) The certificate plan would impose a tax not only hidden from the public but in an important sense from the Government itself. The operations of the plan would be outside the jurisdiction of the regular tax-collecting and regular auditing agencies of the Government.

(5) It would create a Federal tax-assessing and a tax-collecting agency outside the Treasury and would add to the country's already complex tax structure.

(6) The plan would establish a dangerous precedent which other economic groups would strive to emulate, thereby seriously endangering fiscal planning.

FOREWORD

This memorandum examines the proposed income certificate plan for agriculture, with special reference to its tax aspects and fiscal implications. It is concerned only with the principal features of the plan and makes no attempt to describe in detail all variations between the several Congressional bills embodying the proposal, except insofar as such variations are deemed to be of basic importance. Since the revenue raising aspects of the certificate plan constitute in effect a kind of processing tax, its more important technical features are compared with the corresponding provisions of the processing taxes imposed for approximately 30 months under authority of the Agricultural Adjustment Act of May 12, 1933, as amended.

No attempt is made in this memorandum to inquire into the Nation's agricultural problem itself; what the nature of that problem is and whether the present agricultural program attacks it in a rational way. Only sufficient description of the existing complex agricultural program is provided (for the benefit of readers not conversant with its many features) to reveal clearly the projected role of the proposed certificate plan. The legal problems raised by the certificate plan are here wholly ignored. For the sake of general information it may be noted, however, that in the course of the House of Representatives, Committee on Agriculture hearings on the income certificate plan for rice (H. R. 6654) it appears to have been assumed that the proposal is "simply a way of getting around the Supreme Court decision" on the processing taxes, by having recourse to the commerce power rather than the taxing power of the Congress.

I. Introduction

The certificate plan is a combination of benefit payments and processing taxes. It is a device to enable domestic producers of agricultural commodities to obtain parity prices for that segment of their production which is consumed domestically (and in some cases exported), without at the same time affecting their competitive position in foreign markets.

Viewed in another light, the certificate plan is a method for providing one type of agricultural benefits, so-called parity payments, outside of the Budget and without recourse to the general fund of the Government. It takes its name from the certificates employed to provide benefit payments to producers of certain agricultural commodities and to collect taxes on the occasion of the first domestic sale of these commodities. Both operations are conducted by the Secretary of Agriculture, independently of the United States Treasury.

Certificates would be issued in volume to correspond to the estimated domestic consumption (and in some cases, normal exports) of a given agricultural commodity. These certificates would be assigned to the producers of that commodity in accordance with their allotted share in the Nation's production quota, provided that they complied with the eligibility requirements of the agricultural program. The certificates would have a dollar value generally equal to the excess of the parity price of the commodity (or cost of production, if it is higher) over its average farm price. ^{1/}

^{1/} For definition of "parity price" and "cost of production" see page 23 below.

from that portion of his production required for domestic consumption (and in some cases, for exports), each producer would receive a total return equal to parity price or cost of production, whichever is higher. He would receive that return in two parts: one from the sale of his product in the usual manner at prevailing farm prices; the remainder from the proceeds of his share of the certificates.

Producers would obtain the value of their certificates by selling them (indirectly) to those required to buy them. The plan prescribes that certificates be purchased at the fixed price in connection with the first domestic sale of all articles processed or manufactured from the commodity. Persons making such first sale would be required to make a monthly return showing the quantities of such manufactured articles sold. They would be required to accompany such returns with an amount of certificates, corresponding to the physical quantity of the particular agricultural commodity used in the manufacture of the sold article. Compensating provisions would apply in connection with importations of certificated commodities. Exports would be exempt.

The principle of the certificate plan has been in use in foreign countries for several years. In the agricultural countries of Central Europe it was adopted in the late twenties and in a modified form remains in use today.

In the United States it appears to have been proposed originally as a feature of the old domestic allotment plan a dozen years ago. ^{1/} The scheme received its recent impetus as a result of the invalidation of the processing taxes by the Supreme Court in Butler v. Hoosac Mills, January 6, 1936 and in Rickert Rice Mills v. Fontenot, January 13, 1936.

The certificate plan is advanced in an attempt to place parts of the agricultural program on a permanent financial basis without dependence upon annual Congressional appropriations. Secretary Wallace's speech of December 5, 1939, leaves no doubt on this point:

"The National Farm Program which began in 1933....is a far-flung effort in which more than three-fourths of the farmers of the United States are taking part.....

"....How really permanent is that program? The Agricultural Adjustment Act of 1933 was hailed as the "Magna Charta" for American agriculture. It gave to our farmers the unifying support of government and provided a source of revenue to keep their program going. Then a Supreme Court decision in 1936 destroyed that "Magna Charta." Much of it has been regained, and improved upon. But the most vital part of all -- the continuing source of revenue -- has never been put back.

"Up to the present, that loss has not been seriously felt by farmers. Congress has directed that the farm programs be financed from the general Treasury. Like the appropriations for public works and unemployment relief, for the rescue of business and finance, and for building up the army and navy, these funds have come in large part from borrowed money.

"Now a new situation has developed. One country after another in the Old World has fallen victim to aggression by predatory powers, and a war involving three of the strongest nations in Europe is now being fought. We in the New World find it imperative to make our own defense impregnable, lest the

^{1/} Henry A. Wallace, "How permanent is the farm program?" Address at the twentieth annual meeting of the American Farm Bureau Federation at Chicago, December 5, 1939. Department of Agriculture press release, page 13.

degradations that have become all too common in the Old World spread to our shores. That means we must undertake the biggest peacetime expenditures in our history for the army and the navy. That means our entire Federal budget must be given sharp scrutiny and review.

"And so in the next few months, the farmers are bound to come face to face with the question, How really permanent is the National Farm Program?" 1/

During the last session of Congress (First Session, 76th Congress) six bills were introduced to apply the certificate plan to cotton, rice and wheat. 2/ The plan for wheat (S. 2395) advanced to the hearing stage in the Senate and that for rice in both the House (H. R. 6654) and the Senate (S. 2573). The rice plan (with minor amendments) was approved by the Senate Committee on Agriculture and Forestry 3/, but failed to reach the discussion stage on the floor. The plan also has the approval of the Secretary of Agriculture. In his report on S. 2573, the Secretary stated:

1/ Ibid. page 4.

2/ The six bills are:

(1) S. 2395 (wheat) introduced by Senator Wheeler, May 10, 1939;

(2) S. 2434 (cotton) introduced by Senator Lee, May 17, 1939;

(3) H. R. 6482 (cotton) introduced by Representative Nichols, May 23, 1939;

(4) H. R. 6671 (cotton) introduced by Representative Cartwright, June 5, 1939;

(5) H. R. 6654 (rice) introduced by Representative De Rouen, June 5, 1939; and

(6) S. 2573 (rice) introduced by Senator Ellender, June 7, 1939.

3/ Report from the Committee on Agriculture and Forestry to accompany S. 2573. Report No. 763. 76th Congress, First Session.

"It is believed that the certificate program set forth in the bill constitutes a sound and desirable means for taking further progress in bringing about a fair and equitable participation by rice growers in the national income. The program would be administratively practical and would avoid burdens on the Federal Treasury. Under a certificate program the increased income of farmers would be obtained in the form of increased returns from the domestic market. For this reason, a certificate program would not be subject to the difficulties, limitations, and uncertainties involved in any program that relies greatly on net appropriations from the General Fund of the Treasury."

"....the Department favors enactment of the bill." 1/

The Secretary of Agriculture went on to inform the Committee that the bill incorporating the certificate plan for rice was referred to the Bureau of the Budget and that the Director of the Budget advised the Department of Agriculture that there would be no objection on the part of his office to the submission of the Secretary's report on S. 2573 to the Congress, "with the understanding that no commitment would thereby be made as to the relationship of this legislative proposal to the program of the President."

The testimony on the wheat bill indicates that the certificate plan is sponsored by the National Farmers Union, whose representatives participated in the drafting of the wheat, cotton and rice bills. 2/ They are presumably engaged in drafting bills to cover other farm commodities. 3/

1/ Hearings on S. 2573 before a Subcommittee of the Committee on Agriculture and Forestry, U. S. Senate, 76th Congress, First Session, pages 69-71.

2/ Hearings on S. 2395 before a Subcommittee of the Committee on Agriculture and Forestry, U. S. Senate, 76th Congress, First Session, page 29.

3/ *Ibid.* pages 68-9.

That it is contemplated to apply the certificate plan to some of the other agricultural commodities as soon as practicable is indicated by the fact that each of the bills pertaining to cotton (and wheat) provides that:

"Whenever the Secretary (of Agriculture) has reason to believe that a substantial majority of the producers of any agricultural commodity are in favor of establishing for that commodity an allotment-certificate plan similar to the cotton-allotment-certificate plan set up under this section, he shall conduct a referendum among the producers of such commodity. The Secretary shall report the results of such referendum to the Congress, and if two-thirds of the producers of such commodity voting in the referendum vote in favor of such a plan the Secretary shall recommend to the Congress any provisions which he deems appropriate to be included in an allotment-certificate plan for such commodity." 1/

The sponsors of the certificate plan, however, recognize that its usefulness from the agricultural point of view is limited to those commodities in connection with which the burden of a processing tax tends to be borne by consumers, processors and distributors and not by producers. "It would apparently be especially well suited to such export commodities as cotton, wheat and rice. But it would not work the same way if applied to corn. Like the old corn and hog processing taxes, it would tend to come out of the farmer's price." 2/

1/ H. R. 6482, Sec. 350A(1).

2/ Wallace, "How permanent is the farm program?" page 13.

II. Relation of the Plan to the Agricultural Program

The several certificate plans are proposed as amendments and additions to the basic agricultural program as provided by the Agricultural Adjustment Act of 1933, approved on February 16, 1933. Their workability is additional upon the retention of the present program in most of its pertinent features. To appraise the significance of the certificate plans it is, therefore, necessary to comprehend the broad scope and operations of the agricultural program under the Agricultural Adjustment Act of 1933, the principal features of which are here summarized.

1. Acreage allotments and conservation payments.

The agricultural program provides for production control of corn, cotton, wheat, rice and tobacco. 1/ Each year, the Secretary 2/ proclaims the national acreage allotments required to produce, on the basis of average yields, the quantities of these commodities for normal domestic consumption, normal exports, normal carryover, and for various reserves. The national acreage allotments are then apportioned among the States producing these commodities. The State allotments are in turn divided among counties within the State and among farms within the counties. The bases for these apportionments vary with the commodities, but in general the basis for the State and county allotments is past acreage while that for the individual farms must take into consideration tillable acreage, crop rotation practices, type of soil, topography and production equipment.

1/ The program applies to six different kinds of tobacco, each divided into types, and each handled largely as a separate commodity.

2/ "Secretary" means Secretary of Agriculture.

Compliance by farmers with the acreage allotments is voluntary. Farmers, however, are induced to conform to the allotments by the fact that their degree of compliance is taken into account in determining eligibility for conservation and other benefit payments. The appropriation for the agricultural conservation program in fiscal year 1940 amounts to \$500,000,000.

2. Crop loans.

The Commodity Credit Corporation is authorized, upon recommendation of the Secretary and with the approval of the President, to make loans on all agricultural commodities. In the case of wheat, cotton and corn, loans are mandatory. For the first two of these commodities the Secretary is free to set a loan rate between 52 percent and 75 percent of parity prices. The loan rate for corn also ranges between these limits but specific rates applicable under specific conditions are prescribed by statute, leaving no discretion to the Secretary. However, in the case of the basic commodities, if the marketing quotas discussed in the next section are rejected, no further loans on that commodity can be made until the beginning of the next marketing year.

The law specifies that "no producer shall be personally liable for any deficiency arising from the sale of the collateral securing any loan." Thus, in effect, if the market price is low, the farmer can forfeit his collateral unless the loan is extended for his future benefit; if the price rises, he can repay the loan, and reclaim and sell his commodity.

The availability of crop loans has an important bearing on the scope of the certificate plan. It tends to set what in effect amounts to a bottom for agricultural prices and thereby limits the size of the differential between parity prices or cost of production and average farm prices.

3. Marketing quotas.

The agricultural program authorizes limitations on the marketing of the five basic commodities through the establishment of marketing quotas. These marketing quotas become effective only when total supplies exceed the proclaimed normal supplies by amounts specified for each commodity in the Act. However, the quotas become effective only after they are approved in a producers' referendum. Sales in excess of marketing quotas are subject to a penalty per pound or bushel.

After approval of two-thirds of the voting farmers who will benefit by them and who ballot in a referendum conducted by the Secretary, marketing quotas for the basic commodities are allotted to the various States, counties and individual farmers. 1/ On commodities withheld from markets and stored, farmers receive commodity loans through the Commodity Credit Corporation. 2/ In this manner, some supplies otherwise available for marketing are in "surplus" years withheld from the markets by storing under seal any quantities above the marketing quota. In years of low yield and high prices these sealed supplies will be released for marketing by farmers paying off the loans.

1/ For the coming marketing year marketing quotas have been approved by referendum for cotton.

2/ Non-cooperating farmers receive only 60 percent of the amount of loans available to cooperating farmers, on that part of their crop that would be subject to penalty if marketed.

4. Parity payments.

As an additional benefit, the Act provides that when appropriations are made therefor the Secretary is authorized to distribute parity payments. Insofar as appropriations permit, these payments are intended to increase the income of farmers who comply with the Act up to the amount represented by their normal production times the parity price. The appropriation under this authorization was \$212,000,000 for the 1939 program and \$225,000,000 for the 1940 program.

5. Crop insurance.

The Agricultural Adjustment Act of 1938 established the Federal Crop Insurance Corporation to provide crop insurance for wheat farmers against loss through crop failure. Such insurance covers not less than 50 percent and not more than 75 percent of the average wheat yield of insured farms. The insurance premiums are payable in actual wheat or in its cash equivalent. Insured farmers may also be paid in actual wheat if they so elect.

6. Appropriations to encourage domestic consumption and exports.

In addition to the appropriations for crop loans, parity payments and the conservation program, two others require special mention.

Under Section 32 of the Amended Agricultural Adjustment Act, 30 percent of customs receipts is permanently appropriated for use in encouraging domestic consumption and exports of all agricultural commodities. ^{1/} For the current fiscal year an additional appropriation of \$113,000,000

^{1/} Customs collections amounted to \$350,000,000 and \$319,000,000 fiscal years 1938 and 1939.

is available for encouraging the domestic consumption and export of agricultural commodities. These two appropriations are used for export subsidies and payments for the Food Stamp Plan, the purchase of "surplus" agricultural commodities for relief distribution, and for diversion of "surpluses" to such unusual channels of trade as potatoes for livestock feed or starch and cotton for bagging bales of cotton.

Of the basic commodities, export subsidies are now provided wheat and cotton. The present wheat subsidy was inaugurated in September 1938 and recently extended to the current 1939-1940 crop year. Sales of wheat and flour for export totaled approximately 118 million bushels for the fiscal year ending June 30, 1939. Of this total approximately 94 million bushels were subsidized at a cost of about \$25,700,000, or about 27.4 cents a bushel. ^{1/}

A cotton export subsidy was initiated in July 1939. The rate of payment was $1\frac{1}{2}$ cents per pound of lint cotton exported, with corresponding payments on cotton goods. Effective December 6, 1939, the rate of the export subsidy was cut in half to $\frac{3}{4}$ cents per pound. Information on the cost of the export subsidy during its four months of operation is not available. However, sales and deliveries for export during the four-month period (July 27 - December 4) amounted to 4,344,354 bales ^{2/} or 382,000 more than the entire export in the 1938-39 crop year. ^{3/}

^{1/} U. S. Dept. of Agriculture, Press Release, July 18, 1939.

^{2/} This represents 2,076,601,212 pounds, which at the rate of $1\frac{1}{2}$ cents per pound, amounts approximately to \$31,150,000.

^{3/} New York Times, December 6, 1939, page 39. It is not intended to imply that a causal relationship necessarily exists between the increase in exports and the availability of an export subsidy.

III. Essential Details of the Certificate Plan 1/

The provisions of the various bills incorporating the certificate plan are identical in general outline but differ with respect to some important details. The following description of the principal details of the plan is based on the proposal for rice, which is the simplest of the three commodity proposals. 2/ Where the provisions for wheat and cotton differ in important respects from that for rice, the differences are noted.

1. Certificate allotments.

Prior to the end of every calendar year the Secretary will estimate the quantity of milled rice required for domestic consumption during the next marketing year. 3/ The estimated domestic consumption will be based on domestic consumption during the preceding 5 marketing years, adjusted for recent trends. 4/ This will constitute the rice certificate allotment for that marketing year. In the case of wheat and cotton domestic consumption is calculated on the basis of a 10-year average and adjustments. Moreover, the certificate allotment for wheat includes, in addition, an amount equal to a normal year's exports. These certificate

1/ The purpose of the bills providing for the certificate plans is stated in the preamble to be:

"To amend the Agricultural Adjustment Act of 1938, as amended, for the purpose of regulating interstate and foreign commerce in wheat (cotton or rice) providing for the orderly marketing of wheat (cotton or rice) at fair prices in interstate and foreign commerce, insuring to wheat (cotton) producers a parity income from wheat (cotton) based upon parity price or cost of production, whichever is higher and for other purposes."

2/ H. R. 6694 and H. R. 6573.

3/ The marketing years for rice and cotton begin on August 1; for wheat on July 1.

4/ The bill, however, provides that the Secretary may in the course of the marketing year make such adjustments in the domestic consumption quota as he finds to be necessary "to permit the orderly marketing of rice at prices fair to both producers and consumers...."

allotments, it will be noted, are based on and are correlated with the acreage allotment, marketing quota and loan provisions of the 1938 Agricultural Adjustment Act.

2. Certificates issued.

At the beginning of the marketing year the Secretary will issue rice certificates corresponding to the number of pounds of the milled rice allotment for that marketing year. Thereafter he will apportion the total amount of the certificates issued among the rice producers on the basis of their respective shares in the total normal production allotted for the marketing year. The acreage allotments estimated to produce the normal production, it will be recalled, will have been made by the Secretary under the conservation program. The apportionment among producers, it will be noted, will be made on the basis of the normal production of their allotted acreage (average adjusted yield of such acreage times the allotted number of acres) without regard to yields actually realized.

3. Apportionment formulae.

The plan for wheat and cotton specifies that a farm's certificate allotment is to be divided among the landlords, tenants and sharecroppers in the same proportion that they are respectively "entitled to share in the proceeds of the (wheat or cotton) crop with respect to which the allocation is made."

The rice certificates will be apportioned among rice producers in proportion to the estimated normal yield of their share of the total acreage allotment. In the case of wheat and cotton, however, a reduction will be made in any person's share of these certificates (person meaning landlord, tenant or sharecropper and not the farm) in accordance with the following formulas:

For wheat:

That portion of the share which is included within the following intervals	Percentage reduction of such portion
10,000 to 12,000 bushels.....	10
12,000 to 14,000 bushels.....	20
14,000 to 16,000 bushels.....	30
16,000 to 18,000 bushels.....	40
All over 18,000 bushels.....	50

For cotton: 1/

That portion of the share which is included within the following intervals (pounds of lint cotton)	Percentage reduction of such portion
More than 0 pounds but not more than 2,500 pounds....	0
More than 2,500 pounds but not more than 3,000 pounds	15
More than 3,000 pounds but not more than 3,500 pounds	30
More than 3,500 pounds but not more than 4,000 pounds	45
More than 4,000 pounds but not more than 4,500 pounds	60
More than 4,500 pounds but not more than 5,000 pounds	75
All over 5,000 pounds.....	90

1/ The plan for cotton appears to specify that the reduction factor shall apply to landlords in only exceptional cases. That it shall not apply "in the case of that part of a landlord's share of the allocation to any farm which calculated on the basis of the division of the proceeds of cotton produced under a tenancy or sharecropper relationship if the division of such proceeds between the landlord and the tenant or sharecropper is determined by the local committee to be in accordance with fair and customary standards of renting or sharecropping prevailing in the locality." (H. R. 6671, page 4, lines 3-11.)

4. Distribution to producers.

At the beginning of the marketing year the Secretary will distribute to each rice grower his pro rata share of the rice certificates on condition that "prior to the beginning of such marketing year (he) has established to the satisfaction of the Secretary that he does not have, and will not have, available for marketing during such marketing year rice in excess of the normal production or the actual production, whichever is the greater, of his acreage allotment for the current calendar year." Producers who fail to meet this requirement for marketing will not be eligible for the time being to receive their share of the certificates. However, small producers who plant an acreage which normally would produce not more than 100 barrels of rough rice qualify automatically. 1/

In the case of wheat and cotton the physical certificates themselves would not be given the producers but would instead be sold to a pool operated by the Secretary. (See section 6 below.) Those entitled to certificate allotments would receive their cash equivalents.

5. Price of certificates.

In the case of rice the price of the certificate is specified in the proposed legislation at 1 cent for each pound of milled rice it represents. No provision is made for changing the price of the rice certificate in the event of changes in the market price of the commodity.

The price of wheat and cotton certificates, however, would not be specified by statute. Their price is to be determined on the basis of

1/ A barrel is the equivalent of 162 pounds of rough rice and will yield approximately 100 pounds of milled or clean rice.

statutory formulae. It is to be determined by calculating "the amount by which the parity price or the cost of production, whichever is the higher, exceeds the estimated average farm price.....(including parity payments) for the next succeeding marketing year." 1/

The Secretary is instructed to appoint an advisory committee, consisting of three representative wheat (or cotton) growers, one representative consumer and one representative of the Federal Government, to recommend to him the price to be fixed for wheat (or cotton) allotment certificates for the coming marketing year. The bill prescribes the statistics to be employed in determining cost of production and provides that "after considering the recommendations of the advisory committee, the Secretary, on the basis of the same statistics used by the committee, shall determine the amount by which the parity price or the cost of production, whichever is the higher, exceeds the estimated average farm price.....including parity payments." This difference (after adjustment for errors in the previous year's calculations) is the fixed price of the certificates.

6. Sale of certificates.

Rice producers receiving certificates can obtain their cash value by selling them. For the purpose of facilitating transactions in certificates the Secretary is authorized to establish and operate a pool with branch offices; he may authorize local banks or other approved agencies to buy and sell certificates at a fixed price.

1/ For definitions of "parity price" and "cost of production" see page 23 below.

To facilitate the operation of the program the Secretary is authorized to borrow from the Commodity Credit Corporation free of interest "the funds necessary to initiate the plan." 1/ The amount of any such loan "shall be repaid from funds collected from the sale of certificates." The Commodity Credit Corporation's authority to issue obligations, which the Secretary of the Treasury is authorized to purchase, is increased by the amount loaned to the Secretary of Agriculture.

