

TREASURY DEPARTMENT

207

INTER OFFICE COMMUNICATION

DATE April 18, 1939

TO Secretary Morgenthau
FROM Mr. Foley, Acting General Counsel

Re: Authority to close banks and security
exchanges upon the outbreak of war abroad.

I. Proclamation of a general holiday (necessarily including banks and security exchanges). There appears to be neither statutory nor constitutional authority for such proclamation.

The statutory authority of the President with regard to holidays relates only to officers and employees of the Executive branch of the Government, and in that respect is somewhat limited. Act of March 3, 1893, 27 Stat. 715, as amended (U.S.C. title 5, sec. 29); Act of January 6, 1885, 23 Stat. 516, as amended (U.S.C. title 5, sec. 86; Act of June 28, 1894, 28 Stat. 96 (U.S.C. title 5, sec. 87); see (1923) 33 Op. Atty. Gen. 485.

Nor does there appear to be any constitutional authority in the President to suspend the general commercial activity of the nation by the proclamation of a holiday. In (1911) 29 Op. Atty. Gen. 52, Attorney General Wickerham advised the President that he was without constitutional authority, in the absence of a specific act of Congress authorizing him to do so, to issue a proclamation declaring the fiftieth anniversary of the issuance of the Emancipation Proclamation a national holiday. The

existence of a national emergency would seem not to extend the constitutional power of the President in this respect. It has been pointed out that the special and extraordinary powers which the President has exercised in times of war have been those given him by statute, thus raising questions as to the war powers of Congress rather than the war powers of the President. Willoughby, Constitutional Law of the United States (2d ed. 1930) page 656.

It is believed that the constitutional authority of the President as Commander-in-Chief of the Army and Navy and his inherent constitutional power over foreign affairs are not a sufficient constitutional basis for a proclamation of a national holiday, under which all commercial activity would be suspended, in any circumstances now foreseeable.

II. Specific authority for the closing of banks and security exchanges.

A. Banks.

Section 5(b) of the Trading with the Enemy Act of October 6, 1917, 40 Stat. 415, as amended (U.S.C. title 12, sec. 95a), as it appears in the Code, provides:

"During time of war or during any other period of national emergency declared by the President, the President may, through any agency that he may designate, or otherwise, investigate, regulate, or prohibit, under such rules and regulations as he may prescribe, by means of licenses or otherwise, any transactions in foreign exchange, transfers of credit between or payments by banking institutions as defined by the President, and export, hoarding,

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melting, or earmarking of gold or silver coin or bullion or currency, by any person within the United States or any place subject to the jurisdiction thereof; and the President may require any person engaged in any transaction referred to in this section to furnish under oath, complete information relative thereto, including the production of any books of account, contracts, letters, or other papers, in connection therewith in the custody or control of such person, either before or after such transaction is completed. Whoever willfully violates any of the provisions of this section or of any license, order, rule, or regulation issued thereunder, shall, upon conviction, be fined not more than \$10,000, or, if a natural person, may be imprisoned for not more than ten years, or both; and any officer, director, or agent of any corporation who knowingly participates in such violation may be punished by a like fine, imprisonment, or both. As used in this section the term 'person' means an individual, partnership, association, or corporation."
(Underscoring supplied.)

It should be noted that the bank holiday of March 6, 1933, was proclaimed under an earlier and narrower version of that section. Proclamation No. 2039, 48 Stat. 1689. That proclamation was approved and confirmed by the Act of March 9, 1933, 48 Stat. 1 (U.S.C. title 12, sec. 95b). After the enactment of the section in its present form, the President extended the time of the bank holiday. Proclamation No. 2040, 48 Stat. 1691. The statute and proclamations were given effect in several cases. Hardee v. Washington Loan and Trust Co., (D.C. App. 1937) 91 F.(2d) 314; City of East Cleveland v. Fidelity and Deposit Co., (N.D. Ohio 1933) 5 F. Supp. 212; Hanley v. Corwin, (E.D. N.Y. 1936) 15 F. Supp. 396.

From the very terms of the above statute, it is clear that the President may prohibit most banking transactions of any banks. Even

broader powers are conferred upon the President with respect to members of the Federal Reserve System by section 4 of the Act of March 9, 1933, 48 Stat. 2 (U.S.C. title 12, sec. 95), which provides:

"Sec. 4. In order to provide for the safer and more effective operation of the National Banking System and the Federal Reserve System, to preserve for the people the full benefits of the currency provided for by the Congress through the National Banking System and the Federal Reserve System, and to relieve interstate commerce of the burdens and obstructions resulting from the receipt on an unsound or unsafe basis of deposits subject to withdrawal by check, during such emergency period as the President of the United States by proclamation may prescribe, no member bank of the Federal Reserve System shall transact any banking business except to such extent and subject to such regulations, limitations and restrictions as may be prescribed by the Secretary of the Treasury, with the approval of the President. Any individual, partnership, corporation, or association, or any director, officer or employee thereof, violating any of the provisions of this section shall be deemed guilty of a misdemeanor and, upon conviction thereof, shall be fined not more than \$10,000 or, if a natural person, may, in addition to such fine, be imprisoned for a term not exceeding ten years. Each day that any such violation continues shall be deemed a separate offense." (Underscoring supplied.)

B. Security Exchanges.

Section 19(a) of the Securities Exchange Act of 1934, 48 Stat. 898 (U.S.C. title 15, sec. 78a), provides, in part:

"Sec. 19. (a) The Commission is authorized, if in its opinion such action is necessary or appropriate for the protection of investors--

* * *

"(4) And if in its opinion the public interest so requires, summarily to suspend trading in any registered security on any national securities

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exchange for a period not exceeding ten days, or with the approval of the President, summarily to suspend all trading on any national securities exchange for a period not exceeding ninety days."

Thus, there is ample authority for the closing of national securities exchanges.

F. W. Foley Jr.
Acting General Counsel.

FEDERAL RESERVE BANK
OF NEW YORK

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57(a)

OFFICE CORRESPONDENCE

TO CONFIDENTIAL FILESFROM L. W. KnokeDATE April 18, 1939.SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

I called at 11:30 a.m. and in Mr. Bolton's absence I spoke with Mr. Hawker. I referred to their order of yesterday for us to buy sterling at 4.68 1/32 and pointed out that under the market's regulations here sterling was dealt in in fractions of 1/16 only. If we had had to operate at his limit of 4.68 1/32 it would have meant the broker would pay for half the amount he had to buy 4.68 only and for the other half 4.68 1/16, the latter half free of commission. This arrangement, however, I thought could not be to the liking of the British fund in that at least part of the business done here was put through at a figure below his limit of 4.68 1/32. Besides, the moment we gave an order at 1/32 everybody in the market knew the nature of the business, whereas under the old set-up they could only guess at it. Mr. Hawker replied that under the circumstances the best thing for them to do would probably be to give their orders in fractions of 1/16 as heretofore and thanked me for having brought this matter to his attention.

I referred to the recent two gold shipments on the Manhattan and the American Trader and pointed out that both of them had contained a high percentage of Australian bars whose fine contents had turned out to be below .995. I referred him to previous correspondence in which we had explained that on gold shipments below .995, charges were considerably higher and warned him that future out-turn of such shipments might be unsatisfactory.

FEDERAL RESERVE BANK
OF NEW YORK

213

OFFICE CORRESPONDENCE

DATE: April 18, 1939.

To CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knoke

BANK OF ENGLAND.

2

I mentioned that we were going to cable tonight and ask them to ship another \$5,000,000 gold on the American Merchant scheduled to sail on the 20th; this against their #385/39 giving us \$10,000,000 gold in London today.

LWK:KW

RECEIVED

APR 19 1939

THE TREASURY DEPARTMENT
Office of the Secretary
Federal Reserve Bank of New York

RFP

PLAIN

London

Dated April 18, 1939

Rec'd 2:10 p.m.

Secretary of State

Washington

516, April 18, 8 p.m.

FOR TREASURY FROM BUTTERWORTH

1. Phillips tells me that his information indicates that the unemployment returns which will shortly be published for some date in April will show a considerable improvement. Extensive new orders for ships are being placed following the Government's announced subsidy plans. The wool-textile trade is already benefiting from armament orders and rail traffics are slightly better. The March steel production figures were only just under the November 1938 record level and this sharp upturn together with expected armament and air raid precautions and shipbuilding demand has given rise to talk of the steel industry soon reaching its full output capacity. Meanwhile the shortage of scrap is becoming evident and increased imports are likely to show in the April trade returns. The March trade returns published today do not yet reflect a general increase

RFP -2- #516, April 18, 8 p.m. from London
increase in imports which the accelerated armament
program will doubtless bring about shortly. Exports
were slightly below the February daily average the
figures for the former month being, however, swollen
by the delivery to foreign purchasers of pounds 2
millions worth of ships and war vessels. March exports
of iron and steel, machinery, cotton goods and coal
are down on last year, but wool textiles, non-ferrous
metals and chemicals show improvement.

2. The London stock exchange and the foreign
exchange market have both been marking time today but
it is noteworthy that the three months' belga has gone
to a 13 per cent per annum discount.

KENNEDY

KLP

RECEIVED

APR 18 1940

THE ARMY DEPARTMENT
WASHINGTON, D. C.
OFFICE OF THE ADJUTANT GENERAL

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 18, 1939, 5 p.m.

NO.: 768

FROM COCHRAN.

Today the exchange market here was very quiet. Some sterling was gained by the French control. \$650,000 which were offered from Amsterdam were bought for the control by one Paris-American bank. Belgium is meeting with some difficulty in completing its Cabinet, and the belga is still at the gold export point despite the apparently costly efforts made this morning against sterling to improve the belga. French rentes and shares had little trading, because of the hesitancy to make commitments in present circumstances, and in particular, because there is increasing concern that Tangier may bring some complication.

Today I had lunch at the Bank of France. Governor Fournier told me that on the Spanish gold case there was nothing new. Representatives of two alleged banks of Spain had drawn his bank into litigation. Simply because his Government has recognized Franco, he said he cannot now make a political question of the affair. The Bank of France will not dispose of the gold until the courts reach a decision. The amount of gold held is approximately 1,800,000,000 current French francs. I understand that this amount is the principal metallic asset

which

- 2 -

which is left to the Bank of Spain, so it is urgent that the Spanish institution recover the gold.

END OF MESSAGE.

BULLITT.

RECEIVED

APR 19 1936
THE FEDERAL DEPARTMENT
OF INVESTIGATION
WASHINGTON, D. C.

EA: LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 18, 1939, 8 p.m.

NO.: 769

FROM COCHRAN.

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

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

During

- 2 -

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

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

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

Spanish

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

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

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

I was visited again today by Arburua, who brought
with

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

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

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

"Basis of a proposal for credit with the view to

purchasing

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pur chasing raw cotton for the Spanish market".

The memorandum reads in translation:

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

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

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

"Four. The operation would be concluded with the rapidity necessary for the first shipment of 80,000 bales to arrive in Spanish ports the month of May 1939.

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

END SECTIONS ONE TO FIVE INCLUSIVE.

BULLITT.

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APR 18 1939

THE TRADING COMPANY
OF THE UNITED STATES
INCORPORATED IN THE DISTRICT OF COLUMBIA

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

According to my visitors, the requirements for each month would be 30,000 bales. The initial amount of 80,000 bales would take care of one month's requirements, and would leave 30,000 bales on hand for a constant reserve. I asked my friends whether there were any American firms which had cotton in Spain now, and was told that the firm of Anderson Clayton had shipped 13,500 bales to Barcelona, a free port. 2,000 of such bales were purchased by the Franco Government for cash, which leaves 11,500 bales. However, there is no disposition on the part of cotton merchants to grant such credit facilities as are required by the conditions.

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

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

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

END MESSAGE.

BULLITT.

RECEIVED

NOV 19 1936

FOREIGN DEPARTMENT
Office of the Secretary
Foreign Affairs Building, Washington

EA:LWW

April 19, 1939

4 p. m.

Present:

Mr. Basil Harris
Mr. Bell
Mr. McReynolds
Mrs. Klotz

(Miss Chauncey came in after the meeting had started, so the transcript below starts off a little abruptly.)

Mr. Harris: We have supplied every Captain with a secret code word which he keeps in his safe, under lock and key, and it's got a stamp on it and the Captain must not take any instructions in the way of deviating his ship or proceeding on any other course unless that code word accompanies the message, because you could see quite easily if we had a ship coming out of Hamburg and the Captain had a message to proceed to Zebrugge, he might be proceeding to a mine. So we have already done that with all our ships and I think that should be a very good thing to do with all American ships -- immediately establish a code word.

HM, Jr: That ought to be under the supervision of one agency.

Mr. Bell: Maritime Commission.

HM, Jr: They don't have any ready.

Mr. Bell: Coast Guard?

HM, Jr: I think Coast Guard. Then another thing would come up: whether the Navy or Coast Guard could supply the Government code to the Captain.

Mr. Harris: We don't need the Government code as much as we do a very secret identification mark.

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Mr. Bell: Each company would have to have its own?

Mr. Harris: Each company would have to have its own.

HM, Jr: We are intercepting. We are intercepting, and a German is operating a ship -- they seem to be very interested -- down in Mexico. We have the message. We have the code. Most likely in 24 hours we will break it, and they are changing and, therefore, after the first day they would recognize the word.

Mr. Harris: That's true.

HM, Jr: It's just the way we are working.

Mr. Harris: It was our thought we would only use it once.

Mr. Bell: You would probably have to have several words numbered.

HM, Jr: For instance, we have this code and we change it every time. It's always shifted and if it is a regular mathematical thing -- but that's a detail.

Mr. Harris: That's right.

HM, Jr: But the idea is right. I think your one message. Once. After every ship got it and the same word in it, they would say that's the word. I think they break it after the first day. But I think it should be all American flag ships and they should have some arrangement on code.

Mr. Harris: On the larger merchant ships, it would seem to me, the crew ought to be replaced with a naval crew. I am talking now on a war basis. As you know, most of our crews on our larger ships are German born. They are all men who have their first, second, and whatever number of papers there are. In Many cases they are born in this

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country, of German descent. Now there is no doubt they make wonderful stewards, but I don't know anybody who can tell you the force of their allegiance if you did have a war. So I think the safe thing to do would be immediately replace the entire crew with naval crew and it should be done, I think, with the greatest secrecy so one ship would not know that the other ship had been replaced until she came in.

Trusted radio Navy operators should be in complete charge of the radio rooms. That's highly important because you don't know what a radio fellow is up to and unless somebody is right on that thing 24 hours a day, he might just innocently send a telegram or message. They can spot his position just from the sound and from the strength and what not. That applies likewise to wireless telephone. That should immediately be taken in hand by responsible authorities.

In the last war there was a Ship Control Committee set up in New York and I believe Mr. Franklin was head of that. I think he was. And then I think Mr. Lillie was under him.

Mr. Bell: Mr. Franklin was here a while, but most of his work in the Treasury was in connection with Liberty Bonds.

Mr. Harris: The idea of that would be simply for the allocation of ships and turning them around so you don't have overlapping and diverting them to Portland or Baltimore or Savannah or what not, so they simply go in there just as they are needed, take their cargo and out they go. It's more or less a transportation thing which works pretty automatically once you get the Central Committee functioning.

Now, you see what I am recommending?

HM, Jr.: Everything you have asked there is something I don't have the answer to, so it's a very good question.

Mr. Harris: I always have to go back to the

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last war. Car floats on lighters and oil barges -- nobody paid much attention to them, but those are the key; in other words, you can guard your shipments from interior to seaboard. Then it's put on a barge and lightered across the river. That's your point of sabotage if they are going to have it -- one point they can go to work, because it's done at night, no lights, and it's the simplest thing in the world to put some incendiary into a package. So where you speak of guarding your piers and terminals, you should cover it all the way through; in other words, your lighters, your barges, your floats.

A competent cargo officer should be stationed in every hold while a ship is loading, preferably somebody in the Government service, stand right there, never be out of that hold while the ship is loading.

Compulsive use of hatch tents. One of the greatest causes of combustion on ships is loading of certain cargo in the rain. If you are loading, say, cotton -- cotton gets wet; only a short time before you are going to get combustion. That's one of the great causes of fire in cotton. So it's a little bit of an effort, but once you have the proper use of hatch tents -- you know what they are; they are great tents that are laid over the hatch -- your stuffs works underneath and you can work in the rain and no drop of water gets in your hold.

All fire-fighting equipment to be made ready.
All fire hose to be coupled and laid on the deck.
All watching forces to be doubled.

In virtually every fire -- serious fire -- on a ship, the fire occurs at the dock. Very seldom, unless you have an internal explosion, you have a fire at sea. The reason for that -- you have fires at sea, but you have all your crew moving around, always on the watch, and you take, for instance, from New York to California, we have had as many as three fires, or from California to New York. One case it was incendiary. Found all the furniture piled up

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in a room, blazing. But you have stewards and you take it up right away, but where you have a ship loading there are a great many parts of the ship that are vacant. Men are all off. They go ashore and either an incendiary or a fire that starts through a fuse or something, it gets under way and then by the time it is discovered it is just like the PARIS, and that's the same idea, that it happened while the ship was loading; most of the crew ashore or saying good-bye to their wives and children; nobody there; first thing you know, the thing gets started.