7. Ineligible producers.

Rice producers, who were ineligible to receive their share of the certificates at the beginning of the marketing year, may qualify at the end of the marketing year to receive a distribution of money equal to the value of the certificates allotted them at the beginning of the marketing year, (1) if they establish that they have not marketed rice during the marketing year in excess of the normal or actual production, whichever is the greater, of their acreage allotment, and (2) if, in addition, they have qualified to receive certificates issued for the new marketing year (meaning that they reduced their allotted acreage by the amount of the excess of their planted acreage the year before).

8. Purchase of certificates.

Every person making a first domestic sale of milled rice, or of any article manufactured wholly or partly from milled rice, is required to obtain from the Secretary, prior to or at the time of such sale, rice

1/ The original rice bills (and the wheat and cotton bills as well) provided for borrowing from the Reconstruction Finance Corporation. The rice bill, as reported out by the Senate Committee, has been amended to provide for borrowing from the Commodity Credit Corporation. Corresponding changes are being made in the other bills.

Quota-allotment certificates representing the number of pounds of milled rice involved in the sale. The amount of certificates required to be purchased in connection with the sale of articles manufactured from rice is equal to the milled rice equivalent of the article sold. The Secretary will prescribe the conversion factors for all such manufactured articles.

A compensating provision requires importers of rice or rice products to obtain certificates in connection with each importation. The certificates are to be purchased from the Secretary at their prescribed price and are valid to cover only sales made during the marketing year for which issued. Unused certificates will be redeemed by the Secretary. Trafficking in certificates is prohibited. No certificates are required in connection with the sale of manufactured goods for export. In the event of exportation of goods for which certificates have previously been purchased, provision is made for refund by the Secretary. No certificates are to be used in connection with the sale of rough rice by producers. All transactions in unprocessed commodities, whether for export or for the domestic market, would be carried out in the usual manner.

The provisions respecting the purchase of wheat certificates differs in one important respect from those governing rice and cotton certificates. While the plans for rice and cotton provide that each first sale of the manufactured products must be accompanied by the purchase of certificates in direct ratio to their rice or cotton content, the plan for wheat provides that the first domestic sale of every article representing one

Wheat of wheat shall require the purchase of certificates representing 1-1/2 bushels of wheat. This 20 percent surcharge is necessitated by the fact that the wheat certificates are distributed to the growers in proportion to their total normal production, which includes allotments for both normal domestic consumption and for normal exports, while the purchase of certificates is required only in connection with the domestic sale of wheat products. Exports are exempt.

9. Monthly returns.

Every person making sales of milled rice or any article manufactured from milled rice and every importer of such products is required to file a monthly return with the Secretary of Agriculture, showing the quantity of milled rice imported or sold during the preceding month and attaching thereto the certificates required to be purchased in connection with such sales or importations. The Secretary is authorized to issue such regulations and make such examinations as he deems necessary in connection with the enforcement of this provision.

10. Miscellaneous provisions.

None of the funds collected from the sale of certificates "shall be covered into the general fund of the Treasury." Any surplus or deficit resulting from the operations of the certificate pool in any year will be adjusted in the following year by increasing or decreasing the number of certificates issued. In case of a surplus, additional certificates will be issued to producers and when repurchased by the pool will be

canceled. A deficit in the funds will be made up by issuing an equivalent quantity of the certificates in the following year directly to the pool to be sold by it, and deducting the quantity from the certificates issued to producers.

The Secretary is authorized to use the funds collected from the sale of certificates or borrowed from the Commodity Credit Corporation to cover necessary administrative expenses incurred in connection with the operation of the plan in and out of the District of Columbia. He alone is responsible for all accounting, disbursements and determinations under the Act. Penalties are provided for non-compliance.

IV. Tax Features of the Certificate Plan Compared with Processing Taxes 1/

In substance the adoption of the certificate plan, as proposed, would be the equivalent of the enactment of a processing tax. Such a tax, however, would differ in some respects from the processing taxes imposed under authority of the Agricultural Adjustment Act of 1933, as amended.

1. Commodities taxed.

Bills introduced at the last session of Congress provide for the imposition of certificate taxes on wheat, cotton and rice. 2/ It is, however, the intention of the sponsors of the certificate plan to propose its extension to some other farm commodities as soon as practicable. Presumably, it is not intended to apply certificate taxation to those commodities a processing tax on which would tend to fall on producers and not on consumers, processors or distributors. (See page 7 above).

The Agricultural Adjustment Act of May 12, 1933 did not directly impose any processing taxes. Instead, it provided that "When the Secretary of Agriculture determines that rental or benefit payments are

1/ The discussion of the invalidated processing taxes in this section is adapted in large part from a memorandum entitled "Processing Taxes," submitted by Carl Shoup at the request of the Division of Tax Research of the Treasury Department, December 24, 1935. (In files of Division of Tax Research, Treasury Department.)

2/ As here used, the term "certificate tax" refers to the required purchase of certificates by those responsible for the first domestic sale of manufactured rice and its manufactured products, as prescribed under the certificate plan. It is to be distinguished from the processing taxes imposed under the Agricultural Adjustment Act of 1933, as amended.

to be made with respect to any basic agricultural commodity (wheat, cotton, field corn, hogs, rice, tobacco and milk and its products, to which by later acts were added rye, flax, barley, grain sorghums, cattle, peanuts, sugar beets, sugar cane and potatoes) he shall proclaim such determination, and a processing tax shall be in effect with respect to such commodity from beginning of the marketing year therefor next following the date of such proclamation."

The Sugar Act of 1937, approved September 1, 1937, imposes an excise tax on manufactured sugar manufactured in the United States and a compensating tax on imports of manufactured sugar.

2. Rate of tax.

In the case of rice, the plan specifies the rate to be 1 cent per pound of clean (milled) rice. For cotton no rate is specified. Instead a formula is prescribed. The rate is equal to the excess of the parity price or the cost of production price, whichever is higher, over the estimated average farm price, including parity payments. ^{1/} For wheat

^{1/} The "parity price" for basic agricultural commodities is defined as that price "which will give to the commodity a purchasing power with respect to articles that farmers buy equivalent to the purchasing power of such commodity in the base period; and, in the case of all commodities for which the base period is the period August 1909 to July 1914, which will also reflect current interest payments per acre on farm indebtedness secured by real estate, tax payments per acre on farm real estate, and freight rates, as contrasted with such interest payments, tax payments, and freight rates during the base period. The base period in the case of all agricultural commodities except tobacco shall be the period August 1909 to July 1914, and, in the case of tobacco, shall be the period August 1919 to July 1929."

"Parity income" is defined as "that per capita net income of individuals on farms from farming operations that bears to the per capita net income of individuals not on farms the same relation as prevailed during the period from August 1909 to July 1914." (Agricultural Adjustment Act, as amended, Title III, Subtitle A, Section 301(a)(1)(2).)

the rate is 120 percent of this excess. In figuring cost of production cost, labor costs and allowances for unpaid family labor are to be included.

Under the processing taxes the rate was such as to equal "the difference between the current average farm price for the commodity and the fair exchange value of the commodity." Later, the rate was this amount plus a percentage of this difference, not to exceed 20 percent, sufficient to cover the refunds on deliveries to charitable organizations and the tax that was not levied and collected owing to the fact that the processing was done by a State or its instrumentality.

The formula for the rate of the certificate tax is nominally similar to that for the rate of the processing tax. "Fair exchange value" is but a different term for parity price. It was defined in the 1933 Act as the price "that will give the commodity the same purchasing power, with respect to articles farmers buy, as such a commodity had during the base period." During the intervening period, however, the definition of parity price has been broadened. It will be noted by reference to the definition quoted on the preceding page, that at present parity price must also "reflect" "current interest payments," "tax payments" and "freight rates." This change in definition, together with a rise in the prices of articles farmers buy, has served to raise parity prices and thereby to widen the differential between parity prices and average farm prices.

The formula for the certificate tax introduces the element of "cost of production" which did not appear in the earlier tax. Although the cost of production data now available indicate that cost of production

is less than parity price, there are no grounds for assuming that it will remain so. The certificate plan significantly prescribes that cost of production be calculated on the "most recent United States cost of production" data published by the Bureau of Agricultural Economics.

Finally, the two formulas differ in one other important respect. In the case of the certificate tax the differential between parity or cost of production and average farm price is the mandatory tax rate. Under the processing taxes, on the other hand, the Secretary had considerable discretionary authority. If he found that the differential between "fair exchange value" and average farm price would "cause such reduction in the quantity of the commodity or product thereof domestically consumed as to result (a) in the accumulation of surplus stocks of the commodity or products thereof, or (b) in the depression of the farm price of the commodity" he was to set the tax rate at such a level as to prevent such accumulation of stocks and such depression of prices. Moreover, the Secretary could change processing tax rates at such intervals as he found necessary, whereas the rate of the certificate tax can be changed only annually.

On the basis of current data, the tax rates indicated by the certificate plans are estimated to compare approximately as follows with those imposed under the processing taxes. ^{1/}

	<u>Certificate tax rate</u>	<u>Processing tax rate</u>
Rice	1¢ per lb. of milled rice	1¢ per lb. of rough rice, equivalent to 0.62¢ per lb. of milled rice.
Cotton	7.1¢ per lb. of lint cotton ^{2/}	4.2¢ per lb. of lint cotton
Wheat	43.1¢ per bushel of 60 lbs. ^{3/}	30¢ per bushel of 60 lbs.

^{1/} The certificate plan specifies the inclusion of "parity payments" in determining average farm price. Since, however, the plan itself is offered in lieu of parity payments, such payments are ignored in the computation of the above tax rates.

^{2/} Average farm price (11/15/1939) per lb. of cotton ^{4/} = 8.80¢
 Parity price (11/15/1939) per lb. of cotton ^{4/} = 15.87¢
 Average cost of production (in 1937 on 10-year average yield basis) ^{5/} = 12.4¢
 Excess of parity price over average farm price = 7.07¢

^{3/} Average farm price (11/15/39) per bushel of wheat ^{4/} = 73.1¢
 Parity price (11/15/39) per bushel of wheat ^{4/} = 113.2¢
 Average cost of production (in 1937 on 10-year average yield basis) ^{5/} = 103.0¢
 Excess of parity price over average farm price = 40.1¢
 135 percent of excess = 43.1¢

U. S. Department of Agriculture, Agricultural Marketing Service,
 December 27, 1939, pages 3, 21.

Footings on S. 2595, pages 2, 30.

3. Base of tax.

The certificate tax is to be levied on the "first sale of any article manufactured wholly or partly" from the given agricultural commodity. It is to be paid by the person making such sale at the time the sale is made and evidence of compliance must be submitted before the end of the month following that in which the sale was made. The processing taxes were "levied, assessed and collected upon the first domestic processing of the commodity, whether of domestic production or imported" and were paid by the processor.

The certificate plan taxes, like the processing taxes, are to be levied simply on a quantity basis - so many cents per pound or bushel - without regard to the type, quality, or price of the agricultural product.

4. Compensating tax.

Under the certificate plan a tax corresponding to the tax on the domestic sale of the manufactured commodity is imposed on imports. This has its counterpart in the import compensating tax provided under the processing taxes, which imposed upon any article processed or manufactured wholly or partly from the commodity in question and imported into the United States from any foreign country a compensating tax equal to the amount of the processing tax in effect with respect to domestic processing at the time of importation.

The processing taxes provided for compensating floor stock taxes on any article (excepting the stocks of persons engaged in retail trade) that, on the date a processing tax "first takes effect," was "held for sale or other disposition (including articles in transit) by any person,"

provided the article was "processed wholly or in chief value" from the commodity in question. No corresponding compensatory floor stock tax is provided by the certificate plan.

Under the processing tax the Secretary was instructed to ascertain whether "the payment of the processing tax upon any basic agricultural commodity is causing or will cause to the processors thereof disadvantages in competition from competing commodities by reason of excessive shifts in consumption between such commodities or products thereof." If he so found, he was to proclaim a tax, at a rate "necessary to prevent such disadvantages in competition" on the first domestic processing of the competing commodity. No corresponding compensating tax on competing products is provided for under the certificate plan.

5. Conversion factors.

Under the proposed bills, as well as under the processing taxes, the Secretary is given the power to establish conversion factors for any commodity and article manufactured from agricultural commodities taxed.

6. Exemptions and refunds.

Under the certificate plan the sale of commodities for export is exempt. In those instances in which a commodity exported had previously been subjected to the tax, refunds are provided. To prevent pyramiding, the tax is to be imposed only once. Articles processed or manufactured from another article which had previously been taxed are to be exempt. These constitute the only exemptions and refund provisions under the certificate tax plan. Unlike in the case of the processing tax, no provision is made for refund on or exemption to "products used for charitable distribution or use."

F. Tax load.

On the basis of the tax rates indicated above and on the basis of the estimated volume of consumption, the estimated annual tax liability under the proposed certificate taxes for rice, cotton and wheat, together with corresponding collections under the processing taxes, are indicated below. 1/ No allowance is made for the effects of the tax on the volume of consumption. 2/

	<u>Rice</u> <u>(Milled)</u>	<u>Cotton</u> <u>(Lint)</u>	<u>Wheat</u>
Estimated domestic consumption (in 1,000,000 units)	1,100 lbs.	3,350 lbs. 3/	500 bu.
Tax rate (per unit of volume or weight)	1¢	7.1¢	48.1¢
Estimated tax liability (rounded)	\$11,000,000	\$238,000,000	\$240,000,000
Processing tax collections, fiscal year 1934	4/	\$144,767,233 5/	\$117,621,175
Processing tax collections, fiscal year 1935	\$ 29,120	\$ 95,926,302	\$123,660,932

1/ Processing tax collections are shown in detail in Exhibit 1.

2/ For some commodities this, of course, is an important factor. It has been estimated, for instance, that in the case of cotton (under conditions existing in 1934 and 1935) a tax which is equivalent to 4 cents per pound gross weight, if all passed on to consumers (raising prices to 10-12 cents), would probably reduce domestic consumption about 400,000 to 500,000 bales annually. (Bureau of Internal Revenue, An Analysis of the Effects of the Processing Taxes Levied under the Agricultural Adjustment Act, page 36.) In the case of wheat, on the other hand, the 30 cents per bushel processing tax was estimated to decrease consumption not more than 3 percent. (Ibid. page 27.)

3/ Representing 7,000,000 bales of cotton; 1 bale (net) is equal to 478 pounds.

4/ Processing tax on rice did not become effective until April 1, 1935.

5/ Includes \$58,000,000 floor stock tax.

1. Date of termination.

The bills providing for certificate taxes on wheat, cotton and rice contain no specific provision regarding the length of time for which the taxes are to remain in effect. In the absence of a statement to the contrary, it is to be assumed that they will remain in effect until specifically repealed. Secretary Wallace's public statements tend to indicate that the proposed certificate plan is intended as a permanent feature of the agricultural program. The rates proposed in the case of wheat and cotton are such that the plan would be discontinued by implication when the average farm price of these agricultural commodities was not less than either the parity price or the cost of production. In reality, of course, that contingency is not expected to arise.

The processing taxes were to terminate at the end of the marketing year current when the Secretary proclaimed that rental or benefit payments of the commodity were to be discontinued. In addition, the taxes might have been terminated by either the President or the Secretary.

2. Tax administration.

Responsibility for the administration of the certificate plan in all its aspects, including the receiving of monthly "tax" returns and the collection of "taxes," is vested with the Secretary of Agriculture.

In the case of the processing taxes imposed under the Agricultural Adjustment Act of 1933, the Bureau of Internal Revenue, under the direction of the Secretary of the Treasury, was charged with the collection of taxes.

Collections from the excise tax on sugar are paid into the general fund of the United States Treasury. Collections from processing taxes were also paid into the general fund, but the Act stated further that "the proceeds derived from all taxes imposed under this title are hereby appropriated to be available to the Secretary of Agriculture for expansion of markets and removal of surplus agricultural products and the following purposes under part 2 of this title (part 2 was entitled "Commodity Benefits"): Administrative expenses, rental and benefit payments, and refunds on taxes." The proceeds of the import compensating tax upon articles coming from the possessions of the United States to which this title did not apply were to be "held as a separate fund and paid into the Treasury of the said possessions, respectively, to be used and expended by the Governments thereof for the benefit of agriculture."

V. Incidence of Proposed Certificate Taxes

The certificate plan proposes to make benefit payments to the producers of selected agricultural commodities from the proceeds of certificate taxes imposed on the first domestic sale of these agricultural commodities in processed condition. The determination of the incidence of such taxes presents complex problems. Conceivably, a tax such as this might ultimately be borne, in whole or in part, by the processors, the several distributors, the consumers and even the producers themselves. ^{1/}

The incidence of certificate taxes on particular commodities may be expected to approximate in a general way the incidence of the old processing taxes on these particular commodities. However, two or three conspicuous differences in the conditions under which the two groups of taxes were and would be imposed should be noted.

The processing taxes were imposed for a relatively short period; in no instance for more than 30 months (wheat) and in one case for only 9 months (rice). In consequence, the incidence of any of the processing taxes may differ from the incidence of corresponding certificate taxes, which presumably would be of more permanent duration.

^{1/} Although, as has been noted above, there is no intention to propose the application of the plan to those commodities a certificate tax on which would tend to be shifted to producers.

The two groups of taxes may be expected to exhibit differences, particularly in their effect upon supplies coming from producers. The duration of the processing taxes was probably too short to enable producers to adjust their plantings to the changed marketing conditions - a situation which was intensified by the fact that the processing taxes were accompanied by rigid limitations on agricultural production. In a general way the proposed certificate plan contemplates similar limitations upon production.

A further difference in the incidence of the two groups of taxes may be expected to result from differences between economic conditions prevailing in 1934 and 1935 and those which may prevail when the proposed certificate taxes are in effect. Changes in the income and purchasing power of the urban population, for instance, are of great importance in this connection.

Finally, as must already have become apparent, the technical features of the processing taxes (however crude in the abstract) were more carefully integrated - with respect to exemptions, refunds and compensatory levies, for instance - than is practicable in the case of a tax administered as an incident in the agricultural program rather than as an integral part of the Government's tax system.

The distribution of the tax burden of the processing taxes has been subjected to detailed examination by several investigators. Notwithstanding the limitations upon the applicability of the "incidence experience" under the processing taxes to the proposed certificate taxes, it may be assumed

that, in view of the complexity of incidence determination, more weight can reasonably be attached to the careful findings respecting the processing taxes than to such findings as might be made after an independent but more limited (as to statistical evidence, time and technical skill) investigation of the probable incidence of certificate taxes. For that reason no attempt was made to estimate independently the probable incidence of certificate taxes.

The most authoritative analysis of the incidence of the processing taxes appears to be one made by the staff of the Bureau of Agricultural Economics and published by the Bureau of Internal Revenue as An Analysis of the Effects of the Processing Taxes Levied under the Agricultural Adjustment Act (Washington, 1937, 111 pages). It was based largely on an examination of prices and spreads before and after the particular taxes were imposed (or changed) and after they were abolished. The general conclusions of the incidence analysis of the Bureau of Agricultural Economics have been previously summarized and their limitations indicated in a memorandum prepared for the Division of Tax Research by Carl Shoup and need not here be repeated. ^{1/} For purposes of ready reference, however, the conclusions of the Bureau of Agricultural Economics study respecting the incidence of the processing taxes on the major commodities for which certificate plan bills have already been introduced are here enumerated.

^{1/} Carl Shoup, "Processing Taxes." Memorandum in the files of the Division of Tax Research, Treasury Department.

In connection with these conclusions, it should be kept in mind, in addition to the reservations already made, that they are derived with a technique which assumes that any changes in prices and spreads during the imposition of the processing taxes were due exclusively to the processing taxes themselves. In other words, it does not consider the possibility (although it recognizes its existence) that other changes may have occurred which on the one hand may have neutralized the effects of the taxes or which on the other hand may have been neutralized by the taxes.

Finally, the reader should be cautioned against accepting these conclusions as definitive findings, particularly since they are here presented out of context and shorn of all the reservations and qualifications which clothe them in the Bureau's publication.

1. Cotton (page 36) 1/

- (a) "....from the standpoint of the cotton-textile industry as a whole very little of the processing tax was borne by manufacturers as a group in the form of lower mill margins;
- (b) "....distributors of cotton goods were able to increase their margin more than enough to take care of the processing tax;
- (c) "....the processing tax in large part was passed on to consumers in the form of higher prices for cotton goods or passed back to the producers in the form of lower prices for their raw cotton;
- (d) "....the portion of the tax borne by domestic producers was probably slightly less than one-half cent per pound."

1/ Page references are to Bureau of Internal Revenue, An Analysis of the Effect of Processing Taxes under the Agricultural Adjustment Act.

2. Rice ^{1/} (page 59)

- (a) "....only a small portion, if any, of the processing tax was absorbed by rice millers;

"....there is no evidence that the tax was passed on to consumers;

"it follows, that a large part of the tax represented in effect a deduction from the price which otherwise would have been received by producers."

3. Wheat (page 27)

- (a) "....the millers did not absorb an appreciable portion of the tax, if any;

- (b) "....the price of wheat appeared substantially unaffected by the tax;

- (c) "it follows....that the tax must have been passed on to consumers of the products of wheat milling."

^{1/} "The period in which the processing tax was in effect was very short, and it is doubtful whether the long-run effects would have been the same as during the short period."

VI. Analysis of Certificate Plan

In considering the probable effects of the enactment of the certificate plan upon the various phases of the Nation's economy, it is essential to keep in view the basic philosophy of the agricultural program. The certificate plan is but the current instrumentation of an economic objective which runs through all of the agricultural adjustment legislation (proposed and enacted) of the last two decades. In its barest form that philosophy starts with the assumption that for 20 years the farmer has not received a "fair share" of the national income; that agricultural income must be increased substantially and maintained permanently at the higher level; that the improvement of the economic position of the farmer is prerequisite to the stability and progress of the whole economic system.

Speaking of the 1933 farm legislation, Secretary Wallace said:

"Its basic purpose, first of all, is to increase the purchasing power of the farmers. It is, by that token, farm relief, but it is also, by the same token, national relief, for it is true that millions of urban unemployed will have a better chance of going back to work when farm purchasing power rises enough to buy the products of city factories." ^{1/}

The philosophy has changed little during the past seven years. In an address before an agricultural group within the past few days, the Secretary's philosophy takes on even more concrete form:

"The 7 million farm families, constituting 25 percent of the population of the United States, are educating 31 percent of the children of school age, but they receive only 11 percent of the national income. This is substantially higher than the 7 percent which was their share in 1932 and is about equal to

^{1/} Henry A. Wallace, radio address, March 12, 1933.

- 38 -

the share they received in the five years before the Great Depression.. But farmers are still at a severe handicap in comparison with non-farm groups. Even with government payments figured in, they are still more than a billion dollars short of parity income as defined in the Agricultural Adjustment Act of 1938.

"As a matter of fact, farmers never have received as much income on the average as the rest of the people. Even in the pre-World War period the farmers' net income per capita was only 60 percent as much as the net income per capita of non-farm groups. In other words, the farmers have constantly fed the nation at a 40 percent discount. Steadily they have contributed not only half of their children to the cities, but a considerable part of their wealth in the form of interest payments on mortgages, held as a result of inheritance by the farm children who have moved to town. Also, the farmers have always absorbed more than their fair share of the unemployment shock....

"For 20 years the organized farm groups of the United States.....have struggled to attain a fair share of the national income for agriculture. For 20 years they have striven for equality of bargaining power with the other great economic groups. For 20 years, no matter how desperate their own circumstances, they have faithfully fed the nation while they fought this grim uphill fight. I don't think they'll run up the white flag now." 1/

A. Effects on agricultural producers.

1. Amount of benefit payments. The adoption of the certificate plan will afford large benefit payments to the producers of the agricultural commodities affected. These benefit payments will probably be considerably higher than are likely to be made available through appropriations from the general fund of the Federal Treasury. They may in fact be the maximum that agriculture could obtain if it were free to determine the domestic market prices of agricultural commodities. The possible upper limit on the prices of certificated commodities

1/ Wallace, "How permanent is the farm program?" pages 7-6.

is so high that whether agriculture can in fact derive the maximum income from the domestic market will depend only on its ability to set that price which, with the given domestic demand, will yield the maximum farm income. 1/

The benefit payments to producers of basic agricultural commodities under the certificate plan will be in addition to some of the "farm benefit" expenditures now financed from general appropriations. 2/ Expenditures under the soil conservation program, for instance, would be continued.

"This program for saving our soil, water, grass, and trees is not in the interest of agriculture only. It is in the interest of the entire nation. Conservation of the land and the living products of the land must be done by the farmers if it is going to be done. But paying for it is not the sole responsibility of the farmers. It is a national responsibility. Money for the conservation program, therefore, can logically come from the general Treasury." 3/

From the point of view of agriculture, adoption of the certificate plan should also leave unaffected expenditures from the general fund to stimulate consumption of agricultural products by direct distribution of surplus farm products to needy families and through such devices as the Food Stamp Plan and free school lunches.

"If the workers of the United States were fully employed at good wages, there would be no need for these measures to expand domestic consumption. But when 20 million persons must look to Federal, State or local government, if they want to stay alive, then food consumption is below normal.....The added food

1/ Of course, the resulting artificiality of agricultural prices may be considered a serious disadvantage.

2/ See, however, page 52 below.

3/ Wallace, "How permanent is the farm program?" page 11.

consumption in the cities naturally means a great deal to farmers, because it helps to use up their surplus production. But it also means a great deal to the city business men and city workers. And it means most of all to the needy families themselves. Since this government-subsidized consumption of food has been made necessary by unemployment, there is a serious question whether it should be charged up to agriculture at all." 1/

Instead of reducing, the adoption of the certificate plan may increase Federal expenditures for the stimulation of consumption. The increased prices to consumers may greatly reduce the market demands, decrease surpluses and hence government expenditures for the disposition of surpluses.

2. Regularity of benefit payments. In the long run, the certificate plan would probably provide benefit payments with greater regularity than is possible by direct Congressional appropriation. Once enacted, the plan would not be subject to annual Congressional review to which the budget is regularly subjected. 2/ In a sense the plan would constitute a permanent appropriation. Since the plan itself incorporates no termination date as such, it would presumably remain in effect until specifically repealed. 3/ The permanency of benefit payments appears to be greatly desired by agriculture. 4/ It regrets the necessity of

1/ Ibid. pages 11-12.

2/ In a sense, this may be interpreted as a disadvantage, even from the point of view of agriculture itself, for it would tend to postpone such fundamental readjustments in agriculture as may be urgently needed.

3/ Section 32 of the Agricultural Adjustment Act as amended already earmarks 30 percent of customs receipts for the expansion of agricultural markets.

4/ "....I feel it is essential that the farmers should - as quickly as possible - get behind some plan that will assure them a permanent source of revenue they need." (Statement of the Secretary of Agriculture, Washington Star, December 1, 1939)

usually coming "back to Congress.....to ask for the necessary funds to run the farm program." 1/

It might also be of advantage to agriculture that the benefit payments under the certificate plan would be hidden from public view in the sense that they would not appear in the actual statistics of governmental tax collections and expenditures. In the form of certificate taxes they would be less likely to provoke public criticism and inquiry than processing taxes.

3. Volume of exports. The increased benefit payments resulting from higher domestic agricultural prices will have the added advantage of retaining for the American farmer substantially the same competitive advantage in the foreign markets as he would have without the operation of the certificate plan. This follows from the fact that the plan leaves

1/ "Ever since the Hoosac Mills decision in 1936, the farmers, hat in hand, have had to come back to Congress -- representing all the people -- to ask for the necessary funds to run the farm program. Each year the people through Congress have granted the request. But each year the farmers are asked by spokesmen for industrial and financial interests, How long is this going to go on, with agriculture getting this amount of money? The farmers naturally wonder why they alone, of all the great economic groups, have to come back each year and meet a fresh challenge by other economic groups to their method of attaining bargaining equality. Farmers have not asked that labor come back and seek a renewal of the bargaining power laws which give working men an added income of billions of dollars a year. They wonder why business should not have to come back each year and have its tariff validated. They would like to ask, How long are we going to pay tribute of billions of dollars a year in the form of tariff-protected prices? If agriculture has to come back to Congress each year to get a partial equality in bargaining power, farmers would like to know why labor, corporations, and tariff-protected industry should not be forced to pass a similarly-rigid annual inspection." (Wallace, "How permanent is the farm program?" page 9.)

the "farm price" unchanged, but imposes the certificate tax after the processing of the farm product. It is interesting that when the certificate plan was first evolved for use by Central European agrarian countries (depending entirely on agricultural exports for foreign exchange) its sole purpose was to stimulate agricultural exports.

Far from hindering exports, it is clearly the intention of the advocates of the certificate plan to use it to stimulate exports. In the plan for wheat, it will be recalled, a tax is imposed on domestic consumption to yield the wheat producer (at the expense of the domestic consumer) a parity price both on domestically consumed wheat and on wheat exported (in quantities equal to 20 percent of domestic consumption.) ^{1/} The certificate plan is ideally suited for the subsidizing of

^{1/} See Hearings on S. 2395 before the Subcommittee of the Committee on Agriculture and Forestry of the U. S. Senate. (page 5).

Senator Ellender. Would payments be made on that which is set aside for export purposes?

Mr. Thatcher. The bill provides that in the 600,000,000 bushels of wheat, which, over a period of time, has annually disappeared, 500,000,000 in the United States and 100,000,000 abroad, the bill provides that the farmer would be paid parity price or cost of production, whichever is higher. And for this reason: We believe that if it is desirable to maintain foreign markets for that much wheat, that the shock of producing that wheat at foreign prices, which are admittedly, usually below, much below cost of production, the whole country should share in the maintenance of that foreign market and not leave the shock to the wheat producer alone, who buys all of his supplies for his production and his living at domestic prices which are protected by tariffs, and if he is going to have the money to pay for those supplies he is going to have to have the income from the things that he produces.

exports, at domestic consumers' expense, of those agricultural commodities for which the domestic demand is such that the quantity consumed will not be curtailed directly as the price is increased.

4. Miscellaneous considerations. The certificate plan would have several other advantages from the point of view of agriculture. It would, for instance, provide a kind of gratuitous crop insurance. The crop allotment certificates would be distributed among the growers of the particular commodities in proportion to the normal yield of their respective allotments. These benefit payments would thus constitute a kind of fixed income received by growers without regard to the actual yield of their acreage. Moreover, if eligible, they would receive these benefit payments sometime at the beginning of the crop year and before harvest.

The certificate plan may be expected to make regulation of the volume of agricultural production more effective. The magnitude of benefit payment would be so large that only the exceptional producer could afford to remain a "non-conformer."

5. Degree of applicability. The certificate plan, however, has several shortcomings, even from the point of view of agriculture. First, it cannot be used with uniform effectiveness for all commodities. It cannot serve effectively to raise the income of farmers producing commodities, the domestic demand for which is relatively elastic (where consumer purchases are appreciably reduced as the price increases). ^{1/}

^{1/} Except, of course, as a means of differentiating between cooperating and non-cooperating farmers in the distribution of benefit payments.

hogs are a case in point. The demand for pork and its products appears to be such that, irrespective of price, total consumers' expenditures would be the same; an increase in price tends to produce a corresponding increase in the volume of consumption and vice versa. Under the processing taxes, for instance, the total amount expended by consumers for pork products apparently was no greater with the tax than it would have been if the tax had not been in effect. The effect of the tax was to cause prices received by hog producers to be lower than they otherwise would have been by approximately the amount of the tax. 1/

Wheat, as has already been noted, presents a different case. The demand for flour appears not to be affected to any appreciable extent by changes in wheat prices. Wheat farmers would apparently derive great benefits from the certificate plan. Between this range in apparent demands -- wheat and hogs -- are a variety of agricultural commodities with a variety of demand conditions, each with prospects of deriving varying degrees of benefits from the certificate plan.

The advocates of the certificate plan recognize its weakness in this respect and propose to devise other means for the benefit of commodities with relative elastic demands -- where an increase in price tends to reduce consumers' purchases. 2/

1/ An Analysis of the Effects of the Processing Taxes Levied under the Agricultural Adjustment Act, page 7.

2/ "If, in spite of all our ingenuity, no equivalent for the certificate plan can be found for corn, I am sure the Corn Belt will not stand in the way of the good fortune of their brother farmers from the other regions. I know how broad-visioned the Corn Belt leaders are, and I am sure that their outstanding concern is to see the maximum unity of agriculture in presenting to the people and to Congress the farm program that will best serve the General Welfare." (Hollans, "How permanent is the farm program?" page 16).

6. Different quality products. Another weakness of the certificate plan from the point of view of agriculture stems from its failure to recognize variations in type, quality and regional differences as reflected in the market prices of any one general agricultural commodity. The plan contemplates the distribution of certificates on the basis of physical units of normal production. Since all certificates for any one commodity would have uniform value, they would represent a relatively larger benefit payment to producers of a low-priced variety and quality of product than to the producer of a high-priced variety and quality. The extent of this inequity is indicated by the following data. 1/

	Cotton (lb.)	Rice (bu.)	Wheat (bu.)
Average farm prices:			
United States	8.80¢	-	73.1¢
State with lowest average	8.10¢	67¢	59.0¢
State with highest average	10.40¢	80¢	120.0¢
Parity prices	15.57¢	-	113.2¢
Value of certificate	7.07¢	27.8¢	40.1¢
Value of certificate as percent of average farm price for producer in:			
State with lowest average price	87%	42%	66%
State with highest average price	68%	35%	33%

For the three commodities here analyzed, the value of the certificate as a percentage of average farm price would range between 66 percent and 87 percent for cotton; between 35 percent and 42 percent for rice; and between 33 percent and 66 percent for wheat. These variations are on the basis of State averages. The range in relative benefits will, of course, be considerably wider between individual producers.

1/ Prices as of November 15, 1935. United States Department of Agriculture, November 15, 1935.

It should be recognized that these wide State-by-State variations in average farm prices for specific commodities are in part variations between commercial and non-commercial areas. Within commercial areas the variations are considerably smaller. Since a State which constitutes a commercial area for one crop is generally a non-commercial area for one or more others, it might be assumed that benefit payments distributed on the basis of production of individual commodities without regard to price or quality, would tend to equalize. A relatively high cash benefit on a low priced commercial crop would be offset by a relatively low cash benefit on a high priced non-commercial commodity. The plan here under consideration, however, will be applied only to few agricultural commodities and equalization of advantages will therefore have no opportunity to occur. Moreover, even if the plan were applied to all commodities, it would grant relatively low benefits to producers confining their activity entirely to non-commercial crops.

7. Landlords and farm labor. Finally, the proposed certificate plan would bestow unequal benefits upon different elements in the agricultural economy. Landowners, as the equity holders in farm enterprise, would of course be the largest gainers. Unless the plan resulted in a substantial increase in the wages of farm labor (not likely in view of the relatively large supply of farm workers) it would probably be of little benefit to that group. In fact, it is quite likely that agricultural labor, insofar as it purchases food and clothing, would be a

substantial loser as a result of increased consumers' food and clothing prices. The farm labor group would lose also if the adoption of the certificate plan were followed by reduced consumers' demand, higher surpluses, leading ultimately to lower agricultural production and lower farm employment.

The certificate plan in the case of wheat and cotton provides for the distribution of these certificates between landlord and tenant or sharecropper on the basis of the respective shares of these groups in the net farm product. It will be noted that to the extent that the present distribution between these parties is now in favor of the landlords (as it is frequently alleged to be) it will be perpetuated by the adoption of the certificate plan. This tendency, however, should be offset to a considerable extent by one feature of the certificate plan for wheat and cotton: the percentage reduction in each person's share of crop certificates progressively as his share (absolute) in the estimated normal yield increases. 1/ This provision might reasonably be expected to encourage farm tenancy and increase farm employment.

^{1/} It is assumed that the present provision of the certificate plan bills for cotton, which would exempt the shares of "fair" landlords from these pro-rata reductions, is the result of faulty drafting which will be corrected before the enactment of the plan.
(See Section III(3) above.)

3. Effect on agricultural trades.

The adoption of the certificate plan may be expected to affect adversely processors and distributors. These adverse effects would flow from three general causes.

1. Margin of profit. The margins of profits of processors and especially distributors are so small in relation to the amounts of the proposed taxes that the necessity of absorbing any small part of the tax would seriously affect their profits. Such necessities doubtless arise when the addition of the tax to the price would require a fractional price adjustment. Under the processing taxes processors do not appear to have borne any appreciable proportion of the taxes, with the possible exception of certain corn and tobacco products. ^{1/} However, as Carl Shoup points out, even though a processor bore no appreciable proportion, he might have been severely burdened. ^{2/} His margin of profit may be so small relative to the tax that even if he shifts nine-tenths of it, for instance, the part that he does bear may take a very large percentage of his profits. ^{3/}

^{1/} An Analysis of the Effects of the Processing Taxes Levied under the Agricultural Adjustment Act, page 5. See also Bourne, Davis and Black, Three Years of the Agricultural Adjustment Administration, pages 313, 414: "....during the period of application of processing taxes on tobacco, a substantial part if not all of it was absorbed by the manufacturers of tobacco products. It is extremely doubtful if this situation would have continued indefinitely.... and it certainly must not be regarded as typical of the conditions covered."

^{2/} Memorandum on Processing Taxes, page 46.

^{3/} In this connection it is of interest to note that at the time of the processing taxes it was argued that the burden would not be shifted in its entirety to consumers but would go to reduce "consumers' distributors' and processors' margins." (For evidence on this point see Three Years of the Agricultural Adjustment Administration, pages 412 et seq.)

2. Volume of trade. Processors' and distributors' profits would also be affected adversely by the decline in the volume of consumption which would follow the imposition of heavy taxes. The severity of this factor would vary with the demand conditions for the several commodities. The more elastic the demand the more marked the reduction in processors' and distributors' volumes. 1/ They may also be affected adversely by shifts in demand. Thus, some of the demand for bakery products may be shifted to flour and home baking.

3. Business methods. A third general source of burden as far as concerns the agricultural trades would flow from the business disruptions which would accompany the periodic determination of the "tax levy" for the marketing season. Speculation on the probable changes in the price of certificates will probably produce "serious ups and downs" in the milling industry immediately before and after the annual proclamation of the certificate price. To this (generally in the case of processors) would be added the burden of filing monthly returns and complying in other respects with Department of Agriculture regulations. 2/

1/ For a statement of the processors' grounds for opposition to the certificate plan, see letter from the Vice President of the Millers' National Federation to Senator Wheeler, in Hearings on S. 2395, pages 22-23. Rice processors, on the other hand, appear not to oppose the plan.

2/ Anticipating the opposition of the processors to the certificate plan, Secretary Wallace said: "I am hopeful the processors will cooperate with us. Among the processors are many able and progressive men. If they can be persuaded that we are right - and I believe they can - they will go along with us. But the hard nuts as well as the soft ones that American farmers are willing to sometimes to exploit themselves, their families and their land to grow cheap farm products." (Washington Post, December 1, 1935.)

C. Fiscal effects.

The broader view of whether the agricultural program, including the certificate plan now under consideration, would have beneficial or harmful effects on the economy in general would require a lengthy and involved analysis in a very controversial field. Although pertinent, the subject is not considered in this memorandum. Some of the probable fiscal effects of the certificate plan, however, are so significant and predictable as to require discussion here.

1. Distribution of tax burden. The proposed certificate tax imposes what in effect amounts to a processing tax on some necessities. The burden of the tax will fall in large part on consumers. It will be a regressive tax, burdening those with small incomes more heavily than those with larger incomes. The tax would be unusually regressive for it would be imposed on physical units of product without regard to the prices of the consumed commodities. Unlike a sales tax which is imposed on the basis of value, the certificate tax would be imposed on the basis of weight or volume. The consumers of a low priced article containing one pound of a particular agricultural commodity would presumably be subjected to the same amount of tax as the consumers of a high priced article containing the same amount of the agricultural commodity. 1/

2/ It is quite possible, of course, that processors may find it "desirable" to transfer some of the burden from low price to high price commodities. Under the processing taxes, for instance, cigarettes appear to have borne more than their share of the tobacco taxes. This type of adjustment, however, cannot be expected to occur in the general case.

Moreover, the consumption taxes contemplated by the proposed plan would be far heavier than have usually been applied in the taxation of necessities in the United States. Rarely has a tax of anything like their magnitude been employed. The projected taxes on wheat and cotton would be even higher than those imposed under the processing taxes. A 43-cent tax on wheat, for instance, would amount to a 69 percent sales tax on 70-cent wheat and a 60 percent tax on 80-cent wheat. On cheaper grades of wheat the percentage rate would be correspondingly higher. A 7-cent tax on 8½-cent cotton would be the equivalent of an 82 percent sales tax. The imposition of taxes of this magnitude, super-imposed upon an already highly regressive tax system, would severely affect the purchasing power of the lower income classes. They would probably bear, for instance, a large part of the \$240,000,000 tax which, under present conditions, it is calculated, would be imposed annually on domestically consumed wheat.

The regressive character of the proposed certificate tax is particularly objectionable because, unlike many of the regressive taxes (manufacturers and miscellaneous excises) now on the statute books, the certificate tax is advanced as a permanent levy.

In view of the regressive character of the certificate tax, its earnest advocacy is presumably based on the assumption that the existence of low agricultural prices bestows an unfair advantage on the consumers of the taxed commodities and that such an advantage may properly be captured for the benefit of agricultural producers. The validity of

that assumption is not discussed in this memorandum. However, even if the assumption be accepted, it should be noted that the tax would constitute a heavy burden on those who, as well as farmers, are receiving less than parity incomes. There are other depressed industries in the same general position as agriculture. Furthermore, the whole body of the unemployed and under-employed laborers in all industries have less than parity incomes and would be subjected to a heavy burden on account of the tax. 1/

3. Federal expenditures. The adoption of the certificate plan would clearly result in a large increase in total expenditures for agricultural purposes. Part of the expenditures would be inside the Federal budget and part outside the Federal budget. There appears to be some question whether the amount of Federal expenditures within the budget would be reduced.

Some features of the plan would indicate the possibility of reduction in budget expenditures. With respect to certain commodities, the certificate plan is proposed as a substitute for "parity payments" now financed from general revenues. These expenditures presumably could be discontinued upon the enactment of the certificate plan. Some decline

1/ In answer to this problem, Secretary Wallace replies: "The fact is that many of the people who can't afford to pay for pork when the farmers are getting 13 cents a pound for hogs probably can't buy pork when hogs are down to 3 cents either. Isn't it a wiser policy to ask that all consumers who are able, pay a fair price for their food, and then to aid the others if necessary through the methods of making surplus foods available to those without jobs, such as the Food Stamp Plan and the school lunch program?" (Wallace, "How permanent is the farm program?" page 14.)

It occurs also in Federal expenditures for agricultural export subsidies. Under the certificate plan they might in part (at least indirectly) be financed by certificate taxes on domestic consumers. It is also possible that the enactment of the certificate plan might make agriculture's resistance to reductions in Congressional appropriations less effective than it would otherwise be.

On the other hand, if the plan reduces domestic consumption and increases farm surpluses, it will increase the demand for crop loans (so-called) which constitute a drain on the Treasury. Moreover, the adoption of the plan may serve merely as an entering wedge for larger farm benefits. Pressure may be expected to develop to secure for the noncertificated commodities government benefit payments on a par with those obtained by commodities covered by the certificate plan.

Federal expenditures may be increased in other directions also because of the plan. The increased cost of living due to the taxes may indirectly raise expenditures for relief purposes. Such expenditures would also be increased if the tax so reduced the volume of consumption as to decrease the volume of employment.

3. Fiscal administration. From the point of view of fiscal administration the certificate tax would have several shortcomings.

Sound tax policy endeavors to keep tax changes as infrequent as possible to minimize dislocating effects on industry. Under the certificate plan rate changes of substantial magnitude might be made from year

any year. The rate changes would probably occur more frequently than they occurred under the immodulated processing taxes because the certificate plan, unlike the processing taxes, apparently allows the Secretary of Agriculture no discretion in this respect. The tax rate for a marketing year is automatically equal to 100 percent (125 percent in the case of wheat) of the differential between average farm prices and parity price or cost of production, whichever is higher.

The crudeness of the certificate plan as a tax measure, lacking in attention to technical details, can be expected to create many difficulties. Because of the severity of the burden, tax evasion will be stimulated, especially by farm and rural consumers of taxed products.

The certificate plan would in effect sanction large public expenditures financed from taxes and receipts arising in marketing, without inclusion in the Budget. As such, it would constitute a backward step in fiscal management. Ours is the tradition of all public expenditures in the Budget and by the submission of all public expenditures to public executive and legislative review, can there be an assurance of a judicious allocation of public funds when the way public uses are not coordinated. When an expenditure for a particular function is excluded from the Budget but is even excluded from annual congressional review, control over financial policies is seriously weakened.

The adoption of the certificate plan would be tantamount not only to the adoption of a tax hidden from the public 1/ but from the Federal Government itself. Such a tax would be exempt from the supervision of the regular tax-collecting agency of the government as well as from the regular auditing agency of the government. The General Accounting Office, for instance, would have no occasion to ascertain whether the funds spent for agricultural benefits are being spent in full conformity with the intent of Congress.

A related and similarly undesirable feature of the certificate plan is its proposal to create a Federal tax-assessing or tax-collecting agency outside of the Treasury. Such a step would add more complexity to the already overly complex tax structure of the United States.