All explosive munitions to be definitely assigned berths. In that connection, you might want to go into the question of re-location in harbors of fire boats. In other words, if you concentrated your shipping in certain zones, you could work with local authorities to have fireboats stationed maybe at the end of one of the piers. They don't really care where they keep the fireboats and they could have them handy, and if you concentrated your shipping more or less in zones you could undoubtedly work with local authorities to have special fire fighting squads be available day and night so as soon as there was a fire they would ship these special men right there.

And then I come to the last one: question of the refineries who supply the bunker oil. They should be extremely well guarded because without bunker oil your ships are useless. You have to watch that.

HM, Jr.: Am I correct? This is divided up into two parts: routing of merchandise by the railroads up to the port, and that's one problem which I have got to ask the President about because we talked about railroads and he does not have in his mind, very confidentially, of taking over the railroads, so this raises a point.

Mr. Bell: That was a very serious problem.

HM, Jr.: He has not crossed that. The other point is -- what you are talking about -- is harbors,

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protection of harbors, protection of ships, allocation of docks, fireboats and crews.

Mr. Harris: There are a lot of these things that will work automatically, but they are of highest importance. Take New York Harbor. All you have to do is sink a good sized ship in Ambrose Channel and New York Harbor is absolutely useless.

HM, Jr.: Let me find out from Admiral Leahy how far they are going; if there is any Committee working on this. I think there should be a Committee, Army, Navy, Treasury and Maritime Commission, to work out this thing.

Mr. Bell: In 1936 there was created the War Industries Planning Board, composed of the Army and Navy principally. And as soon as the Maritime Commission was established, it was invited to send a representative. I find today, in discussing this insurance matter with Commissioner Moran, that was a subject discussed over a year ago -- this insurance thing -- and they have had a man constantly there studying the maritime problems in connection with war industries and insurance and I would not be surprised if you find that this Board has had under discussion many of these -- particularly the piers -- problems.

HM, Jr.: It's all sweet and lovely. Having had a year and a half, are they ready to go to work on a minute's notice?

Mr. Bell: They have a draft of legislation to submit to the Commissioner. Two days ago they wanted to submit a piece of legislation to the Commission. As soon as it is approved they want to submit it to the Treasury, Army, Navy, Budget and Commerce, and they want to go in ten days.

HM, Jr.: On the Treasury stuff, the exchange control, everybody has cleared it. All I have to do is walk across the street, the President signs it and we go to work. Everything is done, Dan. All he has to do is sign it. We have worked day

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and night to get this ready. They are not ready. My financial stuff, all my exchange control, all it needs is the President's signature. I will bet anybody they have not gotten the Attorney General's opinion on War Risk.

Mr. Bell: They need legislation.

HM, Jr.: But the President did not know about it yesterday.

Mr. Bell: They need legislation. I can tell you what they contemplate doing. I think they have it well in hand and know what they need and want to do. They have been consulting with the underwriters in New York and Moran says it's an entirely different situation in this country today that in 1914. In 1914 80% to 90% of marine insurance was written abroad. Today we have insurance people in this country who are capable of writing 80% to 90% of our stuff probably. That might be high, but they are more capable today than then.

Mr. Harris: They write it and then reinsure abroad.

Mr. Bell: There is a great deal of reinsurance in this country. What they are doing in New York, get a whole group together as a syndicate, something like the British Government has done, although the United States Government is not yet in the picture. Each company will determine what it will take of the risk; for instance, the North American will take 6% of the risk, but they have to have the maximum because of their capital. That is being formed today. What the Maritime Commission wants is to reopen the old 1914 Act permitting the writing of direct insurance and also permitting reinsurance so the Government would step in whenever the situation demand war risk. It has not got to the point where it is war risk. It's a sort of marine, but it's a high rate. And that draft will be submitted tomorrow to the Commission and they want the Treasury's cooperation in drafting the legislation and setting up a fund, whatever is necessary. Most of it will be a reinsurance

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proposition and if it isn't they will write it through the same people that would write it originally. It will be a commercial proposition. They want to do it through regular channels.

HM, Jr: I will tell you who could give me a quick answer -- General Watson. I will call him and ask him, on the harbor business, if he could get on the phone and find out from the Army or the Navy; on the question of patrol of harbors and piers, who can I contact? Let me get it started to find out if there is a Committee. The reason I am pushing so hard is I want to get the most of your time. Let me see who is functioning on this thing?

Mr. Bell: Johnson is head of the War Planning. The Assistant Secretary of War.

HM, Jr: (On the phone to General Watson)

"I want a little help."

The President just called him. He will call me right back.

Mr. Harris: Let me give you just a little detail. If you asked anybody, you would undoubtedly get the answer 'Yes; that Customs guards the docks and all that'. Here's an actual situation: we will have a ship, we will say, that is loading or unloading. You will have 22 men in a gang

HM, Jr: (On the phone to General Watson.)

"Pa, I want a little help. With the President's knowledge and approval, I brought down Mr. Basil Harris to look over what will happen in case of war, as far as the Treasury's functions are concerned -- Customs and shipping. Now, he's been asking me a lot of questions. For instance, take the New York piers. Which piers are going to the Army, which are going to the Navy; who is going to protect the loading of commercial ships, and all the rest of that stuff. And he's asked me a lot of

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questions I can't answer. What I would like to have you find out for me, is there a Committee; are there any preparations, and where do we, the Treasury, come into the picture, because how much we are going to do through our Customs in looking after commercial boats, etc., etc.?

"Do you suppose you could find out if anybody has got that and if there are any plans anywhere? I don't know of any Committee and I have McReynolds and Bell sitting here and he doesn't know.

"He's asked me a lot of important questions. His questions are if there is a war in Europe -- now there is a question of sabotage and the question of looking after commercial American shipping; question of how we are going to handle our harbors, and what is the Treasury's responsibility, through Customs, of looking after it both in case there is a war in Europe or whether we got into a war. And he's asked me a lot of damn good questions and I can't answer them. He's down here to give this thing a "trial run" to see where we have blind spots and we seem to have plenty.

"Because you happen to be both Secretary to the President and a General, I want to find out is there a Committee that the Treasury can contact to find out what plans, if any, there are. And maybe you could have your buddy call up the Navy.

"I want to know tonight.

"Will you?

"You are a Virginia gentleman! Old Dollar Watson. All right. Good-bye."

Maintains that I have lost only once in the game and that was the last time and he does not want me to be feeling badly, so he does not want to frighten me. We have these three times a year. Very amusing!

He's going to get right to work and he says

-10-

frankly he does not know and he never heard of it. This is the President's Military Aide and Secretary and he does not know a thing about it.

Mr. Harris: These might seem perplexing to you. They are very simple; very easy to work out.

HM, Jr: Quite easy to work out if you have somebody do them and the thing -- the one -- I most likely -- the other one, handling railroad traffic ...

Mr. Harris: That's very vital.

Mr. Bell: They had cargo in warehouses from New York to Chicago. You could not get a warehouse anywhere. You couldn't get a car.

HM, Jr: And the time to keep that from happening is right at the beginning.

Mr. Harris: That's right. I think we have gone far enough for the first time. You think I am proceeding along the lines you wanted?

HM, Jr: 100%! Tickled to death! That's exactly what I wanted!

Mr. Harris: There's an easy answer to practically every one I asked you if your organization is set up properly. You heard me go into, quite extensively, on fire. Actually you have two or three Fire Commissioners who are retired; very able people; just due to age they are out. One or two of those men around, you could build a nucleus of a fine fire-fighting equipment. Same way with your police.

You think right now -- any of you people connected with Customs think that when ships are at the docks in New York they are under very fine supervision. Theoretically they are, but here's the situation: You have a dock where you have two ships each side; four ships. You will have 22 men working in a gang and you will have from 10 to 12 gangs working

-11-

on a ship. That's 240 men on a ship. On four ships that's 900 men. They all knock off -- bing! -- at 6 o'clock. With that, 900 men go through the gate and two guards have got to search them. That's silly! Your Customs can't have 900 men ready to search 900 individuals, and likewise when they come on, and the simplest way to start a fire is drop a little tube in a packing case with certain chemicals. I don't think there is any way of guarding against a thing like that, but you can against the next step and that is as soon as that tube goes off, get right after it and put the fire out.

HM, Jr.: Mac, got any suggestions? Between now and tomorrow morning?

Mr. McReynolds: No.

HM, Jr.: Maybe we had better wait until we hear from General Watson.

Mr. McReynolds: Nearly everything that's raised here, you have a question of complicated jurisdiction; more than one agency involved. That's the beauty of raising a question because these things are always problems and time consuming.

HM, Jr.: And that's the purpose of asking Mr. Harris down. I don't want to wait until Mr. Hitler pulls the plug and then everything is helter-skelter. I want to be ready and I am not ready now on this front.

Dan, any questions?

Mr. Bell: No.

Mr. Harris: As long as you think I am going along on the right lines, I will go on farther.

HM, Jr.: Perfect!

Mr. Harris: And with the idea of bringing up some suggestions.

HM, Jr.: You have everything you want?

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Mr. Harris: Oh, I am prince back there!

HM, Jr: That's exactly the way, Mr. Harris. For one day I think that's wonderful.

(Mr. Harris left the Secretary's office.)

HM, Jr: If this fellow is getting started, he needs somebody to be given to him who knows this game, if he stays two days, and to follow through. Who are you going to pick as his aide? Right at the beginning give me some fellow who can work with this fellow and who can see that these things are followed through and done.

Mr. McReynolds: I will get

HM, Jr: The fellow I think is very able is Bill Wright. He's very good. Not for this, but he handled the personnel thing awfully well. What about the fellow who did the whole survey of Customs?

Mr. McReynolds: Ballenger.

Mr. Bell: Charlie Schoeneman is a good contact man. Writes nice reports.

oOo-oOo

JR

GRAY

London

Dated April 19, 1939

Rec'd 2:10 p.m.

Secretary of State,
Washington.

April 19, 6 p.m.

STRICTLY CONFIDENTIAL FOR SECRETARY OF THE TREASURY
FROM BUTTERWORTH.

With reference to your 263, April 16, 8 p.m., and my 483, April 14, 7 p.m., 501, April 17, 7 p.m., and 510, April 18, noon.

One. Appropos of the two documents referred to in my 483, April 14, 7 p.m., the British Treasury states (a) that Bewley is also receiving a copy through the British pouch which likewise went by the QUEEN MARY and (b) that although it is not so stated in the documents the British Treasury's policy will be to permit foreign balances et cetera to be withdrawn in an orderly fashion and to the extent that circumstances will permit. The attitude of other countries would also be taken into consideration, for example if the French Government legally commandeered the foreign assets of their nationals the French monetary authorities would naturally be consulted.

I

-2- April 19, 6 p.m., from London.

I gained the impression that in some cases gold might be given instead of, say, dollars and the problem of transporting it would devolve upon the owner of the foreign balances thus converted into gold. I asked as to whether the normal profits of American subsidiary companies operating in England would be transferable and was told that there was no intention to prevent the transfer of such funds but that normal working balances might fall into a different category.

Two. The British Treasury referred again to the information contained in the 5th paragraph of your 263, and the first paragraph of my 501 and indicated that they were anxious to know about the opinion of the Attorney General and whether a plan had been worked out in Washington under which British holdings of American securities could be dealt with in the event of war. They went on to say that when they had information on this point they could come to grips with the problem and would be prepared to supply any available information which was considered necessary and desirable regarding the type and distribution of such assets.

RECEIVED

KENNEDY

DDM

INFORMATION CONTAINED
HEREIN IS UNCLASSIFIED
DATE 11-14-81 BY 1043

April 19, 1939

I telephoned Miss Baumgardner and brought her ip to date and told her to refer to the letter we sent on March 24th which inclosed a copy of the letter to the Secretary of State in regard to licenses for export of arms and ammunition to Germany.

I also told her that HM,Jr and the Attorney General had a phone conversation on April 11th and again on April 13th at which time HM,Jr said he would bring it up at Cabinet and the Attorney General said he would like to discuss it with Mr. Morgenthau informally after he had had a chance to talk it over with his people, and that was the way it was left and the Secretary has been waiting to hear from the Attorney General.

I also told her that I did not listen to the conversation between the Attorney General and HM,Jr which they had last night, and did not know who was confused, but I was just calling her to bring her records up to date.

HSK

The Secretary of the Treasury

240

Washington

C
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P
Y

March 24, 1939.

My dear Mr. Attorney General:

I am enclosing a copy of the letter which I sent today to Secretary Hall in regard to the issuance of licenses for the export to Germany of arms, ammunition and implements of war.

This is the matter I spoke to you about over the telephone.

Very truly yours,

(Signed) H. Morgenthau, Jr.
Secretary.

The Honorable

The Attorney General

Enclosure

The Secretary of the Treasury

241

Washington

March 24, 1939

C
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Y

My dear Mr. Secretary:

The press release of the Department of State, dated March 11, 1939, with respect to traffic in arms, ammunition, and implements of war discloses that the Secretary of State is continuing to issue licenses for the export to Germany of arms, ammunition or implements of war.

As you know, for some time there has been considerable comment in the press and elsewhere with respect to the licensing of these exports to Germany in view of the provisions of section 5(f) of the Joint Resolution of May 1, 1937 (50 Stat. 121). A number of the comments with respect to such licensing have questioned the legal warrant therefor, and I am advised by the Acting General Counsel of the Treasury Department that some of these adverse comments adduce a considerable show of authority. In this connection, and in my capacity as a member of the National Munitions Control Board, I should appreciate your advising me whether the opinion of the Attorney General on the legal question involved has been obtained.

Very truly yours,

(signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable,

The Secretary of State.

April 19, 1939

To: The Secretary

From: Mr. Hanes

(N.C.)

I have just had a long talk with Congressman Lindsay Warren. He told me that he had spent an hour and a half with Cochran and Jimmy Byrnes and the President last Monday afternoon. The President told them that before he sent any order for reorganization down to the Hill that he would first call them in and show them a copy of the order. The President told them that he contemplated setting up an independent agency which would include the R.F.C., H.O.L.C., F.H.A. and all the lending agencies with the exception of the one under Nathan Straus.

Lindsay said that he had gotten the impression from his talk with the President that he contemplated putting all these agencies under one head, the inference being that that head would be Jesse Jones. However, Lindsay was very much disturbed because during the day eight or ten newspaper reporters had come to see him and had told him that the plan called for the placing of these agencies under the Department of Commerce.

He said further that Frank Kent had written an article which appears this afternoon in the Baltimore Sun stating that it was the intent of the President to put these agencies under the Department of Commerce. He said that he was very much upset by this news, and that he was going to see the Vice President this afternoon to find out if he knew of such information.

Lindsay said he would be unalterably opposed to putting anybody in charge of these agencies which would mean the removal of Jesse Jones from the R.F.C. He is a strong admirer and friend of Jesse's.

J. W. H.

April 19, 1939

The Finnish Minister came in to see me to-day at 3 o'clock. What he really came here for was to see informally if they should ask us for a loan whether they could get one here, in case of war, and I said I would look into it. I gave him a talk on the Tripartite Agreement.

Monday 10:30

THE UNDER SECRETARY OF STATE
WASHINGTON

April 19, 1939.

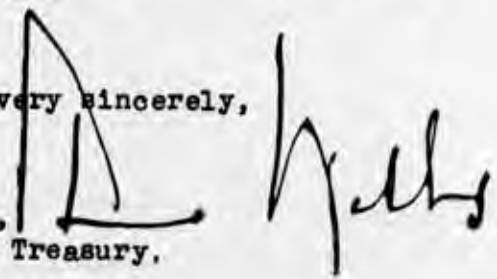
Personal

Dear Henry:

The President of Nicaragua, as you know, is making the President an official visit during the first week in May and during the time of his visit various matters which are of direct interest to your Department, as well as to this Department, will have to be settled. It seems to me that it would be desirable for us to have an opportunity of going over these questions with you well in advance of President Somoza's visit and if it is convenient for you and agreeable to you, I think it would be very helpful if you would call a meeting at your office of Jesse Jones, Warren Pierson, Herbert Feis, two other officials of this Department and myself. The questions to be taken up are more or less similar to the questions that were dealt with in our Brazilian negotiations and I should like to take up at the suggested meeting also questions of policy involving similar problems in the cases of Chile and Cuba. Will you let me know if this suggestion meets with your approval.

Believe me

Yours very sincerely,



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

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245

April 19, 1939.

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

In my statement today I desire to place chief emphasis on the effects of fiscal policy on business recovery. We must rely upon the private enterprise of our country to produce most of our national income and to provide most of our employment. We have all the physical essentials of economic prosperity -- resources, labor, capital, managerial ability, and a vast domestic market. Although we have made a great advance from the bottom of the depression, we are still in a period of incomplete business recovery with a low national income and a large volume of unemployment. An important contributing factor has undoubtedly been the international economic and political situation. Reduced world trade, the precarious finances of most European governments, and fear of war are a drag on our industrial enterprise. Unfortunately, however, the international situation is largely beyond our control. We must find such solution as we can in our own domestic economy.