Finally, the plan would establish a dangerous precedent, which other economic groups would strive to emulate. If the plan is suitable for agriculture, why not for mining, for instance? The plan is so ideally adaptable to various kinds of income-redistribution schemes that its sponsorship for other groups seems reasonably probable. The resulting multiplicity in tax-levying and collecting bodies, operating independently within the Federal Government, would raise havoc with fiscal planning.

1/ Representative Andresen (Minn.): "Well, this is more or less a plan to fool the people so they will not know they are even paying the taxes....." (Hearings on H. R. 6654, page 56.)

EXHIBIT I

Collections from Agricultural Adjustment Taxes

Sources of receipts	Fiscal year ending June 30		
	1934	1935	1936
Wheat	\$ 117,621,174.82	\$123,860,932.23	\$ 9,441,516.44
Corn	4,496,193.74	6,849,629.87	924,823.31
Cotton	144,767,232.64	95,926,301.71	5,387,539.30
Tobacco	18,088,426.05	32,725,501.44	13,226,127.31
Hops	77,034,611.24	184,601,009.46	8,973,083.16
Paper and jute fabrics ...	9,244,830.78	3,221,707.27	637,265.85
Sugar	170,416.37	71,093,970.65	30,357,599.06
Rice	-	29,119.97	665,721.04
Eye	-	-	175,475.88
Peanuts	-	3,571,936.01	138,051.04
Cotton-ginning tax	-	1,110,874.86	451,223.03
Tobacco-sales tax	-	3,231,374.77	1,214,880.64
Potato-sales tax	-	-	43,900.64
Total, agricultural adjustment taxes	\$ 371,422,855.64	\$526,222,358.24	\$71,637,206.70

Mr. Procopé

12-15-39

225

Procopé - Mr. Secretary, I have the honor to present to you this check in further payment of Finland's indebtedness to the Government of the United States.

HMJR - Mr. Minister, I accept with gratitude this payment and I should like to congratulate your country which, during dark days as well as fair, has never failed to honor its obligations.

As you know, the President has directed me to hold this payment in a suspense account until he can recommend to Congress that this money be used for the benefit of the Finnish people.

You will be pleased to know, Mr. Minister,
that scores of contributions have been
received from persons wishing to help
Finland repay its debt to the United States.
Since I have no authority to receive these
contributions, I have arranged, with the
consent of the donors, for them to be turned
over to you.

Mr. Minister, I accept with gratitude this semi-annual payment on Finland's debt to the Government of the United States, [and I should like to congratulate your country which, during dark days as well as fair, has never failed to honor its obligations.]

As you know, the President has directed me to hold this payment in a suspense account until he can recommend to Congress that this money be used for the benefit of the Finnish people.

You will be pleased to know, Mr. Minister, that scores of contributions have been received from persons wishing to help Finland repay its debt to the United States. Since I have no authority to receive these contributions, I have arranged, with the consent of the donors, for them to be turned over to you.]

DEC 15 1939

Dear Mr. Jones:

With reference to the present status of debt negotiations between the Foreign Bondholders Protective Council, Inc., and the Colombian representatives, I enclose herewith a copy of a memorandum of an interview which I had with Mr. Traphagen yesterday and a copy of a memorandum which he left with me.

I have not had an opportunity to study the position which the Council is disposed to take, as outlined in these documents. I told Mr. Traphagen I would try to communicate with him Monday with reference to this matter. Before doing so, I hope that, together with Mr. Waller, we will have the opportunity of considering the whole question at our meeting at three o'clock Monday afternoon.

Sincerely yours,

(Signed) H. Morganthau, Jr.

ORIGINAL FORWARDED TO ADDRESSEE
FROM OFFICE OF THE SECRETARYHonorable Jesse H. Jones
Administrator
Federal Loan Agency
Washington, D. C.

JPC,JR:BJ 12/15/39

By Messenger

12/15/39 1:25 P.M.

f.p.eh.

DEC 15 1939

Dear Mr. Wallas:

With reference to the present status of debt negotiations between the Foreign Bondholders Protective Council, Inc., and the Colombian representatives, I enclose herewith a copy of a memorandum of an interview which I had with Mr. Traphagen yesterday and a copy of a memorandum which he left with me.

I have not had an opportunity to study the position which the Council is disposed to take, as outlined in these documents. I told Mr. Traphagen I would try to communicate with him Monday with reference to this matter. Before doing so, I hope that, together with Mr. Jones, we will have the opportunity of considering the whole question at our meeting at three o'clock Monday afternoon.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

ORIGINAL FORWARDED TO ADDRESSEE
FROM OFFICE OF THE SECRETARY

Honorable Sumner Wallas,
Under Secretary of State
Department of State
Washington, D. C.

By Messenger

12/15/39 1:25 P.M.

JFC,JR:BJ 12/15/39

J.P. e.h.

DEC 15 1939

Dear Mr. Welles:

With reference to the present status of debt negotiations between the Foreign Bondholders Protective Council, Inc., and the Colombian representatives, I enclose herewith a copy of a memorandum of an interview which I had with Mr. Traphagen yesterday and a copy of a memorandum which he left with me.

I have not had an opportunity to study the position which the Council is disposed to take, as outlined in these documents. I told Mr. Traphagen I would try to communicate with him Monday with reference to this matter. Before doing so, I hope that, together with Mr. Jones, we will have the opportunity of considering the whole question at our meeting at three o'clock Monday afternoon.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Honorable Sumner Welles,
Under Secretary of State
Department of State
Washington, D. C.

ORIGINAL FORWARDED TO ADDRESSEE
FROM OFFICE OF THE SECRETARY

JFC,JR:BJ 12/15/39

December 14, 1939

INTERVIEW BETWEEN THE SECRETARY AND MR. TRAPHAGEN
DECEMBER 14, 1939.

Re: Status of Debt Negotiations Between the
Council and Colombian Representatives.

Mr. Traphagen said that, as a result of his meeting with Mr. Jaramillo and Turbay in Washington and the meeting which he arranged in New York to have them meet the Executive Committee of the Council, and as a result of subsequent discussion among members of the Council, the Colombians made an offer and the Council has formulated an "irreducible minimum" in connection with any adjustment of the Colombian debt. The scope of discussion covered the direct national government indebtedness of \$45 millions and also the \$10 millions of guaranteed mortgage bond debt. The Colombians offered an aggregate annual service of \$2 millions to be applied as might seem appropriate and said that they had instructions not to go above that figure in any event.

There is a spread between this offer and the most liberal proposal which the Council would be prepared to accept, as described below, of \$300,000 a year or, if the proposed service on the guaranteed debt as well as on the direct debt be included in the picture, of about \$700,000 a year.

The "irreducible minimum" formulated by the Council is:

(1) As regards the \$45 millions direct government debt, over-all service of \$2,300,000 annually distributed as follows:

Interest at 3% during the first 3 years, 3½% during the succeeding 2 years and thereafter 4%. Interest arrears to be taken care of as provided in the so-called "Laylin proposal", i.e. the total amount reduced to 1/6 and paid off at the rate of 1% of the face amount of the bonds a year over a period of 5 to 6 years. This treatment of interest would permit a \$500,000 sinking fund during the first 3 years, which could be somewhat reduced during the succeeding years of higher interest rates until the arrears would be cleared up, at which time it would again amount to \$500,000 a year.

(2) As regards the \$10 millions of guaranteed debt, the Council would accept an initial 3% interest rate scaling up ultimately to 3½%, and 1% amortization, making over-all service in the initial years \$200,000.

(3) The Council would expect a statement from the Colombian Government to the effect that it would welcome a settlement of the departmental and local indebtedness and that it would expect to provide transfer facilities therefor, and also a statement from the government that it would not in the future afford a more favorable settlement in the case of other existing external debt of Colombia without extending more favorable treatment to the debt presently in question. In the event of default by Colombia in meeting payments on the proposed adjustment, the bonds would revert to their present position.

Mr. Traphagen was asked if he had figured, on the basis of the amounts to be devoted to amortization by the purchase of bonds on tender, how much of the issues would be retired on the stated maturity of the bonds. He said he had not gone into this point but that he was sure the Council would be willing to afford any reasonable extension of maturity and he said he was sure that 1975 instead of the stated maturity of 1961 would be agreeable.

Mr. Traphagen gave the Secretary a memorandum, copy attached, designed to explain the reasonableness of the Council's position. In conversation he stressed the fact that assuming service on the direct debt of \$2,300,000, the percentage of budget revenues required for service on both the long and short term external debt would amount to only 13.8%.

He said that the Council had decided to be very lenient in the matter of interest arrears because the Colombians had urged the fact that there would be great political opposition to a refunding of the arrears which would have the effect of decreasing the principal amount of the outstanding indebtedness. In return for such leniency he had urged that the guaranteed as well as the direct debt should be included. He said that, according to the Council's information, the mortgage banks in question were solvent and hence service of the guaranteed bonds would not be a drain on the Colombian budget and that the government had ample exchange resources to handle the transfer question.

Mr. Traphagen said that before communicating this "irreducible minimum" of the Council to the Colombians or anybody else, he wished to explain the situation to the Secretary. He felt that there was little use of the Council presenting this proposal to the Colombians or going farther in the matter unless the Council had the backing of the Government and he would hope that the proper authorities of the Government would be in a position to tell him whether the proposal of the Council seemed reasonable and would have the sanction of the Government.

COLOMBIA

1938 is the last year on which there are records of actual Government receipts. Actual receipts were 32,528,888 pesos. This included a surplus of 2,377,306 pesos, leaving net receipts of 30,151,582 pesos. In the first 10 months of 1939 the actual receipts have been 14% higher than in 1938.

The 1938 budget included full service for the internal loans and for the external short-term loans with the exception of the National City, on which partial service was provided. This amounted to 8,384,758 pesos, or 9.5% of the net receipts. No provision was made for the dollar and sterling debt (except the scrip included in above figure.)

The full contractual service on the dollar and sterling long-term bonds requires 8,172,235 pesos, or 9.1% of the 1938 budget receipts. Had this been paid the total debt service would have been 18.4% of the budget.

The \$2,000,000 now offered by Colombia is 3.9% of the 1938 budget receipts. If only this amount had been applied to the foreign debt the total debt service would have amounted to 15.2% of the budget.

\$2,300,000, the maximum service under the plan which the Council is disposed to approve, is 4.5% of the budget, which would make a total debt service of 15.8% of the budget.

For purposes of comparison the following figures giving percentages of revenues devoted to debt service in 1927 budgets (the last year for which we have figures) are of interest:

Argentina	19.8%	Denmark	21.9%
Australia	22.6%	France	29.1%
Belgium	22.6%	Great Britain	25.0%
Bulgaria	21.4%	Greece	23.2%
Canada	28.4%	Italy	25.1%
China	32.4%	Liberia	32.7%
Czechoslovakia	20.1%	Norway	20.5%
		Uruguay	20.9%

During the years Colombia has been in default there has been a budget surplus every year as follows:

1935	850,043 pesos
1936	2,558,675 "
1937	7,801,041 "
1938	4,447,863 "
1939 (first 9 months)	4,341,471 "

During the five year period 1934 to 1939 Colombia's favorable trade balance with the world has averaged 23.6 million pesos per annum, and her favorable trade balance with the United States has averaged 42.1 million pesos per annum. During that period United States' participation in the foreign trade of Colombia averaged 53.9%.

During the period of default, 1935 to Dec. 31, 1938, the unpaid interest on Colombia's Direct dollar bonds was \$12,295,000. Colombia's favorable trade balance with the United States in the same period was \$125,800,000. In other words, it covered this deficit more than 10 times over.

The Departmental and Municipal bonds have been in default for 8 years. During the 8 year period, 1932 to Dec. 31, 1939 the arrears of interest on the National bonds, bonds guaranteed by the National Government, and the Departmental and Municipal bonds total \$60,608,419.

Colombia's favorable trade balance with the United States during the first 7 of these 8 years, that is 1932 to 1938, inclusive (figures for 1939 are not yet available) was \$179,379,000. That is to say, that the trade balance in these 7 years will cover the amount required for the 8 year default approximately three times.

Data compiled by the Tax Research Foundation published in the seventh edition (1938) of the study "Tax Systems of the World" shows the United States per capita tax to be \$28.47. The per capita tax in Colombia is \$2.59. That is to say, the per capita tax in the United States is 11 times that in Colombia.

There are only four countries that rank lower than Colombia in per capital tax, - namely, Haiti, Ecuador, Paraguay and Bolivia. All the other countries in Latin America have a higher per capital tax going up to a high of \$14.84 in Panama. The European governments all have many times greater taxes going up to a maximum of \$74.21 in Great Britain.

The total Colombian debt, internal and external, amounts to \$14.40 per capita. When the United States debt was \$37,165,000,000 it was \$285.70 per capita, or nearly 20 times greater than that of Colombia. It is greater to-day.

Colombia is paying full service on her internal debt up to 10% per annum interest.

All the external short-term loans, except that of the National City Bank, are being paid in full. The National City Bank debt has been receiving interest and amortization in all the years that the bonds have been in default.

The Colombian memorandum compared the position December 31, 1929 with December 31, 1938. It showed that the dollar debt had decreased in dollars but had increased 30% in pesos due to the fall in the value of the peso. In the same period the internal indebtedness had increased 7 times and it is being served in full.

The increased prosperity of Colombia due to petroleum exploitation must not be over-looked. In the last four months two pipe lines have been put into operation and the royalties from these will provide revenues and exchange for the Government and lessen its dependence on coffee exports.

The enormous increase in gold exports must not be over-looked. During the first ten months of this year the United States alone is reported to have purchased almost \$13,000,000 worth of Colombian gold.

In any agreement the Council would expect Colombia to agree that if it gives any better treatment to any other foreign bonds, that better treatment will be given to the dollar bonds. (The British are asking for preferential consideration. If Colombian exchange were allocated in proportion to the 1933 exports to the United States and Great Britain, the United States would receive 59% and Great Britain .4%.)

The Council would also expect the usual clause to be inserted that in case of default under the new plan the original bond obligation is restored.

The Council will expect arrangements to be made for the payment of the guaranteed debt and for Colombia to free exchange for the Departments and Municipalities to meet their debts.

The recent offer of the City of Barranquilla is to give new 4% bonds for back due interest and for current interest. It is to be hoped that the Republic of Colombia will wish to keep its credit up as high as that of the City of Barranquilla.

The small percentage of budget allocated for the debt service and the small per capita tax in Colombia show that the Colombian Government is not making an adequate effort to meet its debt problem.

December 13, 1933

*Council ...
for ...
2/10 4 1/2%*

M. T. Trephagen

COLOMBIA

236

1958 is the last year on which there are records of actual Government receipts. Actual receipts were 92,525,686 pesos. This included a surplus of 2,977,306 pesos, leaving net receipts of 89,548,380 pesos. In the first 10 months of 1959 the actual receipts have been 14% higher than in 1958.

The 1958 budget included full service for the internal loans and for the external short-term loans with the exception of the National City, on which partial service was provided. This amounted to 8,584,758 pesos, or 9.3% of the net receipts. No provision was made for the dollar and sterling debt (except the scrip included in above figure.)

The full contractual service on the dollar and sterling long-term bonds requires 8,172,235 pesos, or 9.1% of the 1958 budget receipts. Had this been paid the total debt service would have been 18.4% of the budget.

The \$2,000,000 now offered by Colombia is 3.9% of the 1958 budget receipts. If only this amount had been applied to the foreign debt the total debt service would have amounted to 13.2% of the budget.

\$2,300,000, the maximum service under the plan which the Council is disposed to approve, is 4.5% of the budget, which would make a total debt service of 15.8% of the budget.

For purposes of comparison the following figures giving percentages of revenues devoted to debt service in 1937 budgets (the last year for which we have figures) are of interest:

Argentina	19.8%	Denmark	21.9%
Australia	22.6%	France	29.1%
Belgium	22.6%	Great Britain	25.0%
Bulgaria	21.4%	Greece	25.2%
Canada	28.4%	Italy	25.1%
China	52.4%	Liberia	52.7%
Czechoslovakia	20.1%	Norway	20.5%
		Uruguay	20.9%

During the years Colombia has been in default there has been a budget surplus every year as follows:

1955	859,045 pesos
1956	2,556,675 "
1957	7,801,041 "
1958	4,447,865 "
1959 (first 8 months)	4,341,471 "

During the five year period 1954 to 1958 Colombia's favorable trade balance with the world has averaged 25.6 million pesos per annum, and her favorable trade balance with the United States has averaged 42.1 million pesos per annum. During that period United States' participation in the foreign trade of Colombia averaged 53.9%.

During the period of default, 1935 to Dec. 31, 1938, the unpaid interest on Colombia's direct dollar bonds was \$12,295,000. Colombia's favorable trade balance with the United States in the same period was \$125,800,000. In other words, it covered this deficit more than 10 times over.

The Departmental and Municipal bonds have been in default for 8 years. During the 8 year period, 1932 to Dec. 31, 1939 the arrears of interest on the National bonds, bonds guaranteed by the National Government, add the Departmental and Municipal bonds total \$60,608,419.

Colombia's favorable trade balance with the United States during the first 7 of these 8 years, that is 1932 to 1938, inclusive (figures for 1939 are not yet available) was \$179,379,000. That is to say, that the trade balance in these 7 years will cover the amount required for the 8 year default approximately three times.

Data compiled by the Tax Research Foundation published in the seventh edition (1938) of the study "Tax Systems of the World" shows the United States per capita tax to be \$28.47. The per capita tax in Colombia is \$2.59. That is to say, the per capita tax in the United States is 11 times that in Colombia.

There are only four countries that rank lower than Colombia in per capital tax, - namely, Haiti, Ecuador, Paraguay and Bolivia. All the other countries in Latin America have a higher per capital tax going up to a high of \$14.84 in Panama. The European governments all have many times greater taxes going up to a maximum of \$74.21 in Great Britain.

The total Colombian debt, internal and external, amounts to \$14.40 per capita. When the United States debt was \$37,165,000,000 it was \$285.70 per capita, or nearly 20 times greater than that of Colombia. It is greater to-day.

Colombia is paying full service on her internal debt up to 10% per annum interest.

All the external short-term loans, except that of the National City Bank, are being paid in full. The National City Bank debt has been receiving interest and amortization in all the years that the bonds have been in default.

The Colombian memorandum compared the position December 31, 1929 with December 31, 1938. It showed that the dollar debt had decreased in dollars but had increased 50% in pesos due to the fall in the value of the peso. In the same period the internal indebtedness had increased 7 times and it is being served in full.

The increased prosperity of Colombia due to petroleum exploitation must not be over-looked. In the last four months two pipe lines have been put into operation and the royalties from these will provide revenues and exchange for the Government and lessen its dependence on coffee exports.

The enormous increase in gold exports must not be over-looked. During the first ten months of this year the United States alone is reported to have purchased almost \$19,000,000 worth of Colombian gold.

In any agreement the Council would expect Colombia to agree that if it gives any better treatment to any other foreign bonds, that better treatment will be given to the dollar bonds. (The British are asking for preferential consideration. If Colombian exchange were allocated in proportion to the 1938 exports to the United States and Great Britain, the United States would receive 59% and Great Britain .4%.)

The Council would also expect the usual clause to be inserted that in case of default under the new plan the original bond obligation is restored.

The Council will expect arrangements to be made for the payment of the guaranteed debt and for Colombia to free exchange for the Departments and Municipalities to meet their debts.

The recent offer of the City of Barranquilla is to give new 4% bonds for back due interest and for current interest. It is to be hoped that the Republic of Colombia will wish to keep its credit up as high as that of the City of Barranquilla.

The small percentage of budget allocated for the debt service and the small per capita tax in Colombia show that the Colombian Government is not making an adequate effort to meet its debt problem.

December 13, 1939

*Council would expect provision
for deduction from first year interest
of 1/8 of 1%.*

Page 2
Handwritten: 3
TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

239
DATE December 15, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Secretary received Mr. Pinsent at 4 o'clock this afternoon by appointment. Miss Chauncey took notes. Mr. Cochran was also present. At the Secretary's instruction, Mr. Cochran had invited Mr. Frank to be present and the latter had tentatively accepted. Subsequently he had sent word that he was leaving for New York and it would be quite satisfactory for Secretary Morgenthau to let him know later what took place in the conference. This forenoon Mr. Frank's Secretary asked if Mr. Purcell could substitute for Mr. Frank. This afternoon Mr. Cochran telephoned Mr. Purcell's secretary that we would be glad to have him come over. The secretary replied that Mr. Purcell also was leaving for New York at 4 o'clock, and was at that time absent from the building attending a meeting at the Capitol. Consequently, no one from the Securities Exchange Commission was present.

After the interview, which Miss Chauncey recorded, Mr. Pinsent came to Mr. Cochran's office and drafted a cablegram for his Ambassador's signature to be sent to London reporting Pinsent's conversation with the Secretary. Cochran impressed upon Pinsent that the references in the conversation to another American official were solely for him, and should not be passed on to anyone. Mr. Pinsent agreed to this. The draft which Mr. Pinsent drew up in Mr. Cochran's office read somewhat as follows:

"The Embassy's financial adviser was today called to the Treasury and received by the Secretary. Mr. Morgenthau expressed his disappointment that Waigham and Gifford had departed from the United States without the vesting taking place of some sixty securities, which had been recommended by these security experts in full agreement with the views of the United States Treasury and the Securities and Exchange Commission.

"The Secretary referred to the decline of the sale of British owned dollar securities on the American market during the past fortnight, as would appear from figures available to him, and remarked upon the two important sales of gold from Canada made by the Bank of England to the Federal Reserve Bank of New York within recent days. These two factors he thought gave ground for concern as to whether the British had changed their original idea of selling securities rather than disposing of their gold. He felt that if this change has been made it will weaken his position vis à vis the opponents of the Administration's gold purchase policy.

"In view of the foregoing and considering the recently announced financial agreement between France and England which unites their resources, the Secretary asks to be informed as to what the dollar requirements of the two governments will be over a period of months and as to how the dollars will be acquired, with an indication as to the proportion in which gold or securities will be sold to obtain such dollars."

Mr. Pinsent drafted a second telegram of which the following is a very rough reproduction:

"Upon Mr. Whigham's departure from the United States the impression was gained that he thought he and Mr. Gifford had so completed their plans for liquidation of securities, once the vesting order takes place, that the work of disposing of the securities could be handled by an American bank (I believe he intended to mention J. P. Morgan & Co.) under telegraphic instructions from London. It is our (The British Embassy's) belief that either Mr. Whigham or a successor who is a British expert on securities should return to the United States and remain here while the sale of securities under a vesting order is taking place. The American Treasury was given to understand that this would be the British policy, through the Embassy's note of October 30 reporting Mr. Whigham's mission to this country. The Embassy feels that both the President and the Secretary of the Treasury would be unhappy to see the matter turned over to an American private bank. Consequently the recommendation is renewed that Mr. Whigham or a successor competent in disposing of British securities be sent to the United States to remain for this purpose when once the vesting order is decided upon."