It is highly important that we increase national income and decrease unemployment. Not only our material well-being

is at stake -- the future of our system of government rests largely on the success with which we solve our economic problems. As Secretary of the Treasury, I want to discharge my duty and not leave any stone unturned in the fiscal field that might contribute to complete recovery and continued prosperity. The basic need is to foster the full application of the driving force of private capital. We in the Treasury Department have been studying what fiscal steps might be taken to that end. We have talked to numerous businessmen and representatives of business organizations to secure their suggestions.

~~One of the basic requirements for full recovery is the investment of large amounts of new capital. The chief fiscal obstacle to long-term commitments in private enterprise appears to be uncertainty over the general fiscal policy of the government. Almost everyone believes that the budget must be balanced eventually, and, moreover, evidently believes that it cannot be done without increasing tax rates or cutting the expenditure program. So long as there is no firm indication of when or how the balance is to be achieved, investors will be uncertain what taxes will be imposed or what expenditures will be decreased, and consequently their investment plans may remain in suspense.~~

K

Furthermore, fear exists that expenditures cannot be kept under control and that their expansion may have disastrous financial results.

There is, to be sure, no inherent reason why taxes must exactly balance expenditures each year any more than each month or each week. In periods of temporary depression it is inevitable that there will be deficits. Revenues may decline and expenditures increase too rapidly to make possible immediate achievement of a balance by tax increases. In such times, furthermore, it may be justifiable to permit a fiscal deficit to appear for the sake of the stimulus which new spending may give to business activity. It is easy, however, to exaggerate the stimulating effect of such a deficit. The impact of the flow of Federal funds is encouraging to business activity, but, as previously pointed out, businessmen give consideration also to inevitable future taxes for liquidating these deficits and to the danger of long-continued, increasing expenditures. To what extent the stimulus is offset by the depressive influence, I do not know; but I am convinced that the general prospect of indefinitely continuing Federal deficits and an indefinitely growing Federal debt is one which on the whole seriously hampers the full use and development of the industrial machine.

A logical and necessary counterpart to deficits in depression is that in years of very active business, an excess

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of taxes above current expenditures should be collected and applied to reducing the public debt so that the government is prepared for the strain of new emergencies without the burden of high taxes for the servicing of debts. Fiscal deficits are thus defensible only if they are not continuous and only if there are periods of substantial fiscal surpluses.

The same general principles apply to expenditures for permanent improvements, such as flood control projects, as to expenditures for current operations, but the period over which balancing should be achieved may well be a longer one in the case of permanent improvements in view of their long useful life.

Let us be realistic about this matter of fiscal policy. Balancing the budget this year or next appears to be impossible. Without attempting to forecast what action Congress will take, I think it is fairly clear that the appropriations will be in excess of anticipated revenues. Furthermore, the formulation and adoption of a financial plan pointing clearly to a balanced budget in the near future will not be easy. Although the existing tax system is a powerful one and in years of high business activity may produce sufficient revenue to balance the present level of expenditures, there is no reasonable prospect

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that it will produce enough revenue to equal expenditures at the present level over a period of years, good and bad. If higher taxes are to be avoided, there must be lower expenditures.

The reduction of expenditures will unquestionably prove difficult. In 1938 relief and national defense expenditures accounted for approximately half of the total Federal expenditures. There seems to be little hope for reduction of armament expenditures in the near future and we may be faced with necessary increases. The minimum needs for relief, moreover, are so dependant on business conditions that they cannot be anticipated with any high degree of accuracy. Substantial reduction may be anticipated as recovery proceeds, but the pressures for expenditures for other very desirable purposes are so great that a definite goal and firm resolution will be necessary to prevent expansion rather than reduction.

In spite of the difficulties, or for that matter, because of them, it seems to me that the time has come to face the problem. A definite policy should be stated and at least first steps taken to put it in effect. Every proposed expenditure should be scrutinized with the general fiscal problem in mind, and every possible effort be made to bring proposed expenditures within the power of the existing revenue system.

I would like to make it clear that I think the proper way to reach a budget balance is through reduced expenditures, and,

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of course, business recovery. If, however, the Congress should be unwilling or unable to reduce expenditures sufficiently, there would be, in my opinion, only one thing to do, namely, to increase taxes. In view of business conditions it is not desirable that any increases in tax rates should become effective immediately. The preferable method, if new taxes must be imposed, would be to place on the statute books this year, to become effective next year, sufficient levies so that on the average over the next few years the revenues will equal or exceed anticipated expenditures — barring, of course, the recurrence of deep depression.

Talking about balancing budgets is not likely to have substantially beneficial effects. The real encouragement will come when Congress has adopted a plan which businessmen recognize to be realistic. A method that might well be of assistance in arriving at such a plan would be for the Ways and Means and Appropriations Committees of this House and the Finance and Appropriations Committees of the Senate to meet each session as a Joint Committee on Fiscal Policy to consider the overall aspects of the expenditures and revenue programs.

Another aspect of general fiscal policy that is of considerable importance to business is the problem of Federal-State fiscal relations. More than half the national total of

tax revenues is received by State and local governments. There is no unity or ordered relationship between the Federal fiscal system and the State and local fiscal systems. Overlapping taxes have grown increasingly numerous as both Federal and State governments reached out for new revenue sources. Grants-in-aid are being demanded of the Federal Government in increasing amounts. The results of our anarchic fiscal relations have become increasingly unsatisfactory to the governments and taxpayers. We need a better definition of the place of the Federal and State governments in the fiscal picture to reduce the complexities and uncertainties facing business, as well as for the sake of the governments themselves.

There has been much consideration of this problem but little in the way of concrete accomplishment. A promising means of progress is for Congress to create a small, temporary national commission. Such a commission should be made up of men having the highest possible level of ability and public confidence and representing not the Federal, State and local governments as such, but the national interest at large. Their function would be to study intergovernmental fiscal policy in its many ramifications and report to Congress, perhaps in two years. I suggest to Congress the creation of such a commission at this session.

I pass now from the problems of general fiscal policy to those of taxation. The general weight of taxation is in itself an obstacle to business enterprise. To lower the power of the tax system to produce revenue at any level of industrial operation would, however, convince businessmen that there was no intention of ever balancing the budget. Such action should not, accordingly, be considered. There appear, however, to be a number of respects in which obstacles to business enterprise might be removed by shifts in tax burdens that would not reduce revenues at any given level of business and also would not violate any fundamental principles for a sound tax system. Consideration should be given also to whether some tax rates may not be too high to produce maximum revenues. I would like to emphasize four general ways in which such obstacles to enterprise might be reduced.

(1) The first way is to make the chances for reward in venturesome undertakings greater than they now are, compared to safe investments. Our present tax system, especially in the income tax, contains features which operate against venturesome investments. There are a number of these

which might well be altered without decreasing the equity of the system and, indeed, with some resulting increase in equity. I shall not discuss these features in detail but shall only indicate some of the outstanding possibilities. The issuance of tax-exempt securities might be eliminated. The Treasury Department has already recommended this action. Allowance might be made for business losses to be carried forward and offset against income in future years. Corporations might be allowed to deduct capital losses from their ordinary income. Somewhat greater deduction of capital losses, perhaps in the carry-forward provisions, might be allowed individuals. Dividends received by individuals might be made exempt from the normal tax. The top rates in the individual surtax schedule might be reduced. The tax studies that we have carried on indicate that all of these changes would operate in the direction of removing penalties that are imposed on investment in new and venturesome enterprise.

(2) A second way in which to make our tax laws less of an obstacle to investment and business

expansion is to avoid heavy taxation on a business that is suffering loss or is trying to make good the income drain caused by recent losses. Some examples of changes which would operate in this direction are: elimination of the capital stock tax; allowance of a business loss carryover to future years; increase in the deductibility of capital losses by corporations and of capital losses in general.

(3) A third type of change designed to increase the relative attractiveness of more venturesome investments is to remove impediments to the issuance of capital stock as compared to the issuance of bonds. When new enterprise is financed by issuance of securities it is, and ought to be, by the sale of stock, not of bonds, hence tax laws penalize them. Among changes which would tend to eliminate this discrimination are the elimination of the capital stock and excess profits taxes and the allowance of a substantial dividend credit to individuals.

(4) The revenue losses which these steps would entail could properly be replaced by increases in the corporation and individual income tax rates.

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For any new revenues that might have to be secured through increased taxation the deterrent effects on enterprise would be at a minimum if such increases were to come as far as possible from nonbusiness taxes and if nonbusiness taxes were selected so as to place the least check on consumer spending without discouraging investment.

Certain revenue-producing changes should be made in any event to increase the fairness of the system. One change would be to eliminate excessive depletion deductions for oil and gas wells and certain types of mines. As the Treasury has often pointed out, a large amount of revenue can be recovered by closing this loophole. The capital gains tax rates on individuals might well be brought closer to the rates on other incomes. This could be done without substantial discouragement to investment, provided the capital loss deductions were made more generous, as previously mentioned. A desirable change which would increase the revenue for the future is to coordinate the estate and gift taxes into one tax.

Beyond the changes mentioned, which are desirable to increase equity quite aside from their value in increasing revenue, higher

taxes which would have relatively little effect in discouraging investment could be imposed in the form of higher rates of estate and gift taxes in the middle brackets and higher income tax rates on the middle brackets.

I think we should continually have in mind that as a general principle of fairness, we ought to increase the proportionate part played by direct taxes that can take account of individual differences in the power to support government. The chief examples of such taxes are the individual income and estate and gift taxes. The Federal reliance on such taxes should be especially great since State and local governments are not able to use them nearly as effectively as is the Federal Government. We should look forward eventually to eliminating from our Federal tax system the manufacturers' excises and -- except for tobacco and alcohol taxes -- other miscellaneous excise taxes which tend to be shifted directly to consumers. However, in view of the present revenue needs of the government and the fact that these taxes have been in operation long enough so that the businesses affected have in general become adjusted to them, I recommend that they be continued at this time.

Greater simplicity in the tax system would remove irritants to business and would also be beneficial to taxpayers and the

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government in general. Our revenue system cannot hope to be very simple if it is to be equitable and is not to be excessively burdensome at any point. However, at least one major move in the direction of simplicity is possible.

This move is to substitute a single corporation tax on net income for the four different corporation taxes now imposed. These corporation taxes are a capital stock tax and an excess profits tax enacted in 1932, a remnant of the 1936 undistributed profits tax, and the ordinary income tax. The capital stock tax is not based on the actual value of a company nor is the excess profits tax actually a tax on excess profits. Both depend largely on the ability of management to forecast profits. In its present form, the undistributed profits tax is ineffective but is unduly resented. The corporation tax system would be greatly simplified, its justice measurably increased and the burden on new and uncertain enterprise diminished, if all four taxes were consolidated into a single flat tax on corporate incomes with some concession in rate to corporations having less than perhaps \$25,000 net income.

In discussing choices of desirable tax measures, I have spoken as if we could pick and choose among good tax measures and bad tax measures. This choosing will always be possible to some extent, of course, but as the proportions of tax revenues

to national income rise, the choice becomes more restricted. Already we are more seriously restricted than we are apt to realize. A wide variety of taxes must be employed or the rates of any one will exceed the point of maximum productivity or will be unduly burdensome. Any substantial further growth of total expenditures, even if only for debt service, will narrow the choice more and more. It will be a serious matter if we are pushed to the place where virtually all considerations of encouragement to business and fairness must give way in order that we may use every feasible tax to its administratively practicable limit.

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

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

April 19, 1939

Mr. Welles called today and he asked me, one, not to push them on the Italian countervailing duty until after April 28th. He said, Can't you get the Attorney General's ruling? Then I realized he was not up to date and I brought him up to date. I told him we would do nothing until after the 28th of April and then may be he would be running over here and asking me to do it the same evening, the way he did in the German case. He said it is perfectly possible he might want us to slap it on on the 29th.

But putting Italy on 30 days' notice has been waived until after the 28th of April.

I read him this memorandum about the Argentine and he was tickled to death. Told me to push it just as hard as I could. That for over six years they have been promising the Argentines a trade treaty and now they have got everybody to agree except Henry Wallace and Henry Wallace, to use Sumner Welles words, "on account of his presidential ambitions, thinks it will be harmful in the Middle West and won't play ball."

I told him I was interested in the Argentine and would go ahead and would cooperate with them in this case. He said that was most cheerful.

If I don't hear from Mr. Irigoyen by next Monday, I want to send for Felipe Espil, the Ambassador.

Welles asked me please not to do anything more on countervailing duties on Europe without first taking it up with them and I told McReynolds to issue such orders.

CONFIDENTIAL AND PERSONAL -- I told him that Herbert Feis had recommended Wayne Taylor to head the mission to Venezuela. Sumner Welles said he knew nothing about it and as far as he was concerned he just thought Wayne Taylor was a swine.

April 19, 1939.

Secretary Morgenthau

Mr. Blough

Attached is the second draft of your proposed statement before the Ways and Means Committee.

We have endeavored to incorporate the suggestions made at the conferences on Monday.

We are continuing to work on the statement and to make additional revisions.

Attachment

4-19-39

April 19, 1939.

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of taxes above current expenditures should be collected and applied to reducing the public debt so that the government is prepared for the strain of new emergencies without the burden of high taxes for the servicing of debts. Fiscal deficits are thus defensible only if they are not continuous and only if there are periods of substantial fiscal surpluses.

The same general principles apply to expenditures for permanent improvements, such as flood control projects, as to expenditures for current operations, but the period over which balancing should be achieved may well be a longer one in the case of permanent improvements in view of their long useful life.

Let us be realistic about this matter of fiscal policy. Balancing the budget this year or next appears to be impossible. Without attempting to forecast what action Congress will take, I think it is fairly clear that the appropriations will be in excess of anticipated revenues. Furthermore, the formulation and adoption of a financial plan pointing clearly to a balanced budget in the near future will not be easy. Although the existing tax system is a powerful one and in years of high business activity may produce sufficient revenue to balance the present level of expenditures, there is no reasonable prospect

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that it will produce enough revenue to equal expenditures at the present level over a period of years, good and bad. If higher taxes are to be avoided, there must be lower expenditure.

The reduction of expenditures will unquestionably prove difficult. In 1938 relief and national defense expenditures accounted for approximately half of the total Federal expenditures. There seems to be little hope for reduction of armament expenditures in the near future and we may be faced with necessary increases. The minimum needs for relief, moreover, are so dependent on business conditions that they cannot be anticipated with any high degree of accuracy. Substantial reduction may be anticipated as recovery proceeds, but the pressures for expenditures for other very desirable purposes are so great that a definite goal and firm resolution will be necessary to prevent expansion rather than reduction.

In spite of the difficulties, or for that matter, because of them, it seems to me that the time has come to face the problem. A definite policy should be stated and at least first steps taken to put it in effect. Every proposed expenditure should be scrutinized with the general fiscal problem in mind, and every possible effort be made to bring proposed expenditures within the power of the existing revenue system.

I would like to make it clear that I think the proper way to reach a budget balance is through reduced expenditures, and,

of course, business recovery. If, however, the Congress should be unwilling or unable to reduce expenditures sufficiently, there would be, in my opinion, only one thing to do, namely, to increase taxes. In view of business conditions it is not desirable that any increases in tax rates should become effective immediately. The preferable method, if new taxes must be imposed, would be to place on the statute books this year, to become effective next year, sufficient levies so that on the average over the next few years the revenues will equal or exceed anticipated expenditures — barring, of course, the recurrence of deep depression.

Talking about balancing budgets is not likely to have substantially beneficial effects. The real encouragement will come when Congress has adopted a plan which businessmen recognize to be realistic. A method that might well be of assistance in arriving at such a plan would be for the Ways and Means and Appropriations Committees of this House and the Finance and Appropriations Committees of the Senate to meet each session as a Joint Committee on Fiscal Policy to consider the overall aspects of the expenditures and revenue programs.

Another aspect of general fiscal policy that is of considerable importance to business is the problem of Federal-State fiscal relations. More than half the national total of

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tax revenues is received by State and local governments. There is no unity or ordered relationship between the Federal fiscal system and the State and local fiscal systems. Overlapping taxes have grown increasingly numerous as both Federal and State governments reached out for new revenue sources. Grants-in-aid are being demanded of the Federal Government in increasing amounts. The results of our anarchic fiscal relations have become increasingly unsatisfactory to the governments and taxpayers. We need a better definition of the place of the Federal and State governments in the fiscal picture to reduce the complexities and uncertainties facing business, as well as for the sake of the governments themselves.

There has been much consideration of this problem but little in the way of concrete accomplishment. A promising means of progress is for Congress to create a small, temporary national commission. Such a commission should be made up of men having the highest possible level of ability and public confidence and representing not the Federal, State and local governments as such, but the national interest at large. Their function would be to study intergovernmental fiscal policy in its many ramifications and report to Congress, perhaps in two years. I suggest to Congress the creation of such a commission at this session.

I pass now from the problems of general fiscal policy to those of taxation. The general weight of taxation is in itself an obstacle to business enterprise. To lower the power of the tax system to produce revenue at any level of industrial operation would, however, convince businessmen that there was no intention of ever balancing the budget. Such action should not, accordingly, be considered. There appear, however, to be a number of respects in which obstacles to business enterprise might be removed by shifts in tax burdens that would not reduce revenues at any given level of business and also would not violate any fundamental principles for a sound tax system. Consideration should be given also to whether some tax rates may not be too high to produce maximum revenues. I would like to emphasize four general ways in which such obstacles to enterprise might be reduced.

(1) The first way is to make the chances for reward in venturesome undertakings greater than they now are, compared to safe investments. Our present tax system, especially in the income tax, contains features which operate against venturesome investments. There are a number of these

which might well be altered without decreasing the equity of the system and, indeed, with some resulting increase in equity. I shall not discuss these features in detail but shall only indicate some of the outstanding possibilities. The issuance of tax-exempt securities might be eliminated. The Treasury Department has already recommended this action. Allowance might be made for business losses to be carried forward and offset against income in future years. Corporations might be allowed to deduct capital losses from their ordinary income. Somewhat greater deduction of capital losses, perhaps in the carry-forward provisions, might be allowed individuals. Dividends received by individuals might be made exempt from the normal tax. The top rates in the individual surtax schedule might be reduced. The tax studies that we have carried on indicate that all of these changes would operate in the direction of removing penalties that are imposed on investment in new and venturesome enterprise.

(2) A second way in which to make our tax laws less of an obstacle to investment and business

expansion is to avoid heavy taxation on a business that is suffering loss or is trying to make good the income drain caused by recent losses. Some examples of changes which would operate in this direction are: elimination of the capital stock tax; allowance of a business loss carryover to future years; increase in the deductibility of capital losses by corporations and of capital losses in general.

(3) A third type of change designed to increase the relative attractiveness of more venturesome investments is to remove impediments to the issuance of capital stock as compared to the issuance of bonds. When new enterprise is financed by issuance of securities it is, and ought to be, by the sale of stock, not of bonds, hence tax laws penalize them. Among changes which would tend to eliminate this discrimination are the elimination of the capital stock and excess profits taxes and the allowance of a substantial dividend credit to individuals.

(4) The revenue losses which these steps would entail could properly be replaced by increases in the corporation and individual income tax rates.

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For any new revenues that might have to be secured through increased taxation the deterrent effects on enterprise would be at a minimum if such increases were to come as far as possible from nonbusiness taxes and if nonbusiness taxes were selected so as to place the least check on consumer spending without discouraging investment.

Certain revenue-producing changes should be made in any event to increase the fairness of the system. One change would be to eliminate excessive depletion deductions for oil and gas wells and certain types of mines. As the Treasury has often pointed out, a large amount of revenue can be recovered by closing this loophole. The capital gains tax rates on individuals might well be brought closer to the rates on other incomes. This could be done without substantial discouragement to investment, provided the capital loss deductions were made more generous, as previously mentioned. A desirable change which would increase the revenue for the future is to coordinate the estate and gift taxes into one tax.

Beyond the changes mentioned, which are desirable to increase equity quite aside from their value in increasing revenue, higher

taxes which would have relatively little effect in discouraging investment could be imposed in the form of higher rates of estate and gift taxes in the middle brackets and higher income tax rates on the middle brackets.

I think we should continually have in mind that as a general principle of fairness, we ought to increase the proportionate part played by direct taxes that can take account of individual differences in the power to support government. The chief examples of such taxes are the individual income and estate and gift taxes. The Federal reliance on such taxes should be especially great since State and local governments are not able to use them nearly as effectively as is the Federal Government. We should look forward eventually to eliminating from our Federal tax system the manufacturers' excises and — except for tobacco and alcohol taxes — other miscellaneous excise taxes which tend to be shifted directly to consumers. However, in view of the present revenue needs of the government and the fact that these taxes have been in operation long enough so that the businesses affected have in general become adjusted to them, I recommend that they be continued at this time.

Greater simplicity in the tax system would remove irritants to business and would also be beneficial to taxpayers and the

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government in general. Our revenue system cannot hope to be very simple if it is to be equitable and is not to be excessively burdensome at any point. However, at least one major move in the direction of simplicity is possible.

This move is to substitute a single corporation tax on net income for the four different corporation taxes now imposed. These corporation taxes are a capital stock tax and an excess profits tax enacted in 1932, a remnant of the 1936 undistributed profits tax, and the ordinary income tax. The capital stock tax is not based on the actual value of a company nor is the excess profits tax actually a tax on excess profits. Both depend largely on the ability of management to forecast profits. In its present form, the undistributed profits tax is ineffective but is unduly resented. The corporation tax system would be greatly simplified, its justice measurably increased and the burden on new and uncertain enterprise diminished, if all four taxes were consolidated into a single flat tax on corporate incomes with some concession in rate to corporations having less than perhaps \$25,000 net income.

In discussing choices of desirable tax measures, I have spoken as if we could pick and choose among good tax measures and bad tax measures. This choosing will always be possible to some extent, of course, but as the proportions of tax revenues

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to national income rise, the choice becomes more restricted. Already we are more seriously restricted than we are apt to realize. A wide variety of taxes must be employed or the rates of any one will exceed the point of maximum productivity or will be unduly burdensome. Any substantial further growth of total expenditures, even if only for debt service, will narrow the choice more and more. It will be a serious matter if we are pushed to the place where virtually all considerations of encouragement to business and fairness must give way in order that we may use every feasible tax to its administratively practicable limit.

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

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

April 19, 1939

To: The Secretary

From: Mr. Hanes

I am setting this down because I think it is important. Yesterday afternoon, April 18th, Eric Friedheim, a newspaper reporter, came to see me around 5:15 with the following information, and said that he was about to write a story concerning it because he thought it contained a lot of dynamite.

He said that he had learned that the Secretary of the Treasury had completed his statement on taxation and would present it at an early date. He further said that he had learned the Secretary would say in this statement that it would probably be the last one he would make before a committee of Congress on the subject of tax legislation as there would not be a tax bill in 1940.

I would not pay any attention to this except that such a sentence does appear in one of the earlier drafts of the statement submitted to you. I pass this along for your information.

JWH:JR

April 19, 1939.

MEMORANDUM FOR THE SECRETARY:

As you requested on Monday, I hand you two memorandums enumerating the special functions which would be exercised by the Customs Service in the event of war, as follows:

- I--In the event of a war involving the United States.
- II--In the event of a general European war not involving the United States.

HWG/mff

GRAVES.

**X--EXTRAORDINARY FUNCTIONS OF CUSTOMS SERVICE
IN EVENT OF WAR INVOLVING THE UNITED STATES**

In the event of war to which the United States is a party, it may be expected that the Customs Service will be called upon to perform the following extraordinary functions, in addition to its normal activities:

1. Exercise control over exports.
2. Exercise control over imports.
3. Exercise control over travelers arriving and departing.
4. Exercise control over officers and crews of the merchant marine and other privately-owned vessels.
5. Exercise control over shipping.
6. Exercise control on land frontiers.

CONTROL OVER EXPORTS

A War Trade Board, or other similar organization, will doubtless issue permits for exports, (1) to preclude merchandise reaching the enemy or (2) depleting this country's resources, and (3) to conserve cargo space. Such export permits will go to the Customs Service, which will allow only the permitted merchandise, when covered by export declarations, to leave the country.

CONTROL OVER IMPORTS

Trading with the enemy will be prohibited, and imports must be so supervised as to preclude merchandise originating in enemy territory or dealt in by the enemy from entering the commerce of this country. A permit system similar to that applicable to exports will doubtless be employed, and this would be administered by the Customs Service.

CONTROL OVER TRAVELERS ARRIVING AND DEPARTING

All travelers arriving and departing (and their baggage) will be searched, to prevent contraband articles or communications from reaching

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the enemy or enemy agents in this country; and to enforce restrictions on travel imposed by the military branches to prevent espionage, sabotage, draft evasion, etc.

CONTROL OVER OFFICERS AND CREWS OF VESSELS

The persons and effects of officers and crews of merchant vessels and other privately-owned craft arriving and departing will be subjected to search in the same manner as travelers, and for the same purpose. Restrictions will be enforced against the employment of alien enemies, or persons known or reported as unfriendly, in the merchant marine service. Officers and crews of vessels in port will be closely guarded and supervised to prevent sabotage and espionage.

CONTROL OVER SHIPPING

- (a) All enemy vessels and the personnel thereof, in American waters, will be seized by Customs officers and interned.
- (b) All arriving and departing vessels will be searched for--
 - (1) Communications outside regular mails.
 - (2) Spies, hostile aliens, or other dangerous persons.
 - (3) Bombs or other explosive articles or devices.
 - (4) Injurious matter such as harmful bacteria or cultures, infested animals or plant life.
 - (5) Unmanifested and prohibited articles, including gold, silver, bonds, stocks, securities, or currency carried contrary to law.
 - (6) Merchandise not covered by import or export permits.
- (c) All vessels will be guarded while in port to enforce wartime restrictions relating to the lading or unloading of contraband, and landing or boarding by unauthorized persons.
- (d) Docks, warehouses, and other port facilities, including railway terminals, will be guarded to prevent unauthorized entrance or exit through customs lines, and to prevent sabotage and espionage.

- (e) Wireless equipment of vessels will be sealed on arrival.
- (f) Vessels' logs, including radio logs, will be examined for information of military and other value.
- (g) Censorship will be maintained over communications and documents, including photographic films and prints, found on ships outside regular mails, in baggage or cargo, and on the persons of passengers or crew.
- (h) Control will be maintained over the anchorage and movement of vessels in territorial waters.
- (i) Guards will be placed on vessels proceeding coastwise, when necessary.
- (j) Control will be exercised over small motor craft in territorial waters.
- (k) Control will be maintained over commercial and private aircraft in international movements.
- (l) Applications will be received for war risk insurance; policies will be delivered, and premiums collected.

CONTROL ON LAND FRONTIERS

Imports and exports, and travelers arriving and departing, will be controlled substantially as indicated in the above paragraphs relating to coastal activities.

HMG/aff

II—EXTRAORDINARY FUNCTIONS OF CUSTOMS SERVICE
IN EVENT OF WAR NOT INVOLVING THE UNITED STATES

In the event of a general European war in which the United States is not engaged, the Customs Service will be called upon to enforce neutrality controls over exports, imports, travelers, and vessels.

EXPORTS

The Customs Service will enforce the licensing and other restrictions imposed by law upon the export of arms and munitions of war, pursuant to proclamations of the President.

IMPORTS

The Customs Service will enforce the licensing restrictions imposed by law upon the importation of arms and munitions of war, pursuant to proclamations of the President.

It will enforce any restrictions which may be imposed upon the importation of goods from a belligerent nation which embargoes imports from the United States into her own or other territory, or which discriminates against our commerce.

It will collect such additional duties as may be imposed upon the products of a foreign nation which discriminates against our commerce.

TRAVELERS

The Customs Service will enforce any restrictions imposed by law upon travel by United States citizens on vessels of belligerents.

VESSELS

The Customs Service will enforce the provisions of law which prohibit the departure of any armed American vessel engaged in commerce with a belligerent.

It will enforce the provisions of law prohibiting the departure of vessels, American or foreign, intended for conduct of hostilities or to supply warships of belligerents.

It will prevent the departure of any vessel, American or foreign, when the President directs withholding of clearance because of discrimination against American citizens by such vessel or by a belligerent government.

Any Treasury regulations which may be promulgated to govern the anchorage and movement of foreign or domestic vessels in United States waters, will be enforced by Customs officers, who, with the approval of the President, will take possession of such vessels if necessary to prevent injury thereto, or to harbors or waterways, or if necessary to secure observance of the rights and obligations of the United States.

The Customs Service will enforce neutrality in radio communications by vessels in United States waters, by sealing the radio equipment of vessels arriving in port, to the extent which may be required by instructions of the Navy Department.

HBC/aff

April 19, 1939
4:53 p.m.

HMJr: Hello.

Robert M.
Hutchins: Hello, Mr. Secretary. How are you?

HMJr: I'm all right, how are you?

H: Terrible!

HMJr: Why?

H: The rate of interest is still going down.

HMJr: (Laughter) Well, come on over on my side of the table and you'll boast about it.

H: (Laughter)

HMJr: The reason I'm calling you is this - in case it should be so unfortunate as to be a war in Europe.....

H: Yes, sir.

HMJr:I would like to get -- borrow Jacob Viner to have him come down here and advise me.

H: Yes, sir.

HMJr: And I'd like him if -- only in case of war abroad, but I would like him on a full-time basis.

H: Yeah.

HMJr: Now, would you give that consideration?

H: No, I'll give it my approval.

HMJr: Swell!

H: I should think you were entitled to him. Do I gather from the ominous tone in your ominous voice that you expect that this afternoon sometime?

HMJr: No. It just happens to be five minutes of five and my voice runs down hill very rapidly around five o'clock.

H: I see.

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HMJr: Then I go home and get a glass of sherry, the voice runs up again.

H: I see. Well, I wish you would call me then; I'd feel better. You discourage me a great deal now.

HMJr: Well, I didn't mean to do that.

H: All right.

HMJr: Well, I'm ever so much obliged and I -- I heard you were in Washington the other day.

H: I was there for a few minutes. I -- I made a speech for -- twenty-minutes long to a parole conference and got away the -- the sight of those fellows who were talking about parole in this country is too much for me.

HMJr: Yeah.

H: I couldn't tell whether they were ex-convicts or people who were looking after ex-convicts.

HMJr: You don't know yet?

H: No, I got down -- went down to St. Johns College at Annapolis where I'm on the Board.....

HMJr: I know.

H:and recovered. I felt just the way you do at five minutes of five.

HMJr: Well, if you ever come down and have a few hours, let me know and have either lunch or supper with us.

H: That will be delightful. Thank you very much, Mr. Secretary.

HMJr: Will you tell Viner?

H: Sure I'll tell him.

HMJr: I think he'd like to get it directly from you.

H: Thank you, I will.

HMJr: I'm ever so much obliged.

H: The same to you. Good bye.

April 19, 1939
10:09 a.m.

Operator: Mr. McReynolds.

HMJr: Mac.....

McReynolds: Good morning.

HMJr: Mr. Welles is here -- good morning.....

M: Yes.

HMJr: And just to make a hundred per cent sure tell Customs
no countervailing duty should be put on any country
unless it goes out over my signature.

M: Yes, sir. I'll do that immediately.

HMJr: Close that door will you -- I mean -- I mean so there
can't be any possible slip. I might -- might be away
on the day or something.

M: Yeah , I'll.....

HMJr: No countervailing duties on any country unless it goes
over my signature.

M: I'll see that that's done immediately. Yes, sir.

HMJr: O. K. Thanks, Mac.

M: Right.

April 19, 1939
11:01 a.m.

HMJr: Hello.
Herbert
Feis: Mr. Secretary?

HMJr: Talking.

F: Right. I have a tip from the White House here from the Secretary of State. "Will you please be studying with the Treasury the following in case it becomes necessary to take some action:

1. Stopping draft payments to Italy, most of which are sent by immigrant families in the United States.
2. The same thing in relation to remittances to Germany."

HMJr: Now look, Herbert.....

F: Yes.

HMJr: I've only got so many hours to the day.....

F: Well.....

HMJr:and Archie Lochhead is entirely competent to discuss this with you.

F: Ah.....

HMJr: And I've asked that he be used as much as possible.

F: All right.

HMJr: And that's absolutely his alley, and if you don't mind talking to him -- with him and -- I'd appreciate it. But I just can't do all these things myself.

F: Well, you've already -- that's the instruction I felt I needed.

HMJr: Well.....

F: That's just what I wanted to find out. I -- I didn't dare move without finding out.

HMJr: Well I thought that you.....

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F: Now we've got that payments legislation.

HMJr: The what?

F: We have that bill on control of payments and our reply is going to tend to be.

HMJr: Of what payments?

F: General control of payments bill.

HMJr: Oh, I don't know about that.

F: Oh, it's a major piece of legislation that we drafted a few months ago, sent it to the Treasury and they gave us a much more complicated redraft, and we've left the matter rest. Now this is.....

HMJr: Control of payments?

F: Control of payments.

HMJr: To whom?

F: We once had a talk about it.

HMJr: I'm not familiar with it.

F: Well, it's of course -- it was that major piece of legislation that we had drafted that I was going to bring across again. I didn't know how you wanted me to handle it and the very purpose of the telephone call was to find out how you wanted me to handle it.

HMJr: Well.....

F: I'll get ahold of Archie and we'll do it.

HMJr: Well, if it's legislation.....

F: It is.

HMJr: It's legislation?

F: It -- our suggestion will tend -- say to the President that you can't do this without legislation. Now we've drafted this simple and comprehensive piece of legislation.

HMJr: Well, if you would -- Mr. Foley is sitting here now.

F: Right.

HMJr: And I -- I would see Foley and Lockheed together.

F: All right.

HMJr: The two of them.

F: All right.

HMJr: See?

F: Right.

HMJr: Now, what else have you got on your mind?

F: Well that's -- there are dozens of things that I'd like to -- a chance to report to you on, mainly in the developments in the Latin American field, but having this answer -- what was crowding you, I've....