Mr. Pinsent had first drafted the second cablegram in somewhat stronger terms, but I told him to be careful lest the two telegrams might be too closely tied together. I made the point that the first cablegram was definitely based upon the Secretary's statements, while the second matter had not been touched upon in the conversation today. I admitted that the second was in line with our ideas, particularly as put forward by Mr. Walter Stewart, but I did not think that strong expressions should be attributed even indirectly to the Secretary without having a new discussion with him.


STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 15, 1939.

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 11 o'clock today the Secretary received by appointment the following gentlemen from New York: Mr. Harold Hochschild, President of American Metals Corporation; Mr. Sharp or Shott (?), President of Climax Molybdenum; Mr. Loeb, Metallurgist of Climax Molybdenum; Mr. C. F. Ulrich, Vice President of Kennecott Copper Company; and Executive Vice President J. B. Thorne. Messrs. White and Cochran were also present.

It should be recorded that the Wall Street Journal of this morning carried a story of a proposed moral embargo on molybdenum. Between 9 and 10 o'clock this morning, I telephoned Mr. Stone of Secretary Hall's office to let him know that the story had come out, and to inquire what progress was being made in the State Department on this matter. Mr. Stone informed me that a letter was then being drafted by Mr. Green's office which had to be initialed by the legal experts, Judge Moore, and others. This would be taken around the Department by a special officer detailed for this purpose. Stone promised to call me back as soon as he had any further information. When I asked him if there was any chance of a slip, he replied there was not. The President's secretary, Mr. Early, had sent to the State Department late last night a note requesting that the same policy and procedure be followed in imposing a moral embargo upon molybdenum and aluminum as had been imposed on airplanes. Consequently, the State Department would see that this was done, the only question being one of routine through the Division of Control and the issuing of a press release. I also checked with Mr. Stone at 11:25, just before going into the group meeting, but the formalities had not at that hour been completed in the State Department.

In opening the meeting the Secretary referred to his conversation of the preceding day with Mr. Hochschild, and briefly summarized the situation. That is, he thanked the metal people for the extent to which they had been cooperating with him in the study which he had undertaken confidentially at the President's direction. He let them know that every step which had been taken had been an Administration step. Furthermore, the State Department experts had yesterday enthusiastically agreed to the idea of imposing the embargo in question, and the State Department is today completing the necessary formalities, which will include the issuance of a communiqué to the Press and the sending of a letter to possible exporters of the commodities under reference. The Secretary read to his visitors a form letter which has been used by the Department of State in the past, and which would presumably be the type of letter to be addressed to their concerns to cover the present situation.

The visitors presented the Secretary with further memoranda, and the President of Climax Molybdenum referred to the documentation which he had sent the

Secretary since his last visit to Washington. The Secretary had not examined this material carefully, but had had time to glance through it. He promised to have this and the new memoranda studied carefully by the Treasury.

There was little new from a technical viewpoint brought out in the conversation. The visitors emphasized, however, that an embargo on molybdenum will not achieve the result which they understand the Administration desires unless the countries involved are prevented from having the two principle substitutes, namely, nickel and tungsten. It would also be desirable to stop vanadium if a more effective embargo is desired. When the Secretary said that he understood International Nickel would not sell more nickel to Russia, Mr. Ulrich stated that Russia had chromite and other minerals which could replace nickel, and consequently would not suffer materially for the lack of nickel. Japan, on the other hand, is much more dependent upon nickel. Mr. Ulrich was quite interested to know whether the International Nickel people would also agree to stop their sales to Japan. The Secretary understood that this matter was still under consideration.

The visitors stressed their desire to meet the wishes of the Administration, even though it meant a financial sacrifice to their companies which had built up their export trade over many years and would now see it not only temporarily hurt, but perhaps damaged for a long future, by now shutting off exports to their best markets. They want to be able to show to their officers and stockholders that the Government is not demanding something which entails a sacrifice on their part which will be ineffective. They were interested in the Secretary's offer to go into the matter of our own Government specifications with respect to materials in which molybdenum could be utilized, and also his offer to contact steel manufacturers for them. He specifically mentioned Admiral Stark as the man in the Navy who should be consulted. The visitors stressed, however, the thought that if their sacrifice is not to be in vain, steps should be taken by the Allies, as well as by its neutral friends, to stop exports of metals to the countries in question which could be utilized as substitutes for molybdenum. It did not seem to be the general conviction of the visitors that Prof. Riat's statement that molybdenum constituted the one vulnerable point in Germany's economic armor could stand unquestioned.

There was some discussion of the outstanding orders for molybdenum from France and other European countries. While the Climax people do not want to see unnecessary surplus stocks built up by the Allies, they do envisage the possibility of some arrangement with the Allies which might prevent dumping of molybdenum stocks by the Allies if upon the termination of the war the supplies which they may have acquired should be found excessive.

Before the departure of the visitors, it was made clear that the Secretary would welcome any material or remarks that they might submit with respect to their own problems and the general question of policy involved. He reminded them that the affair had been moving very rapidly since he had taken up the question ten days ago, and he also made the point that time would be required to endeavor to complete the project undertaken. In this connection, he mentioned the investigation under way with respect to Chinese tungsten and the possibility of the United States acquiring an important part of the 1940 production.

At 2:40 p.m. I spoke again with Mr. Stone and gave him the names of the principle molybdenum exporting concerns, namely, the Climax Molybdenum Company and the Molybdenum Corporation of America.

Mr. Green was in Mr. Stone's office and thanked us for these names. The letter to the President reporting what the State Department was doing was at the moment ready for Mr. Hall's signature.

When the Secretary finished his conversations at 5 o'clock, he telephoned Mr. Hall's office and was informed by Mr. Ranchard that a press release on the subject had been issued and copy sent to my office. I found these on my desk after leaving the Secretary, and took one copy into the Secretary.



DEPARTMENT OF STATE

FOR THE PRESS

December 15, 1939
No. 692

A letter has been addressed by the Department to all persons and companies registered with the Secretary of State pursuant to the provisions of Section 12 of the Neutrality Act as manufacturers or exporters of the arms, ammunition and implements of war as defined by the President in his proclamation of May 1, 1937, which fall within the general description of "aircraft, aircraft armament, aircraft engines, aircraft parts, aircraft accessories, aerial bombs or torpedoes" contained in the President's statement of December 2, 1939, relating to the bombing and machine-gunning of civilian populations from the air. The text of the letter follows:

"There is enclosed a copy of a statement in regard to the bombing and machine-gunning of civilian populations from the air which the President made in his press conference on December 2, 1939.

"In view of the policy to which the President referred, the Department hopes that it will not receive any application for a license to authorize the exportation, direct or indirect, of any aircraft, aircraft armament, aircraft engines, aircraft parts, aircraft accessories, aerial bombs or torpedoes to countries the armed forces of which are engaged in such bombing or machine-gunning.

"Should any manufacturer or exporter have already entered into contractual obligations, of which he finds it impossible to divest himself, to sell or export airplanes or aeronautical equipment, for which licenses have been issued or for which he has heretofore intended to apply for licenses, to countries referred to above, it is suggested that he may wish to inform the Department of the terms of the contract before applying for licenses to export pursuant to it or before exporting under licenses already issued.

"Your attention is invited to the fact that the President's statement refers not only to aircraft and those aircraft parts for which an export license is required but also to aeronautical equipment of all kinds and to materials essential to airplane manufacture."

In view of the fact that the President's statement mentioned above refers to "materials essential to airplane manufacture", a letter has been addressed by the Department to all producers of molybdenum and aluminum as follows:

"There is enclosed a copy of a statement in regard to the bombing and machine-gunning of civilian populations from the air which the President made in his press conference on December 2, 1939.

"I invite your particular attention to the phrase 'materials essential to airplane manufacture' in this statement. Molybdenum and aluminum are included among such materials.

"Should

"Should any manufacturer or exporter have already entered into contractual obligations, of which he finds it impossible to divest himself, to sell or export molybdenum or aluminum to countries the armed forces of which are engaged in unprovoked bombing and machine-gunning of civilian populations from the air, he may wish to inform the Department of the terms of his contract."

TREASURY DEPARTMENT

246

INTER OFFICE COMMUNICATION

DATE December 15, 1939

TO Secretary Morgenthau

FROM Mr. Coolidge

STRICTLY CONFIDENTIAL

The Canadian Minister telephoned this afternoon the attached draft of a press release which he proposed for simultaneous release in Ottawa and Washington upon a date to be agreed upon. Mr. Duffield and Mr. Coolidge submitted it to the Secretary and he had no comment to make thereon, on the understanding that it was to be issued by the Canadians.

At 5 o'clock I called the Minister back and told him that the Secretary found the communiqué satisfactory as far as he was concerned. I made the point that it was understood that the Canadian officials would be responsible for getting out the communiqué both in Ottawa and Washington. The Minister apparently had thought that the United States Treasury might give the communiqué here, but agreed to handle it himself, after I pointed out that the second sentence therein, explaining Mr. Morgenthau's position, would more properly come from his Legation than from the Treasury. The Minister is submitting the draft to Ottawa for approval as to text and method of issue to the public, as above outlined. He will call us back to indicate the date which they choose for the communiqué, which will probably coincide with the departure of the Minister of Finance from Ottawa on December 19.

The Minister is not yet sure whether Colonel Salton will bring anyone with him, but believes that he will be unaccompanied. He will give us further word at this next week.



December 16, 1939

The Canadian Minister telephoned me at 9:40 this morning to the effect that he had talked by telephone with Colonel Salton who had approved the press release as drafted. It is now arranged that Colonel Salton will give out this release in Ottawa on the night of December 19 for the morning papers of the 20th. The Canadian Legation in Washington will follow the same procedure. It was agreed with the Minister that if any communiqué was desired after the meeting, it could be prepared immediately following the meeting, or might possibly be covered by the Secretary's press conference of the following morning.

No one is accompanying Colonel Salton from Ottawa. The Minister thought this definitely confirmed his understanding that Colonel Salton was nothing technical to take up but merely desire a friendly visit to get acquainted with the Secretary.



DRAFT PRESS RELEASE

It is expected that Hon. J. L. Balston, Minister of Finance for Dominion of Canada, will be in Washington on Wednesday, December 20 and will call on Hon. Mr. Morgenthau, Secretary of the Treasury. Mr. Balston's primary object in his visit is to become personally acquainted with Mr. Morgenthau, who as Secretary of the Treasury occupies a position in the administration of the United States similar to the post held by Mr. Balston in the Government of Canada. It is understood that Mr. Balston's visit at this time has no special significance but arises from a desire to maintain and increase usefulness of Treasury to Treasury contact in connection with inter-related financial and economic problems of the two countries.

(Proposed for simultaneous release in Ottawa and Washington upon a date to be agreed upon)

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

248
DATE December 15, 1939

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

The foreign exchange market was dull with the volume of sterling transactions slightly lower than that of yesterday. In New York, sterling opened at 3.93-3/8. There was moderate selling from American and Japanese sources and the rate recorded by stages to 3.92-7/8. During the afternoon it recovered to 3.93-1/2 and closed at 3.93.

Sales of spot sterling by the four reporting banks totaled \$500,000, from the following sources:

By commercial concerns.....	\$ 158,000
By foreign banks (Europe and Far East).....	\$ 342,000
Total.....	\$ 500,000
Purchases of spot sterling amounted to \$466,000, as indicated below:	
By commercial concerns.....	\$ 172,000
By foreign banks (Europe, Far East and South America).....	\$ 294,000
Total.....	\$ 466,000

Sterling for one month delivery was quoted at 2-1/16¢ per pound discount and for three months, 5-3/16¢ per pound discount.

The other important currencies closed as follows:

French francs	.0223
Dollars	.5311
Swiss francs	.2242-1/2
Belgas	.1694
Canadian dollars	12-3/4¢ discount

The Cuban and Mexican currencies were lower today, being quoted at 11-7/8¢ discount and .1717, respectively.

We sold \$2,000,000 in gold to the Bank of Brazil as fiscal agent of the Brazilian Government, under the arrangement of July 15, 1937. This makes a total of \$9,070,000 in gold sold to that bank under the arrangement referred to.

We purchased the following amounts of gold from the earmarked accounts of the banks indicated:

\$10,000,000 from the Bank of France
620,000 from the National Bank of Belgium
\$10,620,000 Total

The Federal Reserve Bank reported to us the following shipments of gold:

226,300,000 from Canada, shipped by the Bank of Canada, to the Federal Reserve Bank of New York.
847,000 from England, shipped by Samuel Montagu & Co., to the Bankers Trust Company.
\$25,147,000 Total

We received from the State Department a cable sent by the Embassy in London stating that an invoice had been certified for the shipment of \$42,000 in gold by Johnson Matthey & Co., London, to its New York office.

All of the shipments of gold described above will be sold to the U. S. Assay Office at New York.

Both spot and forward prices for silver in London were unchanged at 23-3/8d and 23-5/16d, respectively. The U. S. equivalents were 41.42¢ and 41.27¢. The price fixed by Handy and Harman for foreign silver was unchanged at 34-3/4¢. The Treasury's price was also unchanged at 35¢.

The U. S. equivalent of the silver price in Bombay this morning, less the export tax, was 43.27¢, off about 1/2¢ from yesterday. During the day, the Bombay price improved and the U. S. equivalent of the last quotation received was 44.82¢, up about 1¢ from yesterday's quotation.

We purchased 494,000 ounces of silver under the Silver Purchase Act. Of this amount, 244,000 ounces were derived from secondary materials and delivery of the silver was to be made today. The balance of 250,000 ounces was new production silver from foreign countries for forward delivery.

B. M. F.

CONFIDENTIAL

December 15, 1939

4 p.m.

Present:

Mr. Pinsent
Mr. Cochran

Mr. Pinsent: I am sorry not to have seen you last night. As a new-comer I did not know where to look. (Diplomatic reception at the White House.)

HM, Jr: Thank you. We did not stay terribly long once the people passed.

Mr. Pinsent: I am glad we got the question of the account fixed yesterday and I am instructed by my Treasury to offer apologies that the matter was overlooked. I am afraid with all the minor difficulties about the set-up of the account, it was overlooked.

HM, Jr: I was naturally a little upset after getting a written statement from you of the message from Sir John Simon on October 19th and then a lot of time goes up and they when they do open the account and the Treasury asks for a confidential copy for me, we are turned down.

Mr. Pinsent: I am awfully sorry. It was an oversight for which there is no excuse, really, but not of course meaning that there was any departure from our undertaking and I am afraid the necessity had been overlooked for giving those instructions at the right time.

HM, Jr: Now, what's happened to those two gentlemen that went back?

Mr. Pinsent: Perhaps a few things I ought to tell you about them. Among the communications which they got from London while they were here was one indicating that the best dates for vesting would be either December 9th or December 30th. And then there was the whole question whether they should start immediately or put it off, and they appeared to have concluded in the

-2-

and that it would be better put off. The arguments as I know them, for and against, seem to be very much balanced. Everybody, I believe, agrees that the publication of the vesting order would certainly be somewhat of a shock to the market here. Nobody can judge very well how serious the shock would be. Some think it would be more serious and some think it would be less.

There is one argument in favor of issuing the vesting order fairly soon, but making it a very small one so as to try it out, but against that it would be argued that unless you start from the beginning with sufficient spread, you have not enough freedom in choosing the part of the market you operate in from day to day. Mr. Whigham remains unaltered in his view. He's in favor of issuing the vesting order as soon as possible and substantially spread along the lines of his 50 to 60 securities, and has remained of that opinion and I think his return to London will be an advantage, because he will be able to explain the grounds for that view rather more clearly. Anyway, when he heard it was going to be postponed until after Christmas, he has very urgent private reasons for wanting to be home. His wife has been very ill and is very upset over his absence. So he asked if he might go home and that was agreed on the understanding that he would return later. It is my understanding that he will be back, possibly not he personally but some person with the same qualifications will be back here when any vesting order is issued, to be in charge, just as he would have been. But the Ambassador is, in any case, going to telegraph to London to make absolutely certain that that is the intention.

HM, Jr.: Just what role has Kennedy played in this thing?

Mr. Pinson: I frankly don't know very much, Mr. Secretary. I have heard, perhaps at third hand, something of his views on the matter and I don't know whether I ought to repeat third-hand.

HM, Jr.: Well, I have had it fourth hand so I might as well get it third.

Mr. Pinson: If you will take it for what it is worth. It may have got distorted in coming so far.

I understood it was he who took the view that the shock to the market would be very severe and that he, therefore, advised that we should start early with a vesting order, but with only a small group of securities, perhaps only 20, and this was not at all in agreement with Mr. Whigham's views, who felt that sooner or later, whenever we did begin operating, we had to have sufficient spread to give freedom of movement and to start with only 20 securities would be unsatisfactory.

HM, Jr.: Yes. And did they -- how did their views stack up against those they got here in Washington?

Mr. Pincent: I believe it agreed entirely, Mr. Secretary, and I think they in New York, the advice Mr. Whigham had, was also that publication of the order would be a shock to the market, but nobody can really tell whether it is going to be a severe shock or not. Impossible to say. But their advice was exactly on the lines of Mr. Whigham's own conclusion that it should be done early and with a sufficient number of securities to allow freedom of movement.

HM, Jr.: Now again. Is there a difference as between the Bank of England and the British Treasury on this thing?

Mr. Pincent: Not to my knowledge.

HM, Jr.: Does he possibly represent the Bank of England and not the British Treasury?

Mr. Pincent: I don't think so. I don't think there is any question of that at all. I think there is simply an honest difference of opinion. I must admit it is a difference of opinion between Kennedy and Whigham. After all, they represent different points of view; not opposite, but rather different ones.

HM, Jr.: I want to talk quite frankly. This whole proceeding has left a very bad taste in my mouth. Mr. Whigham and Mr. Gifford come over here. We drop everything. We give them every attention, best advice we have, Treasury and the S.E.C., and discussing the matter among us we come to an agreement. I have every reason to believe that Mr. Whigham and Mr. Gifford are

-4-

sent over here with authority, not a couple of errand boys. After we come to an agreement, between these two gentlemen and the S.E.C. and ourselves, then nothing happens. The next time somebody comes, I am -- I don't think I will want to be -- I will have the time. And I have discussed this whole thing with the President and I don't mind saying that Mr. Kennedy, whatever Mr. Kennedy told them was his own personal opinion, was not the opinion of the Administration.

Mr. Pinson: I am sure they took it that way.

HM, Jr: Yes. And I don't, on matters of this importance I am always very careful "This is the way the Administration feels", I know beforehand how the President feels. And this whole thing, the way it was handled, the delay, the confusion, I mean as between London and these two gentlemen after they had consulted with us and it -- as I say, the whole thing just does not sit right and I don't mind saying that because I told the President "I am going to tell the British that it left me with a very bad taste in my mouth and I am not going too far?" and he said no. I used that very expression.

I have tried terribly hard to be cooperative and I am under great pressure. This is important for both of us, your Government and mine, all the time on this gold business. And I had gold very much in my mind, but I did not say anything about it. Now this matter, the way it was handled has weakened my hand and when my hand is weakened on this matter in the long run, on this question of supplying money, whether it's gold or securities, in the long run it's harmful to your Government.

Mr. Pinson: Could you explain that to me a little further, Mr. Secretary? Do you mean that there might be a difficulty on your side in continuing purchases of gold?

HM, Jr: I mean that where we go into a long and careful discussion with accredited representatives of the British Government and give them advice which is good for the British Government and good for us, and for reasons which are not plain to me they don't take that advice but instead of that sell us large quantities of gold, it might lead to the conclusion here that maybe the British Government isn't going to sell their securities and they are going to sell their gold.

Mr. Pinsent: Mr. Secretary, isn't there some misunderstanding there?

HM, Jr: And I have not rehearsed this, but if I don't make myself clear I don't want you to leave until you do understand what's in my mind.

Mr. Pinsent: But may I put it this way: that I don't think there is or can be at the present time any such connection between the question of selling securities and the question of selling gold. Our securities are being sold by private holders at a rate which is quite sufficient and satisfactory from our point of view and in considering the question whether we should start vesting securities, selling them ourselves, we are not at present actuated by any idea of speeding up or letting down the rate of sale of securities. Consequently, the decision to postpone vesting or equally a decision to vest, at that time did not have any effect on the question of the rate at which we have to sell gold to supply our requirements.

HM, Jr: Are you sure of that?

Mr. Pinsent: I am quite sure of that. That, I feel, is the key to the thing. I have ascertained that the usual two days' notice was given to the Federal Reserve Bank and I think that has always been the standard practice and Osborne, to whom I have written, confirmed that there is no connection and can be no connection between the decision to vest or not to vest and the sale of gold. In other circumstances there might be some connection; if we were considering vesting securities with a view of speeding up sales then it would be a different thing, but that, I think you know, is not the intention at the present time -- to speed up the sale. The object of vesting would not be that; it would be solely to have greater control ourselves so that we could prevent that possibility if sales had suddenly slowed down.

HM, Jr: Well, right or wrong, the impression has been given to me that there was a difference of opinion between the British Treasury and the Bank of England. The Bank of England wanted to sell their

-6-

securities and keep gold. The British Treasury wanted to sell gold and keep the securities, and that's what happened. Now this is what has been told me and that is the fight which is behind the scenes, a difference between the two schools.

Mr. Pinsent: I am sure that that isn't the real issue behind it.

EM, Jr: I am just giving you what has been indicated to me and if there is any such difference of opinion between the Bank of England and the British Treasury, naturally it has caused me great concern.

Mr. Pinsent: I don't think there is any such difference of opinion. I can tell you the advice we had from the first was the question of selling gold at all events over and above such gold as we had on this side of the water, is an altogether different one. We don't know at what rate we might be able to ship gold and the advice we had from London, I think at least six weeks back, was that we would prefer in some instances to be selling securities rather than gold. I assume that must have taken into account the possibility, not hindered by shipping difficulties, of sending gold from Canada or selling gold which we had here already earmarked, but that was the view taken that it was better not to go into the rather risky proposition of shipping gold from England, but instead of that sell our securities, and that I understand is still the position taken. There is only this possible basis for that idea and that is that at any given moment we could always hold back on securities and sell gold a little quicker if the market were bad and we wanted to hold off the market for a short time, but from all the communications I have seen, the idea of holding back securities and selling gold instead has arisen solely in connection with perfectly short-term questions like that. That is, not pressing on the market when it is weak.

EM, Jr: Well, that is understandable. Well, I think if you will think this conversation over, particularly in view of what you are telling me just now, which only confirms the original impression I had that you people, because of the risk involved in ship-

-7-

ping gold would sell securities. That's what I have had in mind. Certain things, as I say, have raised these grave doubts. I have not discussed this with anybody, but I think, in view of this new arrangement with the English and French, I think it would be perfectly proper for me to say to you would you ask your Government and the French to give me an estimate as many months in advance as is reasonable -- I did not say for a year, but as many months in advance as is reasonable -- approximately how many dollars they will need in the United States and what way they have in mind of acquiring these dollars. We come to the end of the year. Somebody in your Treasury must be thinking of that and the French Treasury. With the pooling of the interests there it seems to me -- don't you think the request I am making is a perfectly reasonable one?