HMJr: Yes, well, I cleared everything this morning with Sumner Welles. He came to see me.

F: That'll help a lot.

HMJr: But -- you see, it's difficult for me because I -- I don't -- Mr. Hull delegates this thing all over the lot. I -- I never know, for instance.....

F: I know.

HMJr: ...Who to talk to on South America. Now Mr. Welles asked to see me and he had certain things and we agreed on everything, but I want -- I -- I want to be helpful within the physical limitations that I.....

F: Exactly.

HMJr: Of my well-being.

F: Quite. Now, of Latin America, I'm glad that Welles did it -- in addition, my use would be probably to give you additional background, you see, on those situations -- will come before you, if you want me.

HMJr: Well, of course.....

F: Because I haven't bothered you on that.

HMJr: No. Well look, would you do this?

F: Right.

HMJr: On this piece of legislation.....

F: I'll make an appointment with.....

HMJr: Foley and Lochhead.

F: Right.

HMJr: On the South American thing, talk to Sumner. Let him bring you up-to-date and if he says that he wants you in on this thing, I'd be delighted to have you in on it.

F: You mean on South America?

HMJr: Yes, on what I'm trying to do in connection with the Argentine.

F: All right, I'll talk with him.

HMJr: Will you?

F: Of course.

HMJr: And of course I want your help.

F: All right. I'll talk with him.

HMJr: O. K.

F: O. K.

HMJr: Thank you.

F: So long.

April 19, 1939
11:35 a.m.

HMJr: Hello.

Operator: Senator Reynolds.

HMJr: Hello.

Reynolds: Hello. Henry?

HMJr: Talking.

R: How are you, my friend?

HMJr: I'm all right, and how are you?

R: Just fine. I'm a little bit tired; I've been down in North Carolina for about four days making some speeches.

HMJr: Well, I -- I didn't know there was any election down there.

R: Well no, I've been delivering some lectures under the auspices of the Royal Order of Moose.

HMJr: I see.

R: You see, I'm their National Commander.

HMJr: I see.

R: And I have to go from state to state occasionally.

HMJr: I see.

R: Henry.

HMJr: Yes.

R: What I wanted to bother you about this morning, for which I am apologetic, but this man is a friend of mine and you can't criticize a fellow for trying to help your friends. Shep Silberblatt.....

HMJr: Yes.

R: You know, he is from Silberblatt in Alaska.

HMJr: Yeah.

- 2 -

R: Or the construction/^{company}on that Poughkeepsie postoffice.

HMJr: Yeah.

R: What is the status of that?

HMJr: Now look.....

R: Yeah.

HMJr: Johnny Hanes is in the room.

R: Yeah. I phoned him this morning.

HMJr: Well now, can -- can I let him talk to you?

R: Sure. Righto.

John
Hanes: Bob.....

R: Yes, Johnny.

H: We have had hearings, as I told you, on that Silverblatt matter for about -- it lasted for about ten days. We've had the last witnesses. The boys tell me now that they are in the process of -- of making a decision but we haven't gotten it yet.

R: I see.

H: Our Mr. Manning is handling it here who is a lawyer for the Procurement Division under the Treasury, and we -- we have given him a very, very complete hearing as we promised him and you that we would.

R: That's right.

H: And he's -- he's had every opportunity. It wasn't in the nature of a court trial although we did have a court stenographer and took notes and made it -- gave him every opportunity to present all the evidence about the case.

R: Righto.

H: And he's going to get a fair -- fair settlement. I -- that's what we guaranteed to you.

R: That's right.

H: That he would be given every consideration and the settlement will be fair.

R: Well, thank you so much, John.

H: Now, I can't tell you what the final settlement will be yet because the boys haven't come back with it.

R: Yeah.

H: But I checked up after I talked with you this morning and they gave me the assurance that they -- that they were pressing the matter and would get the final answer as quickly as they could.....

R: Well, that is fine.

H: There are a lot of technicalities concerning this thing.

R: Yeah.

H: And we want to give him a good square deal, and I assure you he will get a square deal.

R: Well that's fine, John.

H: He knows that. I told him that he would get a square deal. That's what the Secretary told him when he talked with him -- you'll get a square deal.

R: Well that's fine, John, and I thank you so much, old man.

H: All right, Bob.

R: Good bye.

H: Good bye.

April 19, 1939
11:43 a.m.

HMJr: Hello.

Frances
Perkins: Hello.

HMJr: Frances?

P: Yes. Hello, Henry.

HMJr: How are you?

P: All right.

HMJr: Frances, I want a little advice. Glenn Martin over
in Baltimore.....

P: Yes.

HMJr:has part of the order for the French planes
which I am very much interested in - and the President
is.

P: Yes.

HMJr: He is fearful that they are going to call a strike in
Baltimore on Monday, the A. F. of L. and tie it up.
Now -- hello?

P: Yes.

HMJr: Now, he makes the point that he is outside the city of
Baltimore. He is not in it.

P: Uh-hm.

HMJr: And in the case of the Coast Guard once we've gotten
them.....

P: In the case of what?

HMJr: Coast Guard -- we once get them exempted.

P: Yes.

HMJr: Now, I don't want to do anything about it unless you
think it's advisable and would advise me, you see?
But I -- I'd hate to see his plant tied up.

P: What's the name of the plant?

HMJr: It's the Glenn -- it's the Glenn Martin Aeroplane Company.

P: Glen Martin Aeroplane Company.

HMJr: And he's just outside of Baltimore -- he's in the county, and not in the city.

P: Yes, well that wouldn't make any difference.

HMJr: It's a cement strike, you see.

P: It's what?

HMJr: It's something to do with cement.

P: Cement!

HMJr: Yes.

P: Well, is he building a building?

HMJr: Yes.

P: Oh, I see.

HMJr: He's building -- he's about to complete a building in which to build these French planes.

P: I see.

HMJr: And it's A.F. of L.

P: Yes.

HMJr: And it's called for Monday.

P: Yes. Well, why doesn't he -- why doesn't he settle with them?

HMJr: He isn't involved.

P: Oh, it's the contractors ~~that~~-that's involved?

HMJr: Yeah.

- 3 -

P: Well, I expect we can get it settled.

HMJr: It's -- it's -- he has nothing -- it's a contractor who's building his building.

P: I see.

HMJr: And -- would -- is it asking too much to have you look into it?

P: Oh no, I'll look it up right away. It's no trouble at all.

HMJr: Because, as I say, my interest is that I want those French planes built.

P: Yes, of course. Well, it's no trouble at all, Henry. I mean it's -- there's probably somebody in the office who knows all about it.

HMJr: I see.

P: I mean already, and I just don't happen to, but.....

HMJr: No, I wouldn't expect you to.

P: No, but I mean it's -- it's.....

HMJr: And I wouldn't ask you if it wasn't.....

P: It's no trouble at all and I'll have it looked up and we'll see what we can do. I mean, there's probably reason for calling it off.

HMJr: Is it -- the contractor involved, his name is Arundal Brooks Company.

P: The what - Arundell Brooks?

HMJr: Yes.

P: All right. Well, I'll -- I'll have a man look it right up and we'll see if we can't make a settlement on it anyhow.

HMJr: Thank you.

P: And do the/^{very}best we can and let you know.

- 4 -

HMJr: That's -- I'd appreciate it.
P: Fine.
HMJr: Thank you.
P: Good bye.

April 19, 1939
4:00 p.m.

HMJr: Harold.
Harold Graves: Yes, sir.

HMJr: Mr. Milligan is here, U. S. attorney from Kansas City.

G: Yes, sir.

HMJr: And he feels that the Treasury could have some more men.

G: Yes.

HMJr: Treasury revenue agents.

G: Yes.

HMJr: Internal Revenue. Now, he -- I -- the Governor has asked him to come in here and I'd like you to listen to what he's got, take a look at it, look over all our people we've got out there and see what there is to it, see?

G: Yes, sir.

HMJr: Now, are you available at ten tomorrow?

G: I am, yes, sir.

HMJr: What's your room number here?

G: My room number there is 290.

HMJr: 290?

G: Yes.

HMJr: Do you want to see him here or Internal Revenue?

G: Why I think it would be better perhaps to see him there, Mr. Morgenthau.

HMJr: 290.

G: 290 at ten tomorrow.

HMJr: You'll be there?

- 2 -

G: Yes, sir.

HMJr: And I'm still interested.

G: Yes, sir.

HMJr: O. K.

G: I'll be glad to do it.

HMJr: All right.

G: Good bye.

April 19, 1939
4:50 p.m.

HMJr: Hello.

Operator: The Attorney General.
Frank
Murphy: Hello, Henry.

HMJr: Hello.

M: Hello, Henry.

HMJr: Yes, Frank.

M: I'm sending right over to your office by special messenger an opinion on this matter of the legality of the -- of your proposed arrangement for the protection of our Government bond, security and commodity markets.

HMJr: Oh, yes.

M: And it's O. K.

HMJr: Fine!

M: The thing's O. K. and I'm sending it right over so you will have it there.

HMJr: Fine.

M: All right, Henry, it will reach you in five minutes.

HMJr: And you got my phone through your secretary, didn't you?

M: Yes.

HMJr: See?

M: Yes.

HMJr: And -- I remembered that you wanted to keep it on an informal basis.

M: Yes.

HMJr: So I'll wait until I hear from you further on that. Is that right?

- 2 -

M: Yes. Now, you didn't -- did you send any -- had you ever sent any request for an opinion over here as you guessed when you talked to me yesterday?

HMJr: I sent -- I wrote you on March 24th.

M: Yes.

HMJr: And I -- we gave you another copy, see?

M: Yes.

HMJr: I mean the copy -- you have my correspondence.

M: Yes.

HMJr: And I never asked for a formal opinion because, as I remember it, you asked me to keep it informal until you could take a look at it.

M: Yes.

HMJr: You see?

M: Yes.

HMJr: And then you said, after you had looked at it and found out which is legal and which isn't, then you wanted to talk it over with me.

M: Yes.

HMJr: And if you remember, I asked about taking it up in Cabinet and you said, "No, please don't. Let's have a dress rehearsal." Is what you said.....

M: Yes.

HMJr:first. You see?

M: Yes.

HMJr: Now the only thing I've ever written you is what I wrote you on the 24th of March.

M: Which isn't -- which doesn't constitute a request for a formal opinion.

HMJr: It does not.

- 3 -

M: No.

HMJr: No, it does not.

M: Yeah. All right, that record's right.

HMJr: No, it does not. But I -- but I am waiting to hear from you on it informally.

M: Yes.

HMJr: Is that -- is that right?

M: That's right. That's right.

HMJr: And the other thing is coming.

M: Yeah, all right.

HMJr: Thank you so much.

M: All right.



TELEPHONE NATIONAL 3342

WASHINGTON, D. C.

April 19, 1939

TO ALL MEMBERS OF THE
HOUSE OF REPRESENTATIVES:

I am writing to convey to you the support of the American Farm Bureau Federation for the extension of the President's power to change the gold content of our dollar provided for in the Somers Bill, H.R. 3325 which is now under consideration by the House of Representatives. We respectfully urge your support of the continuance of the power to revalue our dollar in order to protect our currency and to safeguard our exports and our domestic markets. This is a matter of vital importance to 30 million farm people.

At the last annual meeting of the Federation held at New Orleans, Louisiana, December 11, 12 and 13, the voting delegates from 39 member State organizations representing through their membership approximately 1 1/2 million farm people asked for the continuation of this power, pending an investigation and report on the whole monetary problem by a joint committee of Congress. A copy of the resolution is appended. Senator Bankhead and Representative Steagall have already introduced resolutions in the Senate and House which embody our recommendation for such a study; the Somers Bill continuing the power to revalue the dollar embodies our other recommendation.

The power to revalue our dollar expires on June 30, 1939, unless action is taken by Congress to renew this authority. Failure to act now would be calamitous. Perhaps at no time since the close of the World War has the international situation been more unstable. It is imperative, particularly under such conditions of international insecurity, that we maintain these powers to protect our markets from the disastrous consequences of monetary manipulation and exchange fluctuations by foreign countries. Now that we are a creditor nation with huge surpluses, especially of wheat and cotton, it is vital that we protect our export trade from adverse currency manipulation by competing nations.

Practically every important nation of the world has abandoned the fixed gold standard. The Executive branch of practically every nation of the world has been given the power to depreciate its currency if it so wishes and to do so without public discussion and debate. In the world today when currencies of competitor nations are in a state of constant flux it would be suicidal to tie the hands of our government and prevent it from adjusting our currency in such a way as to protect our export markets and prevent foreign produce from being dumped into our domestic market.

If the existing power to revalue the dollar within the specified limits is not continued it really means putting the United States back on the fixed

gold standard. It means tying our dollar to a fixed gold content. We would be virtually the only country in the world that would be doing so. By tying our currency to the gold dollar while the other countries are permitted to depreciate their currencies at will, we are deliberately sacrificing the one weapon which prevents foreign countries from actually carrying out the depreciation of their currencies. We would be giving up the one weapon which would restrain these competing nations from getting a competitive advantage in the agricultural and industrial markets of the world.

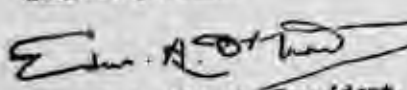
The attempt to maintain a fixed value for our gold dollar regardless of changes in our economic and monetary conditions was an important factor in bringing about the most disastrous and far-reaching depression in our history in 1929-1932. Because our dollar was rigidly bound to a fixed quantity of gold and because other countries depreciated their currencies, basic commodity prices dropped almost one-half. That meant we had to produce twice as much to obtain the same dollar income as in 1929. Our dollar became so dear that it could no longer serve as a fair medium of exchange for goods and services and the payment of debts. Our whole economic structure was brought to the brink of ruin.

Farmers who must exchange their commodities for dollars suffer the most from a fixed gold dollar. For example, in 1929 a farmer could exchange less than one bushel of wheat for a dollar but in 1932 the farmer had to exchange three bushels of wheat for our gold dollar with its fixed value. Likewise, the cotton farmer who borrowed \$100 in 1929, borrowed the equivalent of 1-1/6 bales of cotton but if he had to pay back this debt in 1932, he had to pay back the equivalent of four bales of cotton.

The abandonment of the fixed gold standard in 1933 followed by the revaluation of our dollar stopped the ruinous process of deflation and proved a major factor in starting our nation back on the road to recovery. To abandon now the power to revalue our dollar means once more subjecting the millions of our farm people to the merciless consequences of a fixed and rigid gold standard at a time when our competitor nations can, at will, change the value of their currencies.

We have made much progress towards a managed currency which can serve as a fair medium of exchange and as a protection to the farmers of our nation. We should go forward and not backward. We therefore respectfully urge the continuance of the power to revalue our dollar.

Sincerely yours,


Edward A. O'Neal, President.

Resolution adopted by the annual meeting of the American Farm Bureau Federation, New Orleans, Louisiana, December 11, 12, 13, 1938.

Money and Price Level

The American Farm Bureau Federation has repeatedly urged Congress to exercise its constitutional obligation to regulate the value of money by establishing and maintaining a managed currency, regulated on an index of basic commodity prices which will maintain a dollar with a constant purchasing and debt-paying power.

The American Farm Bureau Federation urges Congress to create a special Congressional committee to study the problem of fluctuating basic commodity price levels and the effect of such fluctuations on farmers, producers of other basic commodities and the economic life of the country. We urge also that such a Congressional committee study the monetary systems of this and other countries in an attempt to ascertain the effect of monetary policy on basic commodity price levels and based on these studies to propose effective methods of achieving a greater stability in basic commodity prices and that Congress enact such legislation as will achieve this objective.

Pending the completion of this report to Congress, we urge the continuation by Congress of the President's authority to change the gold content of the dollar.

April 19, 1939

FOR THE SECRETARY:

Leo Crowley said today that he was sure, after talking with Senator Glass, that Senator Glass would not let the Wagner resolution for an investigation be reported out and that Senator Wagner would go along with Senator Glass. Senator Glass is against letting the Reserve Board "come up and make speeches," Mr. Crowley said. On the other hand, Mike Flynn said that Senator Glass would be willing to see an investigation by the Senate Committee, but not by a joint House-Senate Committee. Mr. Crowley says that the Senator no longer is willing to see even this.

As to the Brown Bill, Mr. Crowley says the Banking Committee has persuaded Senator Brown to postpone hearings until May 10 and at that date to agree again to a further postponement. *Mike says Senator Glass is disturbed about "Morgenthau moving in and putting Upham in there."*

ESD

April 19, 1939

FOR THE SECRETARY:

Secretary Wallace has a dinner engagement Thursday evening which he can not break and, therefore, will be unable to attend the Fiscal and Monetary meeting.

Under Secretary Noble who has been invited in Secretary Hopkins' absence also has a dinner engagement, but said he would like to come late if the Fiscal and Monetary Committee discussion is going to last for some time.

Mr. Delano will be unable to attend.

Mr. Leon Henderson, like Mr. Noble, can only come later in the evening.

Do you wish to postpone the meeting?

ESD

Wt we
go right ahead
HMH

JR

GRAY

Berlin

Dated April 19, 1939

Rec'd 1:27 p.m.

Secretary of State,
Washington.

262, April 19, 4 p.m.

No. 16. FOR TREASURY FROM HEATH.

The Reichsbank statement for the second week of April reports that the Government has fully repaid its operating credit possibly indicating that with the heavy tax payments at the end of the quarter the Government has sufficient funds to carry on until the introduction of the "new financial plan" on May 1. It is understood that taking advantage of the liquidity of the money market the Government has been issuing considerable amounts of treasury bills and of course is still continuing to make payments for much of its orders in "delivery bills", Partly explanatory of the liquidity of the money market is the fact that the Reichsbank during the first half of April has indulged in open market operations to the extent of purchasing 110,000,000 marks of "miscellaneous securities".

Total

-2- #262, April 19, 4 p.m., from Berlin.

Total currency circulation declined 445,000,000 marks during the week to a figure of 9,906,000,000 marks which compared with circulation of 9,656,000,000 marks at mid March and 7,479,000,000 marks at mid April 1938.

GEIST

DDM:HTM

RECEIVED

APR 19 1938

THE ARMY DEPARTMENT
Office of the Secretary
General Building, Washington, D. C.

PAP

PLAIN

LONDON

Dated April 19, 1939

Rec'd 1:58 p.m.

Secretary of State

Washington

519, April 19, 6 p.m.

FOR TREASURY FROM BUTTERWORTH

1. Although the city regards the announcement that Hitler will make a speech before the Reichstag on the 28th as meaning that no war will occur in the interim nevertheless real apprehension and nervousness are on the increase, evidence of which is multivarious. For instance dollar notes are in decided demand and are being sold at around 4.65 delivery after the AQUITANIA arrives on Friday. War loan closed at 93 3/8; it will be recalled that a minimum price of 93 was set during the worst days of the crisis of last September.

2. The foreign exchange market has been more active today the demand for dollars being not extraordinarily large but continuous. Again the belga has been freely offered, the three months' forward rate moving to 1. 102 bars were sold at gold fixing of which 32 were married. The market gave all and buyers were pro-rated on a 33 percent basis. Incidentally some American

arbitrageurs

PAP -2- 519, April 19, 6 p.m. from London

arbitrageurs are querying whether the current insurance facilities which are made available through arrangement with the British Government ensures payments in dollars.

3. The clearing banks decided yesterday not to advance rates for short loans though with bill rates at over $1\frac{1}{2}$ percent, loans at $\frac{1}{2}$ percent against bills are undeniably cheap. The clearing banks have been charging $\frac{3}{4}$ percent for new day to day money against bills but continuing old loans at $\frac{1}{2}$ percent and probably the chief factors influencing yesterday's decision not to increase the minimum rate were (1) the substantial bill holdings by the market houses of bills taken up over the past two months at just over $\frac{1}{2}$ percent and (2) the view that the present conditions causing credit tightness and dearer money are not of a permanent nature. Clearing banks have not yet recovered from the withdrawal of foreign deposits; the first half of April represents nearly the peak of withdrawal of deposits due to tax payments; Easter currency demands coincided with the approach of this tightness and finally the political tension became acute at the same period. Government disbursements are now increasing and foreign deposits are so reduced that even if international tension is not relieved a moderate easing of conditions is expected.

Bill rates are easier today following the clearing

bank's

PAP -3- 519, April 19, 6 p.m. from London

bank's decision while loan money was also easier.

KENNEDY

HPD

RECEIVED

APR 19 1950

THE ARMY DEPARTMENT
Office of the Secretary
Adjutant General of the Army

REB

GRAY

Berlin

Dated April 19, 1939

Rec'd 3:53 p. m.

Secretary of State,
Washington.

265, April 19, 7 p. m.

No. 17. FOR TREASURY FROM HEATH.

Consul General in Prague reports that Slovak currency unit will be the crown with exact parity with the Czech crown or ten crowns to one mark. Old Czech banknotes will simply be stamped over. Coin will remain in circulation with the exception of the 25 heller piece.

He further reports that Slovak Government intends to add an additional two hundred million to the existing three hundred million of circulating coin. The total currency circulation of Slovakia is estimated to be about fifteen hundred million crowns assumed to correspond to the normal requirements of this simple agricultural economy. The additional two hundred million crowns in coin may be expected to have a certain inflationary effect.

The Slovak National Bank is to have a capital of
one

REB

2-#265, From Berlin, Apr. 19, 7p.m.

one hundred million crowns. The shares will presumably largely be held by the Government and dividends will be limited to 6%. The bank will be obliged to make loans without interest to the Government up to a total of one hundred million crowns. The statutes of the bank are reported not to establish the fixed percentage of coverage but the crown is to be backed by an unstated reserve of foreign currencies freely exchangeable for gold. The bank will have a governor, vice-governor and eight directors.

It is reported that the deficit on the ordinary provisional Slovak budget before the break up of Czechoslovakia was about three hundred million crowns per annum to which had to be added deficits on special budgets for public works and state-owned enterprises.

GEIST

NPL

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RECEIVED

APR 20 1949

THE LIBRARY DEPARTMENT
 OF THE NATIONAL ARCHIVES
 COLLEGE PARK, MARYLAND

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris, France

DATE: April 19, 1939, 6 p.m.

NO.: 279

Reference is made to your telegram of April 18, No. 769.

It is requested that Cochran inform the individuals who inquired of him about the possibility of cotton sales to Spain being financed by the Export-Import Bank that only upon regular presentation can this matter be considered in Washington. When Cochran conveys this message he is to give no sign as to whether this Government would or would not find that consideration of such financing was feasible.

The following is for your information:

The preceding reply was agreed on by both the Treasury and the Export-Import Bank. A variety of sources has now put the same question before the Bank.

HULL
(HF)

RECEIVED

APR 20 1939

TELETYPE UNIT
U. S. DEPARTMENT OF STATE
WASHINGTON, D. C.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 19, 1939, 8 p.m.

NO.: 782

FROM COCHRAN.

Very quiet exchange market here, with the French control gaining some sterling this morning. A fair amount of sterling was lost by the Belgians, despite completion of Pierlot two-party cabinet. The Belgians had to let the belga recede to a slightly lower level than that at which the peg was placed at first. In other words, an attempt was made to create a bid market, but the result was the opposite. The Dutch currency and the Swiss franc were rigidly held. There was not much trading in French rentes and shares, with practically no change in quotations. Spain's assurance that there will be no aggression against Gibraltar or Tangier has made the market a little more cheerful.

The market is not worried very much over the idea that Danzig may go to Germany before April 28. That such a step is probable is indicated by the order at Danzig for turning in of foreign exchange and gold. The SS PARIS being destroyed has caused nervousness
and

- 2 -

and shipping at Le Havre, especially the berthing of the NORMANDIE, may be seriously inconvenienced.

The European financial press has given much publicity to meetings held in Washington by the President and his advisers upon measures to regulate finances and markets in case a war does break out.

There is speculation in the press as to whether the Belgians will be able to hold the present level of the belga and carry out a deflation program in the present situation wherein extra expenses are incurred by Belgium, and foreign export markets are being curtailed by the war scare.

END OF MESSAGE.

BULLITT.

RECEIVED

APR 23 1920

RECEIVED
APR 23 1920
U.S. DEPARTMENT OF STATE
WASHINGTON, D.C.

EA:LWW

April 20, 1939

9:20 am

Present:

Mr. Lochhead
Mr. Foley
Mrs. Klotz

HM, Jr: I am in a kind of a "tither" this morning.

And here is the Attorney General's opinion upholding the hand of the Acting General Counsel. It has not yet been acknowledged.

My thought was when I went over to Cabinet I would take the cable along, something like this: Referring to my so-and-so and so-and-so, where I say the Treasury Counsel has advised me that it is legal, but we are waiting to hear from the Attorney General, I would say we have now got a formal opinion from the Attorney General that it is legal. And that's all! That does not say what we are going to do. It is what is known as

But think it over. All night I thought it was smart. We don't cross the bridge "Are we going to loan money or aren't we? We referred it to the Attorney General. He said it's legal. I want to show it to the President at Cabinet and I want my last cable and then we send another cable "now it's legal" and then let them come to me, see, and tell us what they want.

Dr. White: Do you want to include the original request to you? Otherwise they might say why do you offer this?

HM, Jr: You can have it -- yes, that's all right. But I just want to show him, and it's easier for the President. I will simply say, This is what I did Sunday night. You O. K'd it. Now I just want to send word over that it's legal. I will tell Jesse Jones that we are going to do it and then tell Herbert Feis we are doing it and tell him we are going to show it to the President at 2 o'clock. Does that make sense?

-2-

Mr. Foley: Yes.

Mr. Lochhead: Yes. They asked that question twice.

HM, Jr.: Just to digress a minute, if German stocks are continuing to go up, it's highly significant because they can only go up for one reason -- because they are betting there is not going to be any war.

How does that thing hit you? Because this is the only chance you will have to see me before 2 o'clock.

Mr. Foley: I would not go any further.

Mr. Lochhead: That's right. I wouldn't go any further.

Dr. White: Yes. I think many of them misunderstand the Johnson Act and I think they will be surprised.

HM, Jr.: Then -- you think it over -- there is no reason to send it to the French?

Mr. Foley: They have not raised the question.

Mr. Lochhead: On the question of the French, Dutch, Swiss, etc., it looks as if they all have rather diversified opinions. It does not look as though they want to go ahead the way the British go ahead and we were wondering two things; first, whether you should not have Cochran thank them for giving consideration and ask them to notify him if anything further comes up and then it is open, but we have not made any commitment.

HM, Jr.: Put it this way: tell Cochran to sit tight and let all additional overtures come from these countries, but sit tight; not to push it.

Dr. White: On second thought, I wonder if it would be desirable to let it leak out to the French.

Mr. Lochhead: The French have just backed away from everything. The other suggestion I had was that whether or not you wanted to talk to Cochran on the phone, cover

-3-

any questions he might bring up, rather than just cable.

HM, Jr: I am all sewed up until four o'clock, but I do want to get off an answer to the British.

Dr. White: If the French thought it was a possibility, they might be more pleased.

Mr. Lochhead: I don't like to make overtures to the French.

Mr. Foley: On the letter that came over from Jesse Jones, he said it might be a good idea to amend the Johnson and Neutrality Acts so private bankers could make these loans. I think we ought to reply to Jesse's letter and we ought to tell him that this prohibits it, and make it stiff.

I said to Berle and Fels last night -- they thought we had to have legislation to do what the President said in his chat to them. Berle had the wrong statute. That's why he thought new legislation was necessary. And then they went through an act of how all these things ought to be pretty clear and Congress ought to be consulted. I made the point if we went to Congress and got turned down, we would be in a worse position.

HM, Jr: Strictly for Treasury information, I would tell Jones no differently. But don't make it seem that I don't want him to consult. I would put it this way: he ought not to make this move without he and I seeing the President.

I found that the President, this last time we went over to see him on this question of handling our own markets, has it very definitely in mind that he wants to. As far as the cash and carry, that the carry thing bothers him much more. In other words, he is not going to do -- there is a Woodrow Wilson policy that if, as he used the thing, Mr. Scwab went over on a boat to sell munitions and this boat got torpedoed (which it did when Scwab was on) and Mr. Schwab was injured, that's just too bad! In other words, he does not expect to have a *cass belli* because some American citizen wanted to go into the war zone and gets sunk, and he's going to make it easy for the Allies

-4-

to buy here. (That must be kept here.) Because this was news to me, but that's the way. He's going to make it easy for them -- and he went so far as to say -- on the lending end, but he isn't going to make it a *cassì belli* if some fellow wants to go into the war zone. And he also says that he is going to have a patrol from Newfoundland down to South America and if some submarines are laying there and try to interrupt an American flag and our Navy sinks them, it's just too bad. What are they going to do? In other words, he is going to play the game the way they are doing it now. If we fire and sink an Italian or German, well, it was just as he said, we will say it the way the Japs do, "So sorry". "Never happen again." Tomorrow we sink two. We simply say, "So sorry," and next day we go ahead and do it over again. But it's very important. But you fellows must not breathe it to a soul. It is what he has in mind, because you fellows are dealing with the State Department and they don't know it.

Dr. White: Do you think this would have any influence if it got out -- would make more difficult his preliminary building up of his neutrality policy if it got out that we can make loans? I mean if it gets out to the public?

HM, Jr: But it must not! It isn't going to Cabinet. I never take up anything at Cabinet which is important.

Dr. White: I misunderstood you.

HM, Jr: No. No. No. This is doing what the President wants and following his policy that he is going to be not too strict on lending money to buy our goods, merchandise, which isn't talking in terms of munitions. He's going to follow the new modern method of when someone gets in your way you sink them and apologize and do it again next day. The "So sorry" policy. Which is the modern way. The Japanese come and deliberately have three airplanes and machine gun the British Ambassador traveling from Shanghai to Nanking. They apologize. "So sorry." "We thought it was an ambulance."

Mr. Foley: Or a whale!

HM, Jr: Now listen. You are getting the inner, inner-innermost stuff.

oOo-oOo

TREASURY DEPARTMENT

WASHINGTON

April 20, 1939.

MEMORANDUM FOR THE SECRETARY:

Pursuant to your instructions, I interviewed Mr. Milligan, United States Attorney at Kansas City, this morning at ten o'clock.

At Mr. Milligan's request, Mr. Irely was present during the latter part of the interview.

The subject of discussion was (a) the Pendergast case, and (b) a case involving income-tax violations by a number of well-known Kansas City gamblers. As you know, these cases are under active investigation by the Intelligence Unit at Kansas City at the present time.

Mr. Milligan expressed himself as being generally well pleased with the work of the Treasury agents on both these cases.

With respect to the Pendergast case, he stated that the investigation was well in hand and that the Treasury personnel assigned was adequate to conclude the investigation.

With reference to the case involving the gamblers, he made two requests, as follows:

- (1) For the assignment of six additional internal revenue agents; and
- (2) For authorization which would permit the investigating officers to communicate the results of their investigations directly to him as the investigations proceed, instead of awaiting the completion of the investigations and the transmittal of the usual formal reports to Washington.

With reference to the first of these two requests, I informed Mr. Milligan that since his departure from Kansas City four additional internal revenue agents had been assigned to the investigation of the case involving the gamblers, and that they would report at Kansas City Friday morning, April 21. I suggested that Mr. Milligan contact the officer in charge of this investigation upon his return to Kansas City, and that should it be the opinion

of that officer that personnel in addition to these four agents was needed, this would be immediately forthcoming. This was satisfactory to Mr. Milligan.

With reference to the second request, I called Mr. Milligan's attention to the fact that the requirement for the formal transmittal to Washington of reports of investigation in income tax fraud cases was a requirement of the Department of Justice, which desired to review such reports prior to the institution of criminal proceedings, and I advised Mr. Milligan that if the Department of Justice desired to waive this requirement with respect to the present case and would so advise this Department, instructions would be issued that the reports of the investigation would be submitted directly to him instead of through the usual channels. Mr. Milligan stated that he would take up this matter with the Department of Justice.

On the same point, Mr. Irey advised Mr. Milligan that he would instruct the officer in charge of the investigation of the gambling case at Kansas City that he should confer freely with Mr. Milligan as the investigation proceeded and keep him posted from day to day regarding all important developments.

Mr. Milligan expressed himself as being entirely satisfied with the attitude of the Treasury Department with respect to the cases discussed.

GRAVES.

April 20, 1939
10:13 a.m.

HMJr: Hello.

Dr. Roswell

Magill: Hello.

HMJr: Yes.

M: Good morning, Henry.

HMJr: How are you?

M: Pretty good. I got a little piece of gossip yesterday here in New York that I thought I would pass on to you because you might want it.

HMJr: Please.

M: And that was that -- that Randolph Paul -- you know who he is.....

HMJr: Yes.

M: Might be interested in the General Counselship if that's still open.

HMJr: Oh, really?

M: Yeah. I hadn't supposed at all that he would be.

HMJr: Uh-huh.

M: I understood the things in his firm were in such a position that -- that he might very well be interested in doing it.

HMJr: Is that right? Now is this -- how -- how direct is this gossip?

M: Well, I got it fairly direct. I got it from someone that had been talking to him. I didn't talk to Paul myself.

HMJr: I see.

M: But -- and I -- I more or less confirmed it last night. I talked to some other people that know him fairly well and they seemed to think that that was probably true.

HMJr: Well, that's very interesting. Would you feel he'd be a good man?

M: Well, of course, Paul is -- I should think he would be. Of course, Paul's experience is mainly tax experience.

HMJr: Yeah.

M: Not so much, I think, general law. On the other hand, Paul is a person who is -- with very high ideals. He certainly is sympathetic with the aims of the -- of the Administration generally.

HMJr: Yeah.

M: And I think he's a very sound man.

HMJr: Yeah.

M: So I would think that it would be well worth your while to consider him and -- in the event you haven't got somebody else in mind that you think would be better.

HMJr: Well, the man that you recommended.....

M: Magruder.

HMJr: Magruder, very much between us, they're going to offer him a second -- second Judgeship up in Boston.

M: I -- I didn't hear you, Henry.

HMJr: They're offering him -- to make him a -- a judge -- a Federal Judge of the Circuit Courts.....