Mr. Cochran: I think it is.

HM, Jr.: That under this new arrangement I am asking the British and French whether they would sit down and say we will have to raise so many dollars and looking forward to as many months as you can. They used the figure \$500,000,000.

Mr. Cochran: Yes; 100,000,000 Sterling.

Mr. Pinsent: I don't know about the French position, but ours, I think, has been

HM, Jr.: But now that it is a joint question, so to speak, and I am not over-emphasizing the importance of this, and what proportion will be securities and what proportion will be through the sale of gold.

Mr. Pinsent: You would definitely like that question put?

HM, Jr.: Yes, I would; definitely. On account of this confusion which has been raised on account of Mr. Whigham and Mr. Gifford going home, not taking the advice which they heartily agreed to.

Mr. Pinsent: Of course they agreed to it.

HM, Jr: I would not say advice. It was an opinion arrived at jointly between themselves and S.E.C. and ourselves. It was not advice. It was general discussion; laying all the cards on the table we arrived at this opinion. With the great risk involved in shipping gold and everything, I just wonder if back in England or Paris somebody hasn't changed his mind.

Mr. Pinsent: I have seen nothing, no evidence, confidential communications or anything we have.

HM, Jr: But you will put it to them?

Mr. Pinsent: Yes. Yes. I certainly will.

HM, Jr: I have not talked to Leroy-Beaulieu. I think I will let it clear through so, so less people talk about this, the better. I don't want to broadcast this thing because it is so easy to twist it, but you understand?

Mr. Pinsent: I think I do.

HM, Jr: You can understand, can't you, how this might cause doubt in my mind?

Mr. Pinsent: But I can assure you that all through, up to the present, the sales of securities have been proceeding on private initiative at sufficient rates to meet our requirements, at least at the rate we thought we should have to sell securities in the first year, and we have no particular reason to think that would stop, although, on the other hand, there is always the possibility that it might stop.

HM, Jr: I can understand that if we have a slump you are not going to press, but on the other hand I think I am right -- this is just a hunch -- sales from England in the last two or three weeks have not been heavy.

Mr. Cochran: According our figures, it has been less.

Mr. Pinsent: Has it?

HM, Jr: And that's another thing. We don't have any figures from you, but my impression is it has been considerably less.

Mr. Cochran: Our figures are 1,000,000 security shares a day about the time your friends came over.

Mr. Pinsent: It had been up to 1,300,000.

Mr. Cochran: That was accounted for by private blocks on the market. For the last two or three weeks it has only been 300,000.

HM, Jr: Which again makes me say, well, what's it all about? I have reason to be worried.

Mr. Pinsent: I don't think there is more that I can say with my knowledge.

HM, Jr: I don't expect you to say anything more, but I am being very frank. I think it is better to keep it just in the room here, although I expect this to go to the British Treasury. I am not trying to be over-subtle; quite the contrary.

Mr. Pinsent: It seems strange to me, but I do have the impression that Mr. Kennedy's views have carried a good deal of weight and may partly have been responsible for the return. Mr. Kennedy's views may be perfectly correct ones. I am not a judge, after all. It's a technical question.

HM, Jr: After all he's not expressing the views of the President, the S.E.C. and the Secretary of the Treasury.

Mr. Pinsent: May I pass that on to London?

HM, Jr: No, you had better not. No, I would rather you did not. No. I am sure Mr. Kennedy would not say "This is what Mr. Morgenthau thinks." No. I am asking you not to. Better not write that outside of this room. I am going to ask you not to tell Lord Lothian.

Mr. Pinsent: I am perfectly certain that they have taken Mr. Kennedy's advice as he expressed them as solely his personal ones. I am sure they have not taken them as being Administration.

HM, Jr: I sensed he has been talking, but there have been reports in the cables and no report to me of his conversation that he had with these two gentlemen before he left.

Mr. Pinsent: I do know this much: that Mr. Whigham sent his last recommendation, which was still in favor of proceeding, before he saw Mr. Kennedy.

HM, Jr: No, what I just said about Mr. Kennedy I would rather you not take out of the room. Little indiscreet on my part, but facts just the same.

Well, I appreciate your coming in. And it's this kind of conversations which make it possible for us to understand each other and straighten out any misapprehension which may be in my mind.

Mr. Pinsent: I will certainly do my best on that and will certainly put the question in London, as you ask. We and the French together now can give you an outline of what our requirements are going to be; how we anticipate that we shall raise the funds necessary, and whether there has been any change of plan as compared with the advice that was given to you before, which was that we did not at present feel like taking the risk of shipping gold, but intended to sell securities.

HM, Jr: Please.

oOo-oOo

12-15-39

FROM: MR. GASTON'S OFFICE

260

TO: The Secretary

Mr. Tolson has pending a decision that Hoover's Finnish relief organization is approved as a charitable organization gifts to which will be ~~except~~ allowed as income tax deductions. I asked him to hold it to see if you wanted to make any special announcement, but I don't think that's ~~necessary~~ necessary. It's really quite routine and the charter complies with our requirements. Similar action was taken with respect to Polish and other relief funds.

GMB

PLAIN

London

261

Dated December 15, 1939

Rec'd 1:05 p.m.

Secretary of State
Washington.

2638, December 15, 4 p.m.

Please send copy to Treasury and Commerce.

The press publishes today a British Treasury request to importers, addressed to the Association of British Chambers of Commerce urging that every effort be made to avoid financing imports into the United Kingdom from one country in the currency of another, for example, timber from Yugoslavia, peppermint oil from Russia and rosewood oil from Brazil, to be financed in dollars. The association is informed that the British Treasury desires to discourage invoicing of United Kingdom imports in United States dollars except when imports are derived directly from the United States of America and urges every effort to be made to invoice such business in sterling even where it may be the practice to trade in dollars.

Imports from countries outside the sterling area whose currencies are not included in the specified list under the Defence (Finance) Regulations should be invoiced in sterling or the currency of the exporting country.

The circular concludes: "Applications have been received by the Exchange Control for United States dollars to pay for goods from neutral countries. Since dollars are not granted
for

for such a purpose, inconvenience is caused unless traders are aware of this position when they are making their arrangements." Though this is the first public statement that it is contrary to the authorities' policy for imports from other foreign countries to be financed in any "specified" currency, banks have for some time discouraged customers from paying in dollars for imports other than those from the United States.

JOHNSON.

HSM

PLAIN

London

Dated December 15, 1939

Rec'd 2:10 p. m.

Secretary of State,
Washington.

2646, December 15.

FOR TREASURY.

1. With reference to telegram No. 2638 of December 15, 4 p. m., it may be noted that document No. 48 in the collection of forms and notices on exchange control taken to Washington by Butterworth was dated October 4.

2. This week's Bank of England return reveals that the large amount of credit immobilized in public deposits last week (as reported in No. 2562 of December 7) was only reduced by £1.3 million to £45.8 million while bankers' deposits were only increased by £1.45 million to the still low level of £87.7 million. Receipts from savings certificates and baby bonds, and the maturity of heavy special purchases of Treasury bills in September doubtless account for part of this, but in view of the high level of supply expenditure the authorities' tactics remain somewhat obscure. A further pre-Christmas expansion in the note issue

issue of £11.2 million was offset by a similar increase in Government securities in the banking department.

The market believes that some of the immobilized funds were released yesterday and today for though banks were not keen buyers of bills on the approach of the year end, loan money was easy.

The rate for today's Treasury bill tender was £1.5s.3.8ld., bids for 91 days, Monday to Thursday and Saturday at £99.13s.8d. receiving 70 percent of applications and above in full. Applications totalled £93 million. Next week's tender is to be for £65 million whereas maturities will total £55 million.

JOHNSON

KLP

DEPARTMENT OF STATE

FOR THE PRESS

December 15, 1939
No. 692

A letter has been addressed by the Department to all persons and companies registered with the Secretary of State pursuant to the provisions of Section 12 of the Neutrality Act as manufacturers or exporters of the arms, ammunition and implements of war as defined by the President in his proclamation of May 1, 1937, which fall within the general description of "aircraft, aircraft armament, aircraft engines, aircraft parts, aircraft accessories, aerial bombs or torpedoes" contained in the President's statement of December 2, 1939, relating to the bombing and machine-gunning of civilian populations from the air. The text of the letter follows:

"There is enclosed a copy of a statement in regard to the bombing and machine-gunning of civilian populations from the air which the President made in his press conference on December 2, 1939.

"In view of the policy to which the President referred, the Department hopes that it will not receive any application for a license to authorize the exportation, direct or indirect, of any aircraft, aircraft armament, aircraft engines, aircraft parts, aircraft accessories, aerial bombs or torpedoes to countries the armed forces of which are engaged in such bombing or machine-gunning.

"Should any manufacturer or exporter have already entered into contractual obligations, of which he finds it impossible to divest himself, to sell or export airplanes or aeronautical equipment, for which licenses have been issued or for which he has heretofore intended to apply for licenses, to countries referred to above, it is suggested that he may wish to inform the Department of the terms of the contract before applying for licenses to export pursuant to it or before exporting under licenses already issued.

"Your attention is invited to the fact that the President's statement refers not only to aircraft and those aircraft parts for which an export license is required but also to aeronautical equipment of all kinds and to materials essential to airplane manufacture."

In view of the fact that the President's statement mentioned above refers to "materials essential to airplane manufacture", a letter has been addressed by the Department to all producers of molybdenum and aluminum as follows:

"There is enclosed a copy of a statement in regard to the bombing and machine-gunning of civilian populations from the air which the President made in his press conference on December 2, 1939.

"I invite your particular attention to the phrase 'materials essential to airplane manufacture' in this statement. Molybdenum and aluminum are included among such materials.

"Should

"Should any manufacturer or exporter have already entered into contractual obligations, of which he finds it impossible to divest himself, to sell or export molybdenum or aluminum to countries the armed forces of which are engaged in unprovoked bombing and machine-gunning of civilian populations from the air, he may wish to inform the Department of the terms of his contract."

REB

267

GRAY

Paris

Dated December 15, 1939

Rec'd 5:45 p. m.

Secretary of State,
Washington.

2983, December 15, 7 p. m. (SECTION ONE)

In the Treasury those in financial circles with whom we have discussed Reynaud's speech are unanimous in praising it. They find it an excellent presentation of the situation facing France today and particularly salutary in emphasizing the need for sacrifice and the strength of the enemy. Dean Jay of Morgans was particularly impressed with its frank and forceful tone.

The French press today prominently carries Secretary Morgenthau's declaration at yesterday's press conference that the Franco-British financial agreement contains nothing "contrary to the interests of the United States" and that "the solidarity established between the franc and sterling in no way affects the tripartite monetary accord". This assurance has, of course, been most gratefully received here.

BULLITT

NPL

REB

268

GRAY

Paris

Dated December 15, 1939

Rec'd 8:06 p. m.

Secretary of State,
Washington.

2983, December 15, 7 p. m. (SECTION TWO)

The JOURNAL OFFICIEL of yesterday contained a decree setting up a special committee in the Ministry of Blockade to be known as the "Consultative Committee of that Ministry". It is designed to study questions of general blockade policy and particularly to collect all information regarding products and raw materials which should be kept from reaching Germany. Today's JOURNAL OFFICIEL lists the members of the committee who are: President, Professor Rist; members: M. de la Baume, Assistant Director of Political and Commercial Affairs at the Foreign Office and Director of the Services of Blockade; M. Barnaud, former assistant Director of the general movement of funds; M. Ferrasson, President of the Paris Chamber of Deputies; and M. de Vitry, engineer. The general Secretary of the Committee of Allied Programs and Purchases (Auboin) is appointed General Secretary of this Committee.

BULLITT

NK

NPL

REB

GRAY

269

Paris

Dated December 15, 1939

Rec'd 8:15 p. m.

Secretary of State,
Washington.

2983, December 15, 7 p. m. (SECTION THREE)

The 1940 civil budget was voted by the Chamber last evening by 521 votes to 0 with a theoretical excess of revenue over expenditures of 107,000,000 francs. The bill has now gone to the Senate. The Chamber will meet on Friday next to examine bill authorizing military credits for the first quarter of 1940.

Continued improvement is noted in savings accounts.

During the period November 16 to November 30 deposits in ordinary (private) savings banks totalled 206,000,000 francs and withdrawals 22,000,000. This compares with deposits of 162,000,000 and withdrawals of 39,000,000 during the first half of November.

The securities market showed a firm tendency today with moderate gains throughout the list. Rentes were down minor fractions except the exchange guaranty issues of 1925 and 1937 which gained 2.10 and 2.35 francs respectively.

(END MESSAGE)

BULLITT

NK
NPL



OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

TREASURY DEPARTMENT
WASHINGTON

11270

December 15, 1939.

IT:P:CA
CAA

REPORT FOR SECRETARY MORGENTHAU:

In regard to closing agreements which have been requested, the following applies:

De Laval Steam Turbine Company:
Camden Forge Company:
Electric Boat Company:

There have been no further developments in regard to these three cases and they may be regarded as properly subject to closing either for failure of the contractor to obtain a certification from the Navy Department or by reason of having entered into contracts without entering into a closing agreement.

The Midvale Company:

There have been no developments and no action this week.

Consolidated Aircraft Corporation:

This case continues under active consideration, conferences with the contractor having been held on Monday, the 11th instant, and again today.

No new matters developed during the week.

Other matters:

In addition to the interviews reported last week with manufacturers of munitions, an interview was held on December 11,

-2-

1939, with E. I. du Pont de Nemours Company, Incorporated, of Wilmington, Delaware, the subject being effect of a prospective transaction with a foreign power in connection with a prospective contract to manufacture military powder.

Ray H. Hering
Commissioner

ITS:CA
CAA

December 15, 1929.

REPORT FOR SECRETARY MORGENTHAU:

In regard to closing agreements which have been requested, the following applies:

De Laval Steam Turbine Company;
Camden Forge Company;
Electric Boat Company;

There have been no further developments in regard to these three cases and they may be regarded as properly subject to closing either for failure of the contractor to obtain a certification from the Navy Department or by reason of having entered into contracts without entering into a closing agreement.

The Midvale Company:

There have been no developments and no action this week.

Consolidated Aircraft Corporation:

This case continues under active consideration, conferences with the contractor having been held on Monday, the 11th instant, and again today.

No new matters developed during the week.

Other matters:

In addition to the interviews reported last week with manufacturers of munitions, an interview was held on December 11.

1938, with E. I. du Pont de Nemours Company, Incorporated, of Wilmington, Delaware, the subject being effect of a prospective transaction with a foreign power in connection with a prospective contract to manufacture military powder.

(Signed) Guy T. Helvering

Commissioner.

CAA/ma

0

TREASURY DEPARTMENT
Office of the Secretary
Technical Assistant to the Secretary

Date December 16, 1939

TO:

Secretary Morgenthau

Room _____

I telephoned Livesey at 11:30 to let Heath know that it is preferable to the Treasury that he sail on the Rex, Jan. 2.

There is no rush, and the first week in January will undoubtedly be a busy one. After Heath has a good trip on the Rex we could return him to Europe by Clipper if he really desires the experience, or if circumstances make his quick return urgent.



From: MR. COCHRAN

0

DEPARTMENT OF STATE

274

CABLE

Berlin

Dated December 15, 1939

Rec'd 4 P.M.

Secretary of State,

Washington.

2363

Department's 1057, December 9, 3 P.M.

Heath inquires whether Department authorized travel
by CLIPPER from Lisbon leaving the end of December.

Otherwise, would proceed by HXK sailing January 2,
from Genoa.

HXK

December 15, 1939

My dear Mr. Berle:

I have been considering the proposal for the creation of a bank cooperatively financed and controlled by the Governments of the American Republics, which could extend long and short term credits to the participating Governments as well as provide other banking services and be the medium for a cooperative consideration of economic and financial problems of the Western Hemisphere.

A preliminary examination of the proposal satisfies me that it has enough promise amply to warrant further exploration by your committee. Such an institution might constitute a significant step in the direction of a greater degree of cooperative responsibility and participation in the economic and financial development of the Americas. I await a more specific formulation of the plan with keen interest and assure you that this Department will continue to give it sympathetic and careful consideration.

Needless to say, the participation by this Government in such a bank would require Congressional authorization.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable Adolf A. Berle, Jr.,
Assistant Secretary of State.

*original sent to addressee
from Mr. Harry White's office*

By Messenger

12/15/39 3:50 P.M.

File to Mr. Thompson

BB: EDW:lrs
12/15/39

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

276

DATE December 15, 1939

TO Secretary Morgenthau

FROM Mr. White

Subject: Outline of Tentatively Proposed Bank for American Republics

1. Capital

The capital shall consist of \$100 million to be subscribed by the governments of the participating countries. Each government to subscribe a minimum amount with some countries subscribing voluntarily a larger amount. No country is to subscribe more than 25-35 percent of the total. The amount subscribed to be called for when and as needed.

2. Control and management

The bank to be controlled by a Board of Directors representing one director from each of the participating countries. In the making of decisions each member of the Board of Directors is to have a number of votes bearing some relation to the proportion of the total capital stock held. The relationship is not to be directly proportional, e.g., if the United States were to contribute 35 percent of the capital it might be given only 20 or 25 percent of the total votes.

The Board of Directors is to elect a managing and executive board of several members who will manage the bank but who will, of course, refer all important decisions to the Board. Each director will be appointed by his respective government.

3. Powers of the bank

The powers with respect to short term loans and various types of services were not yet discussed in any detail. (The meeting was confined to a discussion of the possibilities for providing long term financing.) The bank shall have the power to:

- (a) Make loans directly to governments and government agencies, or to non-government entities provided the government guarantees the loan and acts as the borrowing agent. In other words, the bank is to deal only directly with governments.

The bank may extend the loans directly out of its capital, or

It may raise the additional funds through the sale of its own debentures in the open market.

(b) It may give its guarantee to bonds floated through private channels.

4. Conditions of loans

The bank will make loans only when:

(a) It is convinced that the loans are for productive purposes;

(b) The loans have been approved by a technical group of experts as being economically and financially sound;

(c) The borrowing government agrees to pay in foreign currency, or, if in local currency, to grant its unity from any restrictions on the transfer of funds;

(d) The servicing of these loans shall have priority over all other external loans.

(e) The borrowing government is not in default on its national external bonds or if in default, where it has made an offer of adjustment that the bank regards as reasonable.

While there was no agreement on this last point it was agreed that the bank might have a declaration of policy which would make it clear that the bank was neither acting as an agency to force resumption of debt payments nor making it easy for them to borrow without regard to the status of their already acquired debts.

5. Objections to the proposed bank

The possible objections to the establishment of such an institution which were mentioned at the meeting were as follows:

(a) The creation of a bank would constitute a red herring which would draw attention away from the fundamental reforms and adjustments in Latin American countries.

(b) There is a danger that the publicity surrounding the inauguration of the Bank would raise exaggerated and false hopes of the economic benefits to Latin America that could be provided by the bank.

(c) The operations of the bank would be restricted by the difficulty of extending new credit to governments now in default, for the control possessed over the operations of the bank would be less than would be the case were the United States to carry out a policy of making loans to the Latin American countries.

Mr. Stewart, Mr. Riefler and Mr. Goldenweiser did not attend the meeting. Mr. Stewart in the past has expressed himself strongly against the idea. Mr. Riefler likewise, I believe, expressed considerable scepticism about the idea but had not reached a definite position. According to Mr. Gardner, Mr. Goldenweiser would not be unsympathetic to the proposal.

To those present there appeared to be no opposition to the proposal. On the whole it was felt that the bank might serve a useful purpose.

12/15/39

My dear Mr. Secretary:

There is transmitted herewith, for such action as you may deem appropriate, a proposal for a Quarterly Bulletin of the American Treasuries. A tentative outline of the Bulletin is appended.

It occurs to me that you may wish to bring the project to the attention of the Director-General of the Pan American Union as a possible device for effectuating Resolution VI of the Conference of Treasury Representatives at Guatemala City. There appears to be merit in the suggestion that such a publication would provide reliable data for the deliberations of groups concerned with Inter-American policy.

Sincerely,

/s/ H. MORGENTHAU, JR.

Secretary of the Treasury.

The Honorable

The Secretary of State,

Washington, D. C.

*original sent to address
from Dr. Harry White's office*

By Messenger

12/15/39 3:50 P.M.

Enclosure ✓

File to Mr. Thompson

SGH:rs
12/14/39

December 11, 1949

Proposal for a Quarterly Bulletin of the American Treasuries

1. It is recommended that there be initiated at once plans for the establishment of a Quarterly Bulletin of American Treasuries to contain current significant data relating to monetary and fiscal matters.

2. The publication of such a bulletin would have several important advantages:

(a) It would provide an excellent device for effectuating Resolution VI of the Conference of Treasury Representatives at Guatemala City which reads:

The Conference resolves: "To recommend that the Governments of the Americas adopt a uniform system for the preparation of economic and financial statistics. To this end, it is recommended that the American Governments forward to the Pan American Union reports on the statistical systems now in use, so that the Union may proceed to draw up uniform models adaptable as far as possible to those now in use and submit them to the consideration of the interested governments."

(b) The bulletin could easily become one of the most important economic bulletins in the Americas.

(c) It would supply a much needed source of conveniently arranged significant statistics regarding important monetary, banking and fiscal matters of all American countries. Much of the information can now be found only in scattered publications frequently with a lag of anywhere from three months to two years, or is not available at all to most countries.

(d) The nature of the data called for should stimulate interest in the prompt preparation of comprehensive and significant economic data, and provide an incentive to further technical progress in that field.

(e) It would provide a convenient basis for comparison of significant aspects of the economy of each country. Such comparison properly presented should in itself help correct abuses and promote improvements in monetary and fiscal matters.

(f) It would later provide a vehicle for the publication of high quality technical articles dealing with treasury problems in the Americas.

3. Source: The Bulletin would emanate from the Pan American Union which would be charged with its compilation and publication. The Union would probably require additional support for this project during the initial years when considerable effort to bring the statistics of the more backward countries up to a suitable level would be needed. The United States probably would be expected to furnish most of this financial support.

4. Editing: The Treasury of each American Republic would name one man to be charged with the preparation of his country's data. The form of the Bulletin, as projected, calls for a section on each country prepared in as nearly uniform fashion as the data permit, and in addition, an opening section summarizing conditions in all the Americas. Ultimately each local editor will send his material in such suitable form that the central editor's work will be reduced to assembling country-material for the printer, preparing the over-all summary, and translating into the three languages -- Spanish, English, Portuguese -- in which the Bulletin is to appear. Although Haiti may protest at the failure to publish in French as well, the limited use of French in this hemisphere hardly justifies the cost of such an edition.