M: Oh, I see.

HMJr:in Massachusetts.

M: Yeah.

HMJr: They want him for that.

M: Yeah.

HMJr: So I can't compete with that, can I?

M: Yeah. Yeah.

- 3 -

- HMJr: But I know Paul and -- and I'm glad to get it and I'll - I'll most likely get in touch with him.
- M: Paul is -- you can talk to Eddie about him, he knows him too, of course. I -- I think that Paul is -- I think his integrity is a hundred per cent.
- HMJr: Yeah.
- M: I think he would -- I know he's generally interested in some kind of public work if he could afford to do it, and apparently the situation is that he thinks he can, and would rather like to.
- HMJr: O. K.
- M: So.....
- HMJr: Well, he is Johnny Hanes' -- was Johnny Hanes' lawyer up to the time he came down here.
- M: I believe that's true.
- HMJr: Yeah.
- M: So that -- it ought to be easy enough to find out about it and -- and see whether or not he'd be interested in doing it.
- HMJr: O. K.
- M: How's everything else, Henry?
- HMJr: Pretty well. I'll be having something in the mail for you Friday night.
- M: Well, that would be good. I -- I've kept in touch with Shoup about it and I gather you've talked to Earle.
- HMJr: Yes.
- M: But I -- I hope that you can get something worked out as I wrote you.
- HMJr: Yeah. Well, I appreciated your note. I'm not very good at answering the longhand, so I sort of stall them.
- M: Well, don't bother to do it - I just.....

HMJr: But I -- I'll get something in the mail Friday night and if it isn't rushing you too much I'd like your suggestions and criticisms Monday morning.

M: Well, you can have them. I've got nothing special on Saturday and I'll be glad to go over it.

HMJr: Well, shall we send it to you at your house or the office?

M: I expect better -- well, I expect perhaps the office is all right if it gets off Friday night.

HMJr: Right.

M: All right, Henry. Well, good luck to you.

HMJr: Thank you so much.

M: All right.

April 20, 1939
11:37 a.m.

HMJr: How goes it?

Sumner
Welles:

Fine. I have a little difficulty here that I wanted to ask you to help in.

HMJr: Only one?

W: Only one. Espil has just left me and he told me he was talking to you last night.

HMJr: Yeah.

W: He finds himself in a very embarrassing situation, because his Treasury Department and his foreign office hasn't told him anything at all about what Irigoyen has been talking to your Department about.

HMJr: I see.

W: And he fears that Irigoyen may go beyond what he's supposed to do and he's a little concerned about it. I wondered, in order to make it possible for him to know exactly and in greater detail than I was able to give him, just what the subject of the conversations would be, if you could have one of your people send me an entirely confidential memorandum telling me the main points that would be discussed so that I could let him have them.

HMJr: Sure. Sure, I'll work it any way you want.

W: If -- if you could do that I think it would probably help him to clarify.....

HMJr: I know he was embarrassed. When he got embarrassed, I got embarrassed, but after all that was over his Government and.....

W: Why sure.

HMJr: And.....

W: But I would like to help him out because it's confusing for him and then he's really worried about it.

HMJr: I'll have a memo -- what you want me to do is to have a memorandum prepared the kind of things that we are thinking of discussing with.....

- 2 -

W: That's it exactly.

HMJr: Right?

W: That's it exactly.

HMJr: O. K.

W: Thank you a lot. Did you get my note this morning about suggesting a meeting in your office?

HMJr: Yeah, but I -- I put it to one side because I have something which I had to do this morning.

W: You bet.

HMJr: But I have got it here and I -- I just needed to -- a breathing spell.

W: Right. Well any -- anytime that it's convenient for you let me know.

HMJr: Thank you, Sumner.

W: Thanks a lot, Henry. Good bye.



TREASURY DEPARTMENT

WASHINGTON

April 20, 1939

TO THE SECRETARY:

In accordance with your request for a memorandum on the organization of the War Loan Staff of the Treasury created during the World War period, I find that there is no organization chart available and no outline of the duties performed by the various individuals on that staff. I find that there was no set plan of organization but that the Secretary asked certain people to come to Washington as particular jobs came up to be performed. I also find that many of these people gave their services free of cost to the Government for the first several months, but that after they were here a while the Secretary insisted that they accept some compensation for their services. These individuals were added to what was then known as the War Loan Staff of the Secretary's Office and their expenses were paid from "Expenses of Loans," which at that time was an indefinite appropriation, the amount of which was controlled by taking a percentage of the proceeds of the sale of securities made by the Treasury and setting it aside in the appropriation account to meet the expenses of the Treasury in connection with the financing of the war.

There were several outside organizations, such as the War Industries Board, the War Trade Board, the Purchasing Commission, and the Capital Issues Committee, the duties and functions of which concerned the Treasury and in almost every case I am certain that the Treasury designated some one to act as a liaison officer between those agencies and the Treasury although the record is not clear as to who the liaison officers were in every case.

I am attaching hereto a copy of a memorandum prepared in 1918 which indicates the matters in which the Treasury was interested during the period of the war. The following is a list of the names of some of the individuals who helped the Secretary conduct the fiscal operations of the Government during that period:

Frank Vanderlip had charge of the sales of war savings and thrift stamps.

Lewis B. Franklin worked on the financing and particularly the allotments of Liberty Bonds sold under the Liberty Bond Acts.

- 2 -

George O. May considered problems of revenue taxation. He was also consulted a great deal on the accounting involved in reports made by foreign governments on their purchases made in this country and their requests for purchases which were approved by the Purchasing Commission.

Norman H. Davis, who later became an Assistant Secretary of the Treasury, acted as a liaison officer with the State Department and worked with Mr. Rathbone in making arrangements for advances of funds to our army abroad.

Albert Rathbone, who later became an Assistant Secretary of the Treasury, made contacts with financial missions from the allied governments and made arrangements for loans to those governments.

Albert Strauss was liaison officer with the Federal Reserve Board on foreign exchange and related problems. The Federal Reserve Board handled foreign exchange matters for the Treasury.

Paul Warburg, who was a member of the Federal Reserve Board, worked with Mr. Strauss in handling foreign exchange and related problems and was also the Federal Reserve representative on the Capital Issues Committee.

Russell C. Leffingwell, who later became an Assistant Secretary of the Treasury, worked on financial and legal problems, drafting circulars offering Liberty Bonds for sale, acts of Congress, foreign loan and other fiscal matters.

Edward Clifford, who later became an Assistant Secretary of the Treasury, was the liaison officer with the War Trade Board.

S. Parker Gilbert was the lawyer who assisted Mr. Leffingwell in the financial-legal problems. He later became Assistant Secretary of the Treasury and afterwards was made the first Undersecretary of the Treasury.

Nicholas Kelley assisted Mr. Rathbone and Mr. Davis on legal problems concerning foreign loans and payments to our army abroad. He later became Assistant Secretary in charge of foreign loans and also in charge of payments and loans made to railroads under Sections 209 and 210 of the Transportation Act of 1920.

George Franklin, Jerome Hanauer and Richmond Weed were all lawyers and assisted in the legal problems concerning various matters which the Treasury was then handling.

- 3 -

There were many others who came in for a short period and those who operated in the field in connection with the Liberty Bond campaigns.

In the event of hostilities involving the United States, all Treasury activities would have to be enlarged. If you would like to have a memorandum on this I shall be glad to prepare it. Also, it may be necessary to give consideration to the creation of additional agencies such as those which functioned during the last war. This would, of course, depend upon the extent of our activity in any hostilities. Some of the war agencies for consideration are:

War Finance Corporation
(Probably R.F.C. could handle this)
Capital Issues Committee
(Probably Securities and Exchange Commission
could handle this)
War Industries Board
War Trade Board
Purchasing Commission
War Credits Board
U. S. Grain Corporation

swB

Enclosure

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CLASSIFIED SUMMARY OF THE PRINCIPAL WAR
ACTIVITIES OF THE TREASURY DEPARTMENT.

(More fully detailed in memorandum of June 12, 1918)

Purely Treasury Activities:

I. Financing the War.

(A) Internal:

- (1) Formulation of policies as to taxation and borrowing for recommendation to the Congress.
- (2) Dissemination of information to encourage thrift and investment.
- (3) Flotation of loans and adjustments to prevent financial stringency resulting from such loans or from taxation.
- (4) Restriction of non-essential industry by -
(1) taxation (2) control of capital issues.
- (5) Facilitating production of essentials by financial assistance.

(B) External: Co-belligerent countries.

- (1) Financing, auditing, and recording Government expenditures at the seat of war.

(C) External: Neutral Countries.

- (1) Regulation of foreign exchange
- (2) Negotiation of foreign loans
- (3) Co-ordination of activities with those of co-belligerents.
- (4) Control of gold exports.

(D) Loans to co-belligerents.

- (1) Formulating policies as to amounts of loans.
- (2) Making of loans, determination of terms thereof, and obligations to be received therefor.

- 2 -

- (3) Control of the expenditure of the proceeds of such loans.

II. Insurance of War Risks.

- (A) Ships and cargoes
 (B) Personnel of the mercantile marine.
 (C) Naval and Military forces.

III. Activities of the Public Health Service.

- (A) Health service in extra cantonment areas.
 (B) Sanitation and Health Service in relation to War Industries.
 (C) Miscellaneous health activities and hospital services arising from the War.

IV. Activities falling to the Treasury by reason of its possession of machinery to deal therewith.

(A) Employing machinery of the Customs Service.

- (1) Control of movement in and out of the United States

Persons
 Commodities
 Communications other than mail or cables

(B) Employing machinery of the Internal Revenue Bureau.

- (1) Restriction on the use of grains for alcoholic beverages.
 (2) Control of traffic in narcotics.
 (3) Special production of glycerine.

(C) Employing machinery of the Secret Service.

Investigations for

- (1) State Department
 (2) Food Administration
 (3) War Trade Board
 also for
 (4) War Risk Insurance Bureau, and) which are themselves
 (5) War Finance Corporation) Treasury activities.

- 3 -

(D) Employing machinery of the War Risk Insurance Bureau.

- (1) Assistance in private insurance of Naval and Military Forces.
- (2) Liquidation of enemy insurance companies.
- (3) License of foreign insurance companies.

July 17, 1918.

C
O
P
Y

CABLE TO AMERICAN EMBASSY

STRICTLY CONFIDENTIAL

LONDON

FOR BUTTERWORTH FROM SECRETARY OF THE TREASURY

PLEASE CONVEY THE FOLLOWING TO THE BRITISH TREASURY

In answer to your cable No. 501 of April 17 and your cable No. 520 of April 19, Secretary of Treasury has been advised by Attorney General that Department of Justice concurs in the informal opinion of Treasury counsel expressed in our cable No. 263 of April 16 to the effect that the Reconstruction Finance Corporation has the legal authority to make loans to a corporation organized in this country and acting on behalf of British Government in the event of war in Europe in which Great Britain is one of the belligerents; such loans to be secured by British-owned American securities requisitioned by the British Government and such collateral to have a value in excess of any such loans; and that such loans would not be prohibited by Johnson and Neutrality Acts and international law of neutrality. It should be pointed out that this is merely the confirmation requested by the British Government as to our legal authority to make a loan of this character.

EHF:s Typed 4/20/39

April 20, 1939

4:15 p. m.

Present:

Mr. Loshhead
 Dr. White
 Mr. Foley
 Mrs. Klotz
 Mrs. McReynolds (for part of the meeting)

HM, Jr: I showed this cable to Mr. Hull before Cabinet and he said if we sent that, it might hurt (if it got out) the possibility of the neutrality legislation and he wished I would let it rest for a couple of days. I said I would let it go over until Monday. And then I showed it to the President and the President's reaction was just the same (so he said). But I think you ought to get it over as long as they have asked us so often, but tell them if it gets out you will deny it. So I said rather than send the cable, what do you think if I tell Bewley verbally and tell him if it gets out we will deny it. So he said, well, make that suggestion to Mr. Hull.

(To Mr. Foley) Why don't we change the letter to Mr. Jones and just send him the Attorney General's opinion; not say anything about the proposed cable to Nutterworth.

Mr. Foley: All right. When I read it to him over the phone he said O. K.

HM, Jr: I don't know whether I should call up Hull tonight or tomorrow. What do you think? Do you think it would be any great harm to wait until Monday? And then take it up Monday. Last couple of days with me he has been, on the surface, terribly nice and why not let it go until Monday and I will call him up Monday.

(Gave papers to Miss Chancey and said, "Hold everything until Monday.")

Send it to the General Counsel of the R.F.C. (Gave that back to Foley.)

(To Mr. Foley) The President wants us to look up and

-2-

see what is left, if anything, of the Director General of Railroads besides the title. Have they all died? Now here's the thought that Mr. Basil Harris has. Gosh! He's a swell guy! He put up more questions than anybody can answer. Got them all woozy, especially the Navy.

You see, during the war they had what they called a permit system for railroads. In other words, you could not ship a carload of anything to any port, I take it, without getting a permit. Of course, what happened, everything got bogged down and then they did it. Now he has brought this thing up. I want you to find out under what kind of legislation

(Mr. McReynolds came in at this point.)

Dr. White: Wasn't the Secretary of the Treasury the Director of the Railroads?

HM, Jr: Yes. I am Director General of the Railroads. I told the President about Basil Harris raising the question about the permit system and the President wanted us to look up to see what was left, if anything, of the Railroad Administration.

What he is thinking of is how many freight cars we would need in case of war, and so forth, and I raised the question of the permit system. He does not want to take over the railroads, but the permit system, it seems to me, is very important and what do we need?

Now the other thing the President raised. He said when he was Assistant Secretary of the Navy he grabbed every sea-going tug there was and sent them all down to Norfolk and the next thing he knew Boston had no coal and he had to get half of them back and if you are not careful the Navy will do it again. She, he said, make an inventory of tugs. That will be just down Basil Harris' alleys. I would love to suggest one to him that he has not thought of. I will raise the President one; I will include barges, both sea-going and harbor, coal barges and domestic and railroad barges.

But this fellow! Gosh! He comes down here and

-3-

General Watson calls up all over -- what wharves are allocated to the Navy and what to the Army and what to private traffic? And then he said to the Admiral, Why should the QUEEN MARY come into the Port of New York? And Admiral Leahy says, Why not? He said, Well, suppose they sink her at Ambrose Channel. What would happen to the Brooklyn Navy Yard? I would send it to Boston or Montauk Point. So take the Paris and the Normandie.

This whole question of police. He is just clicking. What I am thinking of doing -- I didn't have a chance today. You can't say anything at Cabinet. Every Cabinet member except Hull asked for a minute afterwards. Hull said he did not want any time. I said, I guess you have had yours.

But I have a fellow, Mr. Graves^{any} of the Union Pacific, retired -- possibly somebody like that. But I am thinking all the time in terms not in terms of the Treasury, but in terms of what we can do to help the President and the first is what is left of the Railroad Administration? What would you have to do to resurrect it, after the President said, he declared a national emergency?

Dr. White: A study of available and needed freight cars has already been made.

HM, Jr: That was in terms of \$80,000,000,000 income and not in terms of war.

Dr. White: No. I think both. I think it was being made by one of the men in the War Department.

HM, Jr: The thing -- it's just shocking.

Dr. White: They are not taking it seriously.

HM, Jr: What the hell are they taking seriously?

Mr. McReynolds: I think the Departments are taking it seriously; the problems that would come up in case of hostilities. They are thinking of it locally, within their own channels, but nobody has stopped to think what would happen if something had to be done this afternoon. In other words, they have not got it down to the point.....

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Mr. Foley: You are much farther ahead in your thinking than any of these other fellows.

HM, Jr: I will give you an example. We dig up the war risk insurance.

Mr. Foley: Sure! I was thinking of that.

HM, Jr: Well, they find out -- the Maritime Commission finds I am interested so they go to work and they quickly get a meeting and they are going to bring it up before their Commission and maybe in ten days they will have a bill, and will we help? In other words, they have been studying it for years but have not even passed a resolution in the Commission.

Mr. Foley: That's something that ought to be done so when it comes we have the legislation.

HM, Jr: I want things done, but I am not thinking everything should be in the Treasury. As a matter of fact, I don't want anything more than I have. I have more than I can handle. I don't want to grab anything off. But I do want to help the President and we will just tick. For one thing, we have learned this: there was a Harbor Commission or something like that -- one that controlled the harbors and one that controlled the railroads and the two things ought to be working together and be set up and have these "trial runs".

You like Harris, Mac?

Mr. McReynolds: He's grand! I left him and Graves together a while ago. They were having a grand time.

HM, Jr: Did you pick a fellow yet to help Harris?

Mr. McReynolds: No. I told him all the chores he needed done, following up contacts with the Departments, I would have Charlie Schoeneman do, because he knows the Departments and he's a good contact man and totally reliable.

HM, Jr: You will have to dig up some new ones, because you will need have a dozen Charlie Schoenemans before you are through.

Just so you boys don't get rusty! But this is fun!

oOo-oOo

April 20, 1939.