Placing full responsibility for country material upon native statisticians is further advisable because of the highly developed pride in craftsmanship which has developed especially among statisticians in the treasuries, general accounting offices, and central banks in Latin America. They represent a group at once willing to learn, yet extremely touchy regarding their grasp of their local statistical problems.

5. Data: The initial outline of the Bulletin may well call for immediate improvement in the data available in some of the countries. In fact, if it were to be limited to currently published material the possibility of uniform statistics

of a suitable standard would be small. But care must be exercised lest so much is asked that the countries respond by refusing to participate. Improvement of statistics should be undertaken gradually, with constant change in the outline of the Bulletin during the early years. At the same time it would be foolish to postpone publication of such a bulletin until available data had been brought up to the level ultimately to be attained.

61 Procedure: After an outline for the Bulletin has been approved provisionally, we should conduct a thorough survey of current Treasury and Central Bank publications to see how much new material is being asked. Actually, great progress has been made in statistical presentation in Latin America and frequently it is the unwillingness of governments to present up-to-date data in full form for political reasons rather than the incapacity of statisticians that is to blame for the unsatisfactoriness of publications. This is especially true in the field of public finance.

7. A suggested detailed table of contents that the Bulletin might contain is appended as a preliminary basis for discussion.

Tentative Draft of Table of Contents

283

Section I — Summaries for Each of the 21 American Countries

A. Public Finance

Table 1. Receipts and Disbursements

- Column a. Total receipts excluding borrowing
" b. Total disbursements including extraordinary budget
" c. Deficit or surplus

(Arrangement: Quarterly comparisons 1940-39-38, annual 1939-38-37, 21 countries)

Table 2. Ordinary Budget

- Column a. Actual revenues
" b. Actual expenditures
" c. Deficit or surplus

(Arrangement: Quarterly comparisons 1940-39-38, annual 1939-38-37, 21 countries)

Table 3. Financing Operations of the Treasuries During the Last Quarter

- Column a. Date of issue
" b. Description
" c. Amount offered
" d. Amount subscribed
" e. Amount allotted
" f. Term: Call or maturity date
" g. Rate

Table 4. Public Debt Outstanding

- Column a. National Government
1. External bonds
2. Internal bonds
3. Treasury bills
4. Treasury notes
5. Floating debt
6. Issues guaranteed by Government
Column b. Local governments
1. External funded
2. Internal funded
3. Floating

(Arrangement: Comparison of amount outstanding end of current quarter and same period a year ago, 21 countries)

B. Gold, Silver, and Foreign Exchange

Table 1. Gold and Silver

Column a.	Gold holdings
"	b. Foreign exchange assets
"	c. Short-term foreign assets
"	d. Gold production
"	e. Gold exports and imports
"	f. Silver stocks
"	g. Silver production
"	h. Silver exports and imports

(Arrangements: Quarterly comparisons 1948-59,
21 countries)

Table 2. Monthly Averages of Selling Rates for Dollars

Column a.	Free market
"	b. Official market
"	c. Other types

(Arrangements: Monthly for Current Year and
previous year, 21 countries)

Table 3. Exchange Control Authority's Purchases and Sales in
Official Market and Position at End of Period

Column a.	Purchases
"	b. Sales
"	c. Position in gold and foreign exchange

(Arrangements: Quarterly comparisons, 1948 and 1959)

C. Money and Banking

Table 1. Interest Rates, Discounts, Yields

Column a.	4-6 months' commercial paper - in capital, in rural areas
"	b. Bankers' acceptances
"	c. Treasury obligations 3-6 months
"	d. Treasury bonds
"	e. Selected group of corporate bonds
"	f. Central bank discount rates
"	g. Central bank buying rate on acceptances
"	h. Maximum interest rates fixed by law

(Arrangements: End of current quarter, comparisons
with two previous quarters, 21 countries)

Table 2. Volume of Credit Outstanding

285

Column a.	Commercial bank loans to public
"	b. Central bank advances to government
"	c. Central bank loans to public
"	d. Bankers' acceptances
"	e. Treasury bills and notes
"	f. Government bonds
"	g. Paper handled by commercial paper houses
"	h. Media of payments:
	1. Notes held by public
	2. Deposits on current account

(Arrangements: Quarterly comparisons 1940-1939,
21 countries)

Table 3. Condition of All Banks

Column a.	Number of banks
"	b. Loans
	1. Total
	2. Commercial and industrial
	3. Agricultural
	4. Real estate
	5. Other banks
"	c. Investments
	1. Total
	2. Government obligations
"	d. Cash
"	e. Demand deposits
	1. Public
	2. Government
	3. Other banks
"	f. Time deposits

(Arrangements: Quarterly comparisons, 1940 and 1939,
21 countries)

Table 4. Condition of Central Bank

Column a.	Gold and foreign exchange
	1. Amount
	2. Ratio to notes in circulation
	3. Ratio to sight liabilities
"	b. Loans, advances, rediscounts
	1. Total
	2. To public
	3. To government
	4. To governmental entities
	5. To other banks

Table 4. Condition of Central Bank (Continued)

- Column c. Deposits
 1. Government
 2. Banks
 3. Others
 " d. Notes in circulation

(Arrangement: Quarterly comparisons, 1940 and
 1939, 21 countries)

D. Foreign Trade and Commodities

Table 1. Foreign Trade

- Column a. Exports
 " b. Imports
 " c. Proportion of trade within this hemisphere

(Arrangement: Quarterly comparisons 1940-39-38,
 annual 1939-38-37, 21 countries)

Table 2. Statistical position of Leading Inter-American
Commodities

- Column a. Carryovers
 " b. Current crop reports
 " c. Domestic utilization
 " d. Exports
 " e. Imports within the Americas
 " f. Prices

(Arrangement: Commodities: Cotton, coffee, corn,
 cacao, copper, wheat, wool, oil,
 nitrates, tin, sugar, linseed)

Section II

A. Public Finance

287

Table 1. Receipts and Disbursements

- Column a. Total revenue excluding borrowing
- " b. Total expenditures including extraordinary budget
- " c. Deficit or surplus
- " d. Ordinary budget revenues
 - 1. Budgeted
 - 2. Actual
- " e. Ordinary budget expenditures
 - 1. Budgeted
 - 2. Actual
- " f. Deficit or surplus on ordinary budget

(Arrangement: Each quarter of 1940, 1939, 1938, and annual comparisons of 1939-38-37-36-35)

Table 2. The Budgets

- Column a. Ordinary budget - revenues
 - 1. Taxes: Import duties
 - Export taxes
 - Income tax
 - Stamp taxes
 - Excess profits tax
 - Inheritance taxes
 - Tax on alcohol
 - Tax on tobacco
 - Tax on etc commodities
 - Total taxes
 - 2. Government services
 - 3. Government properties
 - 4. Other
 - Total
- " b. Ordinary Budget: Expenditures
 - 1. National defense
 - 2. Debt service
 - 3. Administrative services
 - 4. Developmental
 - Total
- " c. Extraordinary budget - expenditures
- " d. Special budgets
- " e. Budgets of autonomous entities

(Arrangement: 1940, 1939, 1938. Also, actual collections and expenditures for 1939 and 1938, showing amount and percent of total)

Table 3. Current Revenues from Chief Sources

Column a.	Import duties
"	b. Export taxes
"	c. Income tax
"	d. Stamp taxes
"	e. Consumption tax on alcohol and tobacco

(Arrangements: By quarters 1940, 1939, 1938,
annual 1937-36, 35-39)

Table 4. Financing of Autonomous Entities

Column a.	State railways expenditures and revenues
"	b. State telephone and telegraph expenditures and revenues
"	c. State Salt Mines expenditures and revenues Etc.

Table 5. Financing of Local Governments

Column a.	Revenues
"	b. Expenditures
"	c. Deficit or surplus
"	d. Chief sources of revenue in 1940 budget
	1.
	2.
	3.
	4.
"	e. Chief expenditures in 1940 budget
	1.
	2.
	3.
	4.

(Arrangements: Each department, and each
municipality. Annual for 1939,
1938, 1937.

B. Public Debt

Table 1. Composition of National Government Debt

Column a.	External Bonds - description	volume issued	volume outstanding	maturity	rate	being service
"	b. Internal bonds - same descriptive facts					
"	c. Treasury notes					
"	d. Treasury bills					
"	e. Non-interest bearing debt					
"	f. Issues guaranteed by government for autonomous entities					
"	g. Proportion of debt held by Central Bank					

(Arrangements: Latest date)

Table 2. Composition of Debt of Local Governments

Column a.	External funded debt - same descriptive factors as above			
"	b. Internal funded debt - " " "			
"	c. Floating debt			

(Arrangements: Latest date)

Table 3. Cost of Public Debt

Column a.	Computed annual interest charge on interest-bearing debt of national government
"	b. Computed annual rate of interest on interest-bearing debt
"	c. Yield on national government long-term issues (external) (internal)
"	d. Yield on local government issues (external) (internal)
"	e. Yield on selected list of corporate bonds
"	f. Computed annual interest charge on interest-bearing debt of local governments
"	g. Computed annual rate of interest on interest-bearing debt of local governments

(Arrangements: Latest date)

Table 4. Recent Financing Operations of the Treasury

Column	a.	Date of issue
"	b.	Description
"	c.	Amount offered
"	d.	Amount subscribed
"	e.	Amount allotted
"	f.	Term: call or maturity date
"	g.	Rate

(Arrangement: To cover past 18 months as compared with the 3 month coverage in the all-country tables)

Table 5. Recent Financing Operations of Local Governments

Column	a.	The government
"	b.	Date of issue
"	c.	Description
"	d.	Amount offered
"	e.	Amount subscribed
"	f.	Amount allotted
"	g.	Term: call or maturity date
"	h.	Rate

(Arrangement: To cover 18 months)

C. Gold, Silver and Foreign Exchange

Table 1. Gold and Silver

Column	a.	Gold holdings - end of quarter
"	b.	Foreign exchange resources - end of period
"	c.	Short-term foreign assets - end of period
"	d.	Gold production
"	e.	Gold exports and imports
"	f.	Silver stocks - end of period
"	g.	Silver production
"	h.	Silver exports and imports

(Arrangement: By quarters 1940-39-38, annual 1939, 37, 38, 36)

Table 2. Exchange Market Operations

291

Column a.	Official market: Exchange Control Authority's activity:
1.	Purchases
2.	Sales
3.	Position at end of period
" b.	Free market
1.	Commercial bank operations
(a)	Purchases
(b)	Sales
2.	Central Bank
(a)	Purchases
(b)	Sales

(Arrangement: By quarters 1940-39, annual 1939-38-37)

Table 3. Allocation of Foreign Exchange Sold by Exchange Control Authority

Column a.	Merchandise imports
" b.	Financial services
" c.	Private remittances
" d.	Government remittances
" e.	Miscellaneous
" f.	Total

(Arrangement: Quarterly for 1940-39, annual 1938-37-36-35-34)

Table 4. Monthly Average of Selling Rates for Dollars

Column a.	Free Market
" b.	Official market
" c.	Other types

(Arrangement: Monthly 1940-39-38, annual averages 1939-38-37-36)

Table 5. Balance of Payments

Column a.	Trade and services:
1.	Merchandise
2.	Merchandise adjustments
3.	Freight and shipping
4.	Travel expenditures
5.	Personal expenditures
6.	Interest and dividends
7.	Government transactions
8.	Miscellaneous
9.	Total

Table 5. Balance of Payments - (Continued)

Column b.	Gold and silver
1.	Gold
2.	Silver
3.	Total
"	c. Capital
1.	New foreign investments
	(a) Private
	(b) Public
2.	Cancellation of public debt
3.	Inflow of short-term investments
4.	Cancellation of commercial debt arrears
5.	Withdrawal of capital
"	d. Residual item
	(Arrangements: 1939, 1938, 1937)

D. Money and Banking

Table 1. Interest Rates, Discounts, Yields

Column a.	4-6 Month commercial paper
1.	In capital
2.	In chief rural areas
"	b. Bankers' acceptances
"	c. Treasury obligations, 3-6 months
"	d. Treasury bonds
"	e. Selected group of corporate bonds
"	f. Central Bank discount rates
"	g. Central Bank buying rate on acceptances
"	h. Maximum interest rates fixed by law
	(Arrangements: Quarterly for 1940-39, annual 1939-38-37)

Table 2. Condition of all Banks

Column a.	Number of banks
"	b. Loans and advances
1.	Commercial and industrial paper
2.	Agricultural paper
3.	Open-market paper
4.	For paying on or carrying securities
5.	Real estate loans
6.	Loans to banks
7.	Others
8.	Total

Table 2. Condition of all Banks (Continued)

293

Column c.	Investments
	1. Government bonds
	2. Treasury bills and notes
	3. Guaranteed obligations of government entities
	4. Others
	5. Total
"	d. Cash at home
	Balances abroad
	Ratio of cash to deposits
"	e. Demand deposits - other banks
	public
	government
"	f. Time deposits

(Arrangement: Quarterly for 1940-39, annual
1939-38-37)

Table 3. Condition of Central Bank

Column a.	Gold at home
"	b. Gold and foreign exchange abroad
"	c. Note circulation
"	d. Ratio of gold and foreign exchange to notes
"	e. Ratio of gold and foreign exchange to sight liabilities
"	f. Holdings of government bonds
	treasury bills
	treasury notes
	non-interest bearing debt
"	g. Deposits of government
	other banks
	public
"	h. Loans, advances, discounts:
	government
	governmental entities
	public
	other banks

(Arrangement: Quarterly for 1940-39, annual
for 1939-38-37)

Table 4. New Loans by Commercial Banks for

Column a.	Commerce
"	b. Agriculture
"	c. Pastoral
"	d. Construction
"	e. Manufacturing
"	f. Mining
"	g. Government
"	h. Government entities
(Arrangement: Quarterly for 1940 and 1939, annual 1939-38-37)	

Table 5. Distribution of Currency

294

- Column a. Issue
1. Central Bank notes
 2. Subsidiary
 3. Total
- " b. Distribution
1. In hands of public
 2. In banks

(Arrangements: Quarterly for 1940-39, annual
1938-37-36-35, 39)

Table 6. Special Credit Agencies Created by the Government

- Column a. Banco Industrial: Purpose
- Volume of loans outstanding
- short-term
- 1-5 years
- Over 5 years
- Interest rates fixed by law
- " b. Agricultural agencies
- " c. Mortgage banks

(Arrangements: Varies with the different countries'
use of special agencies)

E. Business Activity

Table 1. Indices of Business Activity

- Column a. Transportation
1. RR tonnage carried
 2. RR passengers carried
 3. RR gross receipts
 4. Tonnage of exterior navigation
- " b. Bankruptcies - liabilities
- " c. Index of industrial production
- " d. Electricity generated
- " e. Employment index
- " f. Foreign exchange control:
1. Exchange purchased
 2. Exchange sold
- " g. Government receipts
- " h. Government expenditures
- " i. Notes in circulation
- " j. Advances by Central Bank

Column k.	Loans and advances by commercial banks
" l.	Deposits in commercial banks
" m.	Checks cleared
" n.	Exports
" o.	Imports
" p.	Balance of trade
" q.	Volume and value of leading commodities exported
" r.	Production of gold
" s.	Export of gold
" t.	Stock exchanges:
	1. New capital issues
	2. Volume of transactions
	3. Quotations on internal government issues
	4. Quotations on mortgage bank securities
	5. Yields on governments
	6. Quotations abroad on external debt
" u.	Construction index
	Real estate sales
	Mortgages constituted
	Mortgages cancelled
" v.	Index of wages
"	Index of cost of living
"	Index of wholesale prices
" w.	Prices of chief export commodities in world markets
" x.	Immigration
	Population
	Births
	Deaths
	Marriages

(Arrangement: Quarterly for 1940-39, annual
1939-38-37)

F. Foreign Trade and Commodities

Table 1. Foreign trade

Column a.	Exports
" b.	Imports
" c.	Balance of trade
" d.	Exports by chief commodities
" e.	Exports by countries of destination
" f.	Imports by countries of source

(Arrangement: Quarterly for 1940-39, annual for
1939-38-37)

Table 2. Statistical Position of Leading Export Commodities

Column a.	Carryover
"	b. Current crop reports
"	c. Domestic utilization
"	d. Exports
"	e. Imports within the Americas
"	f. Prices

(Arrangement: Commodities to vary with the
country)

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

297

DATE December 11, 1939

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The feature of the foreign exchange market was the rise in the rate for sterling. In New York, the opening quotation was 3.91-1/8. At about mid-morning, the rate started to move upward and the higher rate was attributed, in part, to the rumors of German peace proposals. It was reported that a French bank was a purchaser of spot sterling which it needed to provide cover for maturing forward contracts. At noon the rate was quoted at 3.92-5/8. Early in the afternoon it receded slightly, but later in the day the rate again became strong and reached the high of 3.93-1/4, at which it closed.

Sales of spot sterling by the four reporting banks totaled £644,000, from the following sources:

By commercial concerns.....	£ 123,000
By foreign banks (Far East, Europe and South America).....	£ 521,000
Total.....	£ 644,000

Purchases of spot sterling amounted to £551,000, as indicated below:

By commercial concerns.....	£ 219,000
By foreign banks (Far East and Europe).....	£ 332,000
Total.....	£ 551,000

Cotton bills totaling £10,000, were sold to the British Control at the official rate of 4.02 by the following reporting banks:

£ 5,000 by the Guaranty Trust Company
£ 5,000 by the Chase National Bank
£10,000 Total

The Federal Reserve Bank of New York purchased 50,000 Swiss francs for the Bank of Latvia.

The other important currencies closed as follows:

French francs	.0222-3/4
Guilders	.5309
Swiss francs	.2243
Belgas	.1649
Canadian dollars	12-5/8% discount

The rate for the Mexican peso declined to .1800. It was reported that Mexico had withdrawn its support from the peso. The discount for the Cuban peso widened to 11-7/8% discount.

We purchased the following amounts of gold from the earmarked accounts of the banks indicated:

\$2,350,000 from the Bank of Sweden
 1,000,000 from the Netherlands Bank
 220,000 from the National Bank of Belgium
\$3,570,000 Total

The Federal Reserve Bank of New York informed us that it received a cable from the Central Bank of Turkey stating that, in view of the present circumstances, that bank wished to centralize with the Federal its various balances abroad. The Turkish bank also stated that the B.I.S. would place at its disposal at the Federal, approximately 1,000 fine kilos (about 32,000 fine ounces) of gold.

The Federal Reserve Bank of New York also informed us that it had been requested by the B.I.S. to hold at the disposal of the Central Bank of Turkey, 32,157.033 fine ounces of gold to be taken from the B.I.S.'s Account #4. The gold held in Account #4 is owned by the Central Bank of Turkey and it was pledged to the B.I.S. to secure commercial credits granted by that bank to the Turkish bank. Permission was given by the Treasury to the Federal Reserve Bank to transfer the above-mentioned gold from the account of the B.I.S. to the account of the Central Bank of Turkey.

The Turkish bank instructed the Federal Reserve Bank to liquidate, on December 13, loans against gold amounting to \$1,284,000 due December 13, and \$2,025,000 due December 15. It further requested the Federal to provide credits against 137,207.707 fine ounces of gold, approximately \$4,802,000, which gold represents the gold pledged against the two loans being liquidated, plus the amount of about 32,000 ounces transferred from the B.I.S.

On December 15 a new loan will be made by the Federal to the Turkish bank amounting to \$4,325,000, secured by gold having a value of \$4,802,269.73. Part of the proceeds of this new loan will be used on December 13 to provide funds to retire the loans due on December 13 and December 15. At the close of business on December 13, loans to the Turkish bank will amount to \$5,845,000, secured by gold valued at \$6,499,845.57. In its cable the Central Bank of Turkey stated that the funds made available to it will be used to meet its seasonal needs in foreign exchange and also to pay off its outstanding liabilities to the Federal.

The Federal Reserve Bank reported the following shipments of gold:

\$10,786,000 from Japan, representing two shipments by the Yokohama Specie Bank, Kobe, to the Yokohama Specie Bank, San Francisco, for sale to the U. S. Mint at San Francisco.
 5,131,000 from the Netherlands, representing two shipments by the Netherlands Bank, consigned to the Federal Reserve Bank of New York, to be earmarked for the account of the Netherlands Bank.
 3,448,000 from Canada, shipped by the Bank of Canada to the Federal Reserve Bank of New York, to be sold to the U. S. Assay Office at New York.
\$19,365,000 Total

CONFIDENTIAL

The State Department forwarded to us cables received from the American Embassy at London and the American Consulate at Osaka, stating that invoices were certified for the following shipments of gold:

\$4,806,000	from Japan, shipped by the Yokohama Specie Bank, Osaka, to the Yokohama Specie Bank, San Francisco.
486,000	from England, shipped by Samuel Montagu and Co., London, to the Guaranty Trust Company of New York.
102,000	from England, shipped by Mocatta & Goldsmid, London to the Banque Belge pour l'Etranger, New York.
18,000	from England, shipped by the Westminster Bank, London to the Irving Trust Co., New York.
<u>\$5,412,000</u>	Total

The Japanese shipment will be sold to the U. S. Mint at San Francisco and all of the shipments from England will be sold to the U. S. Assay Office at New York.

The prices for both spot and forward silver in London regained the losses of last Friday. The spot price was fixed at 23-5/16d and the forward price at 23-1/2d, up 3/16d for both deliveries. The U. S. equivalents were 41.02¢ and 40.87¢, respectively.

In New York, we made five purchases of silver totaling 644,000 ounces, under the Silver Purchase Act. Of this amount, 200,000 ounces was inventory silver for delivery tomorrow, and the balance of 444,000 ounces was new production silver from foreign countries which was purchased by us for forward delivery.



CONFIDENTIAL

GROUP MEETING

December 15, 1939.
9:30 a.m.

Present: Mr. Gaston
Mr. Bell
Mr. Harris
Mr. Graves
Mr. Haas
Mr. Cotton
Mr. Cochran
Mr. Duffield
Mr. Viner
Mr. White
Mr. Foley
Mr. Thompson
Mrs. Klots

H.M.Jr: What is the story of how the Wall Street Journal got the molybdenum story?

Duffield: They got called from New York about it in the first place.

H.M.Jr: Who did?

Duffield: The Wall Street Journal, evidently from the Climax company. They checked it at the State Department and I am not sure whether they got semi-confirmation from Mr. Green or from someone else in his section. Then they went to Mr. McDermott and Mr. McDermott's office told me that the fellow had the story pretty straight when he came in there and they confirmed it, saying that there was something in the works and that in a day or so there would be a statement interpreting the President's moral embargo statement in which there is the term "Materials used in the construction of airplanes" and would go on to explain that molybdenum was one of such materials.

H.M.Jr: Do I understand the story originated in New York?

Duffield: That is where the tip came from. It was confirmed down here. Mr. McDermott's office, the press relations office of the State Department, did confirm the story.

H.M.Jr: But the lead came from New York?

Duffield: Evidently.

H.M.Jr: Lucky I spent most of the day on molybdenum.

Duffield: This Climax company, of course, has a New York office.

H.M.Jr: That is funny, isn't it? Are they going to get out a press release?

Duffield: Yes.

H.M.Jr: It would be nice if I hadn't made all that time yesterday. Mr. Early yesterday confirmed it?

Duffield: Mr. McDermott.

H.M.Jr: But you said Early.

Cochran: Early sent a note yesterday evening. It got up there too late to get out the press release last night.

H.M.Jr: I am glad, because when the molybdenum people come in today if they say anything to me I am going to tell them that the lead was from New York.

Duffield: The Wall Street Journal asked me about it yesterday and I, of course, didn't know anything about it.

H.M.Jr: Didn't you?

Duffield: No, I really didn't.

H.M.Jr: O. K. I feel very happy that I did my homework yesterday.

Gaston: Mr. Farley recommended Mr. McAdoo's candidate for Collector of Customs in San Francisco and we have asked that a personal investigation be made of him.

He would also like to see Mr. Harry Foley promoted from Surveyor to Appraiser of the Port of New York. He has a candidate to succeed him as Surveyor.

H.M.Jr: Only two men. You (Harris) are going to give me a memorandum, aren't you?

- 3 -

Harris: Yes.

Gaston: He wouldn't so much object to letting the Surveyor's job go blank but he would like to see Harry Foley rewarded by being made Appraiser.

H.M.Jr: Foley has done a very good job, hasn't he?

Harris: Yes, he is a very good man.

Gaston: I have a memorandum of all of it.

H.M.Jr: I am waiting on you, am I not?

Harris: Yes, and I will probably have that this morning, I think.

H.M.Jr: Why don't you take this....

Gaston: I have given Mr. Harris a copy of that.

H.M.Jr: And maybe Monday or so you can fix me up.

Harris: Yes, I will.

H.M.Jr: Anything else, Herbert?

Gaston: Nothing else.

H.M.Jr: I will refer you all to Pearson and Allen's mail-bag today where it says it wasn't Mr. Basil Harris who cost the Government two million dollars, it was Mr. Wallace.

Harris: Is that what he says? Gee!

Bell: Is that all?

H.M.Jr: That is all.

Bell: Did it cost us?

H.M.Jr: Mr. Welles asked me last night the outcome of our conversation with Traphagen and I said you (Cotton) were drawing up a memorandum and the minute you had it, he would get it just as quickly as I did. So give me a copy of the memorandum and I would like to have it before

- 4 -

noon with a letter to Mr. Welles. We can send him a copy. Is that it there?

Cotton: Yes.

E.H.Jr: If you could write a letter from me to these people, we would forward it to Mr. Welles and Mr. Jones. Is it ready?

Cotton: I think so.

E.H.Jr: Fix one up that can go across to Welles and Jones and simply say, "My dear Mr. Welles: I am forwarding herewith a summary of what Mr. Traphagen had to say." I haven't had time to study it. Say, "I am studying over the week-end and would like to see you and Jones Monday at 3:00 o'clock to discuss it."

(To Mrs. Klotz) See if you can get Jones and Welles for 3:00 o'clock Monday on Colombia.

Mr. Welles seemed very much pleased to hear that the mortgage banks were only three hundred thousand dollars apart and he said the minute we are through with this, "I want you to please take up Brazil," so you fellows are on notice.

White: Brazil has made a new offer.

E.H.Jr: Get this thing circulated.

White: Then you think it will want a meeting before 3:00 o'clock because - to come to a decision in your mind as to....

E.H.Jr: Yes, I will need a meeting.

Cotton: This is being circulated to everybody.

White: I thought you would want a meeting before 3:00.

E.H.Jr: That is right.

Anything else, Joe?

Cotton: No.

H.M.Jr: Dr. Viner?

Viner: Nothing.

H.M.Jr: Got enough to do?

Viner: Yes.

H.M.Jr: Are we waiting on you or am I waiting on Foley on this question of depreciation?

Viner: You are waiting on me. Foley is waiting on me.

H.M.Jr: No rush.

Viner: I hope to get through with it tomorrow morning.

H.M.Jr: Now, Dan, when do you think you are going to have that thing for me for the President?

Bell: Well, I will have a draft by 11:00 or 11:30 I hope.

H.M.Jr: I can't do it today.

Bell: And I thought I would turn a copy over to Mr. Viner. It is a question about getting Riefler.

Viner: I wish, Mr. Secretary, you would get Mr. Stewart and Mr. Riefler down, if you can.

H.M.Jr: Do you want to talk to each other?

Viner: Yes. It comes with more authority.

H.M.Jr: You can sit in my chair and phone them.

Bell: Do you think they ought to come down tomorrow?

H.M.Jr: I am going to leave it to you and Viner. I would like to have a document that Bell and Viner, the three "G's", Mr. White, Mr. Gaston, at least have all seen and made their contributions on and I would like to sit down with you at 10:15 Monday morning. This is on a letter to the President on the public debt. Bell has got the responsibility. We won't make any other appointment for the morning. I consider this very important. Let

White see it and let the three "E's" see it. George is in on this, aren't you?

Bell: Yes.

H.M.Jr: We have got that other meeting Monday morning, haven't we? Look, gentlemen, why don't we cut out the 9:30 meeting? Let's say we will do this other thing at 9:00, 9:00 o'clock Monday.

Bell: It is all right with me.

H.M.Jr: We will have an hour on that. Then we could meet again later in the day if necessary. Is that right?

Viner: Yes.

H.M.Jr: Don't you think an hour will be right, for preliminary study?

Viner: Yes. Well, I haven't given any thought to it.

Bell: I will have a draft.

H.M.Jr: Wallace can never do that thing in an hour. I want one of the three "E's" here when Wallace is here to explain his plan.

George, you are coming in this afternoon, aren't you?

Haas: At 3:00 o'clock. The Budget Bureau is calling to know if you can get it out of here.

H.M.Jr: Swell. Anything else, George?

Haas: I just have another report.

H.M.Jr: Are you coming this afternoon at 3:00, Jake?

Viner: I can.

H.M.Jr: What are you doing at 3:00, Harry?

White: I don't know; nothing that I know of.

H.M.Jr: Be here at 3:00. Revenue estimates.

Mr. Harris?

Harris: Nothing.

H.M.Jr: Foley?

Foley: Lauchlin Currie called up Kades yesterday afternoon and he asked for figures as to the - for the borrowing power of the RFC and Kades told him to call you.

H.M.Jr: I went all through that with Lauchlin.

Foley: Kades told him he would have to ask you.

H.M.Jr: He called you (Klotz) the other day, didn't he? He knows how to do it. He told him?

Foley: Yes.

H.M.Jr: He wanted something else like that and I said, "No, give it to Bell."

Bell: I took care of it.

H.M.Jr: That is right, we have got to organize this.

Foley: At the monopoly hearing yesterday, Charlie Mitchell said that this 1933 - he was opposed in 1933 to the legislation which separated the investment banking affiliates from the banks themselves, but he thought now in the light of past experience it was a very good act. I think that some of the Morgan partners listening were a little astonished by his frankness. It was quite an admission.

H.M.Jr: Anything else?

Foley: Did you want to see Gessell in action?

H.M.Jr: I was in action myself yesterday.

Foley: He will be on this morning.

H.M.Jr: I can't do it this morning but I might do it this afternoon.

Foley: I will see if he is going on this afternoon.

H.W.Jr: Everything had to be dropped yesterday for molybdenum. Anything else?

Foley: There are two letters here, one to Governor Harrison, enclosing a copy of the opinion of the Attorney General on foreign branches doing business under the Neutrality Act, which I think we ought to send to him, and the Attorney General wants to know if we have any objection to the publication of the opinion. I will call Berle first and tell Berle we are sending him this.

H.W.Jr: You are behind, I have told him that.

Foley: All right.

Bell: Shouldn't it be published before it goes to New York?

Foley: I will clear it with them, too, Dan, if that is what you mean.

H.W.Jr: Now that the Bank of England has authorized the Fed to let me have that information, do I get it?

Cochran: Yes, sir, they are working on a report now.

H.W.Jr: Did you hear about that story, Jake? Tell Dr. Viner that story. Not now, I mean later.

Do you know that story, White?

White: No.

H.W.Jr: Tell it to him, Cochran.

Anything else?

Foley: No, sir.

H.W.Jr: Harry?

White: We have a tentative outline of proposals for the Bank that I take it you are going to....

H.M.Jr: 10:00 o'clock. You are down for 10:00.
White: O. K.
H.M.Jr: How did you like the Belgian?
White: He is a very shrewd, able fellow.
H.M.Jr: I hear you had an hour and a half with him.
White: It was last night.
H.M.Jr: Yes.
White: I don't know how you found out so quickly, but it was something like that.
H.M.Jr: We watch the important people in the Treasury.
White: I feel flattered. I will have to be more careful.
H.M.Jr: It isn't necessary. The Belgian Ambassador was at this reception last night and he felt very complimented about it. He is a smart fellow. Incidentally, he is going to stay here and I think through a fellow like that we can learn a lot. We can get information if we need any.
White: He is going to be their purchasing agent, I take it.
Cochran: Yes.
H.M.Jr: Harold, any word from the other Harold?
Graves: We haven't heard yet. We expect word today.
H.M.Jr: Dan, I hope I didn't go out on the end of the limb when I said the refunding would be as good as usual. Am I out on the end of the limb?
Bell: A little bit.
H.M.Jr: How much percent?
Bell: About 92½. We have got 996 million dollars in bonds and 279 million in notes, a total of about a billion 275, leaving 103 million outstanding.

That may go to a billion three by late mail.

H.M.Jr: Shut out a few, did we?

Bell: Yes. It will be somewhere between 75 and a 100 million outstanding. I don't mind that if you don't, because that is just charging a little for sinking fund, which is a good thing once in a while.

H.M.Jr: What percentage does that make of bonds and what percentage of notes, roughly?

Bell: It is about four to one.

H.M.Jr: Can you give this out? When will you give it out?

Bell: We will give it out ordinarily Monday when we have the final figures in, but if you wanted to give out something today we could do it.

H.M.Jr: Give something to Gene tonight for tomorrow morning's paper.

Bell: All right.

H.M.Jr: I said 60-40, I think.

Bell: Well, that is what it is.

H.M.Jr: What else, Dan?

Bell: That is all I had.

H.M.Jr: Norman?

Thompson: I have a letter to be sent to the Secretary of Commerce about John E. O'Neill. He is an auditor in the Federal Alcohol Administration.

H.M.Jr: Are you going to put him in?

Thompson: Yes.

H.M.Jr: Is that what they want?

Thompson: Yes, that is what they want.

H.M.Jr: Well, let the General Counsel know somehow or other.

O.K.

December 15, 1939.
12:24 p.m.

H.M.Jr: Hello.

Operator: The Attorney General.

H.M.Jr: Hello.

O: Go ahead.

H.M.Jr: Hello. Hello.

Frank
Murphy: Hello Henry.

H.M.Jr: Frank.

M: Yes, Henry.

H.M.Jr: How are you?

M: I'm fine, thank you, Henry.

H.M.Jr: Frank, I had expected to see you in Cabinet and not having that opportunity I'm calling you up about that letter that Foley wrote on December 4.

M: Yes.

H.M.Jr: On the so-called movie cases.

M: Yes.

H.M.Jr: And I wondered if you had a time to look at it yourself.

M: Yes I have, and I was going to call you about it yesterday.

H.M.Jr: I see.

M: The case is one of a great deal of worry to me.

H.M.Jr: Yes.

M: Perhaps we ought to sit down and go over it carefully. There's a phase of it that could be submitted to New York.

H.M.Jr: Yes.

W: But I would hate to - would be opposed to ^{the} transfer of all of the inquiry in a spectacular way to another district. It isn't awfully good administration Henry and it would appear that I didn't have any confidence in our own men.

H.M.Jr: I see.

W: And it would appear in addition that out there the forces of influence were stronger than the Government, and that's the sort of thing that's quite a challenge to me.

H.M.Jr: Yes, well it is to me.

W: Down in Kansas and Louisiana.

H.M.Jr: Yes.

W: The same thing was put up to us that we could never break through the influence there and I know how to break through that influence. I want you to know how anxious I am to track this thing down. I've even thought of going out there myself.

H.M.Jr: Really.

W: And going into the grand jury. I had Clark in two hours about it yesterday.

H.M.Jr: I see.

W: He's such a thoroughly good lawyer and careful man and going through the whole thing with him and I'll spend some more time on it, but it's an awful headache to me. It's the only disappointment we've had, where we haven't been able to come through.

H.M.Jr: Well, when do you think you'll make up your mind?

W: Well let me have two or three more days with it, Henry.

H.M.Jr: Will you?

W: Yes. Let me - before anything is done I'll talk with you. I'm awfully anxious about it and want to do a good job for you.

H.M.Jr: We think there's a - definitely a case there and

that they owe us the money.

M: In which one? The -

H.M.Jr: Well in the case of all three of those men.

M: Yes.

H.M.Jr: And - I mean the case of Schenk and whatever the name of that producer.

M: Well let me, I may just get on a plane and go out there.

H.M.Jr: Well -

M: Take somebody with me and go into a grand jury room and see what I can do. There's a report that's coming in today, that's what I was waiting for.

H.M.Jr: Fine.

M: That Harrison and Crowder have sat in.

H.M.Jr: Well I'm not familiar with either of those men, but I thought that the letter that Foley sent seemed to me as a - not lawyer, it seemed to me as though these fellows definitely had a tax liability.

M: Well let us have two or three more days with it Henry.

H.M.Jr: All right, then you'll call me.

M: Yes, I'll call you, I'll get in touch with you.

H.M.Jr: Thank you.

M: All right. Goodbye.

December 15, 1939.
2:07 p.m.

Edward S. Greenbaum: One name which I've casually mentioned I think at lunch one day with young Oscar Underwood.

H.M.Jr: Yes.

G: Now I find that he's done work of this kind quite a bit.

H.M.Jr: Yes.

G: He represented the Government in the mix claims stuff down with Mexico.

H.M.Jr: Oh!

G: And from what I've been able to find out he did a very good job there, took about two years.

H.M.Jr: I see.

G: In addition to that he has apparently sat as examiner on this, that and the other on various things.

H.M.Jr: Yes.

G: For the Government.

H.M.Jr: I see.

G: Apparently Treasury has never used him on that, you see, I guess may be on account of being a good Democrat, Underwood of Alabama, they used him.

H.M.Jr: Huh-huh.

G: The only other name that I've been able to think of was C. D. Williams, he used to be Taft's secretary, when Taft was Chief Justice.

H.M.Jr: Oh yes.

G: And he's a possibility, but I'm not enthusiastic about it.

H.M.Jr: Huh-huh.

G: So on the setup I would think that - did you follow up with Irving Lehmann about that - Judge Haupt.

H.M.Jr: No I didn't. I've been - I just haven't got around to it. You still think -

G: I thought I'd just phone you rather than write you on this. If you want I can confirm all this with Ed -

H.M.Jr: No, no.

G: He can make sort of a memo of this.

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

G: Because I've been snooping around a little on some of these fellows.

H.M.Jr: Well no, I'm writing down - I make - I've got it as you give it to me.

G: Well in other words I'm just repeating, I think you've got to clarify in your mind the type of man for the examiner as distinguished from the man for the counsel.

H.M.Jr: Well I agree with you entirely but I was thinking of Charles Warren for examiner, somebody like that.

G: I don't know enough about Warren, it sounds very good to me, but you folks down in Washington know so much more about him than I do.

H.M.Jr: Yes - well -

G: all right to mention.

H.M.Jr: I'll make a record of this and I certainly appreciate your taking all this trouble.

G: O.K. How are your other worries?

H.M.Jr: I feel very well.

G: Well that's good, the trip was good for you.

H.M.Jr: Oh, it was wonderful.

G: All right Henry, I suppose you'll be up to the farm over Christmas.

H.M.Jr: Yes, we're going up over the Christmas weekend, for three or four days. Yes, we're going to the theatre with you.

G: Oh that's right. Yes. All right I'll see you then if not before Henry.

H.M.Jr: We had a nice evening with Arthur and Imogene.

G: Oh, Arthur told me, very nice he said.

H.M.Jr: Yes, yes.

G: Well that's good Henry.

H.M.Jr: Thank you.

G: O.K.

Albert Garrison

December 15, 1939.
5:04 p.m.

317

Operator: Go ahead.

H.M.Jr: Hello.

Albert
Garr: Albert Garr's secretary.

H.M.Jr: I'm sorry I couldn't see you, but I just haven't been able to see my own people today, I'm so swamped.

G: That's all right. I just wondered if - I've learned that there's been some political blow backs on this thing and I just wondered if anyone ought to discuss it with Mr. Farley.

H.M.Jr: I really don't know. Am I not correct in believing that Mr. Hill has written out his resignation?

G: That is correct.

H.M.Jr: And I don't quite understand, I thought - I understood him to say that he wasn't going to.

G: Well -

H.M.Jr: And I was surprised to learn that he had several days ago.

G: No, no, it's just happened. It's just happened.

H.M.Jr: Well do you know what day he wrote it?

G: Yesterday morning.

H.M.Jr: Oh.

G: I didn't know when I talked to you. As you know I came down - the newspaper's account that decided him on doing it. I wonder if I could see you for a few minutes in the morning or sometime, just give you the background up to date.

H.M.Jr: Well, may I do this, call you - I'm just about all in and if I feel better in the morning I'll call you.

G: All right.

H.M.Jr: But it seems to me that with Hill having written

out his resignation there isn't much more he can do, but I'm always glad to see you. I'll call you at your home tomorrow, or at your office.

G: You can either call me at the home or at the office.

H.M.Jr: I'll do that because for old times sake I'd see you anyway.

G: Yes, all right.

H.M.Jr: Thank you.

December 15, 1939.
5:00 p.m.

319

Operator: I'll have to call him back. Just a minute.
Go ahead.

H.M.Jr: Hello. Hello.
Bill
Douglas: Hello Henry.

H.M.Jr: Why don't invite me to have a drink the way you
did Ed Foley?

D: I was going to suggest that you and I have it
separately so I can have two drinks.

H.M.Jr: Make it two drinks. All right.

D: Seriously I would like very much if next week is
free and you're going to be in town, I'd like to
see you for a drink or for lunch.

H.M.Jr: All right, what day do you want to make it?

D: Any -

H.M.Jr: Monday is a bad day for you, isn't it?

D: Well next Monday we meet briefly, probably not more
than half an hour we'd certainly be through.

H.M.Jr: Would you be through by one?

D: Oh yes.

H.M.Jr: Why don't you come down Monday? Give you a good
lunch right in the Treasury.

D: I wish I could say the same for the court. We have
a lousy restaurant up here.

H.M.Jr: Would you honor me with your presence?

D: Love to.

H.M.Jr: Will you?

D: Yes.

H.M.Jr: Monday?

That'll be swell - I'll

D: At one o'clock, I'll drop by at one o'clock.

H.M.Jr: Is that all right with you?

D: Yes. Now in the meantime let me tell you this. I saw Sullivan.

H.M.Jr: Yes.

D: And I think he's a grand guy.

H.M.Jr: Good for you.

D: I think that I would feel very comfortable with that fellow holding the front line for me.

H.M.Jr: Well I've taken a great shine to him, maybe I'm crazy.

D: Well I did too. I saw him for about forty-five minutes, talked with him most of the time and I even felt that way before the third or fourth cocktail had been consumed.

H.M.Jr: I see. -

D: No I really thought that ~~was~~ a very substantial citizen, man of great practical experience who knows people and motives.

H.M.Jr: Yes.

D: Is not naive, but very practical and I thought that if I was in a position looking for a fellow to put in some outpost some where, want him to keep it, take it, I'd feel very comfortable in putting him in.

H.M.Jr: Well I'm glad to hear it because I read through the whole investigation we had made of him before he came down, I read it all over again.

D: Yes.

H.M.Jr: And he stands very high in his community.

D: Yes. Oh yes, he's fine. I hadn't put him together with the fellow that I knew up there in New Hampshire, by reputation.

H.M.Jr: Oh.

D: I spent many summers up there.

H.M.Jr: Oh yes.

D: I tried to get this to you last night but you were dancing.

H.M.Jr: Where was I?

D: Dancing.

H.M.Jr: Dancing?

D: At the White House.

H.M.Jr: Yes. Some dance.

D: But I did want you to know that I thought that he was swell.

H.M.Jr: Well I'm ever so much obliged and I'll look forward to seeing you.

D: I'll be over Monday.

H.M.Jr: I went up to the hearing today to hear Gazelle.

D: Yes.

H.M.Jr: He made a good impression on me.

D: He's a tough little guy.

H.M.Jr: Now the next thing will be - is to get him.

D: Yes. I haven't the least idea how far along he is.

H.M.Jr: Well he finished today, his hearings.

D: Oh!

H.M.Jr: Was the last of them.

D: Yes.

H.M.Jr: So I'm going to speak to Jerome about it Monday.

D: Yes.

H.M.Jr: But I think ~~they~~ can afford to be a little generous.
D: Well he's a -
H.M.Jr: They've got as big a stake in this thing as I have.
D: Sure. Oh he's a top notch fellow.
H.M.Jr: Have you heard the latest thing, the way Eccles is trying to horn in on this thing now again?
D: No.
H.M.Jr: Yes.
D: No I haven't.
H.M.Jr: I don't understand it. We got a formal communication from the Board -they, want to get in on the Bank of America case.
D: (laughs) Very interesting.
H.M.Jr: What?
D: Very interesting.
H.M.Jr: Well it is and it isn't. After all they were afraid they were going to be contaminated a year ago.
D: Sure.
H.M.Jr: And now they want to get in so Ed is drafting them a letter and saying that well we're just twelve months nearer to a Section 30 case.
D: Yes.
H.M.Jr: We thought we ought to bring it to their attention.
D: Yes.
H.M.Jr: But I - it just adds another thing to my worries.
D: Oh sure.
H.M.Jr: Because, I don't know how you feel, but I just don't trust him on this Bank thing.

D: Oh no, no, I wouldn't either. I never did.

H.M.Jr: And I just don't know - Preston Delano's like a flea, I never can put my hand on him.

(laughs)

H.M.Jr: But I've got him now that he won't answer the phone when Giannini calls.

H.M.Jr: Well that's something, and he told me last night, he said, "You know I think from now until the first of the year, I'm going to be sick." I said, "Preston that's the best news I've had yet."

D: Well I'll see you Monday, Henry.

H.M.Jr: Goodbye.

D: Well, goodbye.