Secretary Morgenthau

E. H. Foley, Jr.

In accordance with your suggestion, I have drafted the attached cable for Butterworth in reply to the British Government's request for confirmation of our informal opinion as to the legal authority of the RFC to make the proposed loans. This draft has been approved over the telephone by Mr. Jones, and initialed by Lochhead, White, Bernstein and me. Mr. Feis has informed Mr. Lochhead that it will be necessary for him to clear the proposed cable with the legal adviser to the State Department and with the Secretary. Mr. Feis was of the impression that such clearance could not be obtained before the Cabinet Meeting this afternoon. However, he promised Mr. Lochhead to get in touch with him before 2 o'clock.

For your convenience, I am also attaching the cables referred to in the attached draft and have marked in red the relevant portions.

Attachments

(Initialed) E. H. F., Jr.

EHFJr/AL/ta/s
Typed 4/20/39

No copies made
of cables referred to
in last paragraph

See note this
material to Cabinet
Meeting today at
2:00

TREASURY DEPARTMENT

340

INTER OFFICE COMMUNICATION

DATE

April 20, 1939.

TO Secretary Morgenthau
FROM E. H. Foley, Jr.

In accordance with your suggestion, I have drafted the attached cable for Butterworth in reply to the British Government's request for confirmation of our informal opinion as to the legal authority of the RFC to make the proposed loans. This draft has been approved over the telephone by Mr. Jones, and initialed by Lochhead, White, Bernstein and me. Mr. Feis has informed Mr. Lochhead that it will be necessary for him to clear the proposed cable with the legal adviser to the State Department and with the Secretary. Mr. Feis was of the impression that such clearance could not be obtained before the Cabinet Meeting this afternoon. However, he promised Mr. Lochhead to get in touch with him before 2 o'clock.

For your convenience, I am also attaching the cables referred to in the attached draft and have marked in red the relevant portions.

E. H. Foley

Attachments

CABLE TO AMERICAN EMBASSY

LONDON

STRICTLY CONFIDENTIAL

FOR BUTTERNORTE FROM SECRETARY OF THE TREASURY

PLEASE CONVEY THE FOLLOWING TO THE BRITISH TREASURY

In answer to your cable No. 501 of April 17 and your cable NO 520 of April 19, Secretary of Treasury has been advised by Attorney General that Department of Justice concurs in the informal opinion of Treasury counsel expressed in our cable No. 263 of April 16 to the effect that the Reconstruction Finance Corporation has the legal authority to make loans to a corporation organized in this country and acting on behalf of British Government in the event of war in Europe in which Great Britain is one of the belligerents; such loans to be secured by British-owned American securities requisitioned by the British Government and such collateral to have a value in excess of any such loans; and that such loans would not be prohibited by Johnson and Neutrality Acts and international law of neutrality. It should be pointed out that this is merely the confirmation requested by the British Government as to our legal authority to make a loan of this character.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 20, 1939.

TO Secretary Morgenthau
FROM Mr. Harris

This morning I saw Colonel Watson. He in turn arranged an appointment with Admiral Leahy, whom I saw in conjunction with Commander Hamilton Bryan and another gentleman whose name I did not get. I discussed with the Admiral quite fully the points which I thought were most important and he then turned me over to Commander Bryan with whom I spent considerable time, and also in the company of Commander DeBarbey.

I find that each person I talked with is well aware of the problems and seriousness of his own particular field or department, but at the present moment there does not seem to be any coordination of interests. Not that there is any conflict, but apparently no one has thought it necessary to draw these various interests into one cohesive unit.

I am working steadily on this and will have further to advise you shortly. I now propose to return to New York this afternoon and to endeavor to ascertain just how the Shipping Control Committee was set up during the World War and how the General Operating Committee, which took care of the inland railroad transportation end, functioned, and my present plans are to return to Washington next Tuesday night and spend Wednesday and Thursday here. Meanwhile, I can be reached at my office, 1 Broadway, New York, telephone Digby 4-5800 or over the weekend at Rye, New York, telephone Rye 38.

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" See
4-16

Orig
~~Atty~~
Gen's
Opium
on
Rox
Loan

April 20, 1939.

My dear Mr. Attorney General:

Receipt is acknowledged of your opinion of April 19 relative to loans by the Reconstruction Finance Corporation.

I appreciate very much your promptness and cooperation.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary.

*Letter sent by
Hand - 4-20-39
4:30 p.m.*

The Honorable

The Attorney General.

HMJr/ta

Typed 4/20/39



Office of the Attorney General
Washington, D.C.

April 19, 1939.

The Honorable

The Secretary of the Treasury.

My dear Mr. Secretary:

I have your letter of April 18 in which you say that with the approval of the President you are conducting negotiations with certain foreign governments as to courses of action which may be adopted for the protection of our Government bond, security and commodity markets, etc., from the impact and consequences of a war in Europe; and you further state that the President has asked you to obtain my opinion as to the legality of the loan involved in the proposal described by you as follows:

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

The Johnson Act (48 Stat. 574), forbidding loans to foreign governments in default on their obligations to the United States is in-

applicable by reason of the express provision in section 2 thereof, excepting from its operation "a public corporation created by or pursuant to special authorization of Congress, or a corporation in which the Government of the United States has or exercises a controlling interest through stock ownership or otherwise."

Section 3 of the Neutrality Act (50 Stat. 121, 123) makes it unlawful for any person "to make any loan or extend any credit" to "the government of any belligerent state * * * or of any person acting for or on behalf of the government of any such state." The act defines "person" as including corporations, and contains no express exception concerning corporations owned and controlled by the United States. It is, nevertheless, a general rule that statutory provisions such as these do not apply to the Government in the absence of language clearly indicating an intention that they shall so apply--and I find no such language in the Neutrality Act.

A corporation owned and controlled by the United States may for some purposes be considered as an entity apart from the Government and not fully endowed with the immunities of the Government, as pointed out by the Supreme Court in *Keifer and Keifer v. Reconstruction Finance Corporation et al.* (February 27, 1939); and it has also been declared that "the rule of exclusion of the sovereign is less stringently applied where the operation of the law is upon the agents or servants of the Government rather than on the sovereign itself" (*Nardone v. United States*, 302 U.S. 379, 383). It is sufficient to say, without undertaking here to analyze these opinions in detail, that the question now under con-

sideration presents no such factors and extraneous evidences of probable legislative intent as those relied upon by the Court in the cases mentioned--one involving a claim of immunity of a Government-owned corporation from suit, and the other involving a claim that the statute forbidding wire tapping was inapplicable to the tapping of wires by a Federal agent.

Furthermore, it is an important and persuasive factor that the Neutrality Act was not really purposed to forbid governmental transactions wholly foreign in purpose and in ultimate result to loans of the character contemplated by the Congress when the act was passed.

I therefore concur in the conclusion of the Acting General Counsel of your Department, as set forth in the opinion submitted with your letter, that the plan described is not forbidden by the Johnson Act or by the Neutrality Act; and for like reasons I concur in his conclusion that the proposed transactions, although partaking of the form of loans, do not represent a voluntary extension of aid to a belligerent under the rules of international law relating to breach of neutrality.

The Acting General Counsel has also concluded that the Reconstruction Finance Corporation is authorized to make the loans contemplated under its general authority to make loans "to aid in financing agriculture, commerce, and industry, including facilitating the exportation of agricultural and other products" (U.S.C., title 15, sec. 605), and the General Counsel of the Reconstruction Finance Corporation in an opinion transmitted to you by the Chairman indicates his concurrence, provided (as stated by the Chairman in his letter to you) "the loans are made to domes-

tic corporations set up for that purpose." I concur in this conclusion.

Respectfully,

Franklin D. Roosevelt
Attorney General.

April 20, 1939
11:55 a.m.

HMJr: Hello.
Operator: Congressman Doughton is not in the office but she's going to locate him and have him call you.
HMJr: Thank you.
O: You're welcome.

11:57 a.m.

HMJr: Hello.
Operator: Congressman Doughton.
HMJr: Hello.
Robert Doughton: All right, Mr. Secretary.
HMJr: How are you?
D: First rate, thank you. I hope you got entirely well.
HMJr: I'm feeling pretty well. And you?
D: Yeah, I feel excellent, thank you.
HMJr: Your voice sounds strong.
D: How's that?
HMJr: Your voice sounds strong.
D: Yeah, I'm all right. I've never felt better. I went my -- I had a mean attack of the flu and bronchitis, you know, but I've thrown it entirely off and feeling good.
HMJr: How's Mrs. Doughton?
D: Well, she's much better thank you. She appreciated those flowers and those fine messages from Mrs. Morgenthau.
HMJr: Yeah. Well, she was.....

D: She's still in bed, but I think she'll be out now in a few days.

HMJr: Well that's nice.

D: Yeah. Thank you.

HMJr: You've had more than your share of sickness, haven't you?

D: How's that?

HMJr: You've had more than your share of sickness.

D: It looks like we've been pretty heavily loaded with it for the last few months, yes.

HMJr: Bob, when do you think you're going to get your decks clear for me?

D: Well, I would think, Mr. Secretary, that we will be at least three weeks getting that bill through the House. Now that's my opinion - it's a mean bill to handle, that Social Security, you know.

HMJr: Yes.

D: It's a headache and a backache and a jawache and a toothache and a earache and a bellyache and all.

HMJr: (Laughter)

D: Yeah.

HMJr: Well now, I've got a calendar here before me and it's the 20th of April. Hello---

D: Yes.

HMJr: When do you think you'd start hearings on a tax bill?

D: Well, I couldn't tell you yet.

HMJr: Well, I mean.....

D: Approximately I'd think -- say the 10th to the 15th of May.

HMJr: The 10th or 15th of May?

D: Yeah.

HMJr: That would be the earliest?

D: I believe so. I'm going to try my best, but I believe that would be as safe -- as near as we could safely estimate.

HMJr: The 10th to the 15th.

D: Yeah, but we'd be ready to confer with you, a few of us, so any time.....

HMJr: Yeah.

D: If we have to confer some evening or sometime.

HMJr: But actually -- I mean, my public appearance up there would not -- the earliest would be between the 10th and 15th.

D: That's the best impression I've got now. If I can revise that any I'll let you know.

HMJr: Well.....

D: How are you getting along about getting your program in shape so that it'll come up from down there with united support of your -- all your people that are interested in it?

HMJr: Well, I'm -- I'm to come up -- I'm not quite ready yet, Bob.

D: Well, I knew there's some things that need to be ironed out.

HMJr: Yeah. But I -- I'm spending an awful lot of time on it.

D: Well.....

HMJr: And I've never worked any harder on anything than I've worked on this.

D: Well.....

HMJr: And.....

D:that's fine. Anytime you can use me about anything now I'm ready with you to help you.

HMJr: Well, nothing could be fairer.

D: If I can get to it.

HMJr: Nothing could be fairer.

D: Yeah.

HMJr: Well, we'll -- let's keep in touch with each other.

D: Yeah. That's -- that's fine, and you -- I guess that'll -- that's the next thing we want to take up now.

HMJr: Yeah. Well -- well, I'll -- I'll be ready whenever you are.

D: All right.

HMJr: In fact, I'm looking forward to coming up there.

D: If you want to have any preliminary discussion about it before we even ask you to come, why we'll be at -- be at -- at your call.

HMJr: O. K.

D: All right.

HMJr: Thank you.

D: Thank you very much. Good bye.

HMJr: Good bye.

April 20, 1939
4:27 p.m.

HMJr: Hello.
Allan Sproul: Hello, Mr. Secretary.
HMJr: Hello. What's your worry today?
S: None. There's nothing at all.
HMJr: Good!
S: The market is on the strong side again with not a great deal doing.
HMJr: Yeah.
S: We were able to sell two million more of those 41's so we've now sold eight million of the fifteens for which we have authority.
HMJr: Good!
S: The market has been taking them on after the first sale which knocked it off a point. They've been taking it on without any price concession.
HMJr: Uh-huh.
S: So I think it's in very good shape and that transaction is going ahead all right.
HMJr: You sold two more today.
S: Yeah.
HMJr: Well that's -- makes eight in all.
S: Eight out of the fifteen which we are now working on.
HMJr: Fine. And they're taking it nicely?
S: Yes.
HMJr: So this call you just wanted to be a little sociable, huh?
S: That's all.

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HMJr: What are you, lonesome up there?

S: No, not exactly. When we got through with our directors and -- sort of a let-down, as you say. I wanted to talk to someone.

HMJr: All right. Well, that's nice. I -- I feel complimented.

S: (Laughter).

HMJr: All right. Keep up the good work.

S: All right. We'll keep right on with it and let you know how we -- as we go along.

HMJr: O. K. Thank you for calling.

S: All right.

HMJr: Good bye.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 20, 1939, 6 p.m.

NO. 793

FROM COCHRAN.

Considerable sterling was gained by French control this afternoon, with very quiet Paris exchange market. The more cheerful atmosphere resulting from calmer views of international situation caused advance in French rentes and shares. However, French business is practically at a standstill, with not much except foodstuffs being sold in retail stores.

April 13 statement of the Bank of France showed that circulation was up one and three quarters billion francs. Coverage was down to 62.35 from 62.75. The belga continues weak, with nervousness apparently coming from the Belgians themselves who are exporting capital they hold; therefore in Brussels money is tight.

Today there was a cablegram from New York published in AGENCE ECONOMIQUE with regard to the regulation of markets in the United States in case a war breaks out. It stated that:

"It is generally admitted that the great publicity given to the official conferences was done more with the intention of reassuring the public than with that of formulating a preestablished action".

BULLITT.

EA:LWW

RECEIVED

APR 21 1939

RECEIVED
 APR 21 1939
 U.S. DEPARTMENT OF STATE

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE April 20, 1939.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnokeBANK OF ENGLAND.

Mr. Hawker called at 12:45 today. He was anxious to know whether the Queen Mary would arrive today and the proceeds of the gold shipped on her by the Bank of England be credited to their account today. After checking with the foreign department I assured Mr. Hawker that the gold was now on the way to the Assay Office and proceeds would be definitely available to the Bank of England today.

They had had another fairly bad day, Hawker continued, having sold about \$10,000,000 on balance. Oil and tobacco companies had been steady buyers for awhile now, acquiring from \$2,000,000 to \$4,000,000 per day - so-called commercial requirements. The Dutch, he thought, had been losing at the rate of \$500,000 to \$1,000,000 a day this week, the Belgians at the rate of £500,000 to £750,000 a day, but today £1,000,000. The Swiss franc's undertone had been weak, the French franc firm, with the French gaining from £250,000 to £500,000 a day.

RECEIVED

APR 21 1939

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

Noted

F. Dietric

TREASURY DEPARTMENT

357

INTER OFFICE COMMUNICATION

DATE

TO Mr. Foley, Acting General Counsel

FROM Mr. Tietjens, Acting Assistant General Counsel

APR 21 1939

Re: Government operation of railroads in
time of war.

During the World War operation of the railroads was assumed by the United States Government pursuant to the authority contained in a provision of section 1 of the Army Appropriation Act, approved August 29, 1916 (U.S.C. title 10, sec. 1361), which is still in effect and, as it appears in the Code, provides as follows:

"The President, in time of war, is empowered, through the Secretary of War, to take possession and assume control of any system or systems of transportation, or any part thereof, and to utilize the same, to the exclusion as far as may be necessary of all traffic thereon, for the transfer or transportation of troops, war material and equipment, or for such other purposes connected with the emergency as may be needful or desirable."

Pursuant to the foregoing authority, the President by Proclamation of December 26, 1917 (No. 1419) took over the operation of the railroads and provided that control and operation should be exercised by and through William G. McAdoo, who by the Proclamation was appointed and designated Director General of Railroads.

Shortly thereafter Congress passed the so-called Federal Control Act, approved March 21, 1918 (40 Stat. 431). This Act covered such things as compensation to be paid to owners of the railroads, taxation, maintenance, repairs and depreciation, claims against the carriers, dividends, issue of securities, fixing of rates, penalties for violations of the Act, and the establishment of a revolving fund composed of appropriations by Congress to pay the expenses of Federal control, and to make advances to carriers for additions, betterments, and extensions.

Section 8 of the Federal Control Act provided that the powers conferred on the President by the Act could be executed by him through such agencies as he might determine. By Proclamation, dated March 29, 1918

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(No. 1438), the President authorized William G. McAdoo, Director General of Railroads, to exercise the powers and duties which the President was authorized to do and perform under the Federal Control Act. Walter D. Hines succeeded William G. McAdoo as Director General of Railroads pursuant to a Proclamation, dated January 10, 1919 (No. 1507).

Termination of Federal control of the railroads on March 1, 1920 was provided for by the Transportation Act, 1920, approved on February 28, 1920 (41 Stat. 456). The Transportation Act, 1920, provided rather extensive provisions for winding up all matters and disputes arising out of or incident to Federal control and provided that within a period of two years from the time of passage of the Transportation Act causes of action arising from the Federal operation might be brought against an agent designated by the President for that purpose. By Proclamation of March 11, 1920 (No. 1559), Walter D. Hines, Director General of Railroads, and his successor in office, was designated as the agent against whom such suits might be brought.

In view of the disrupted financial condition in which the various railroads found themselves at the end of the war, the Transportation Act, 1920, contained broad authority for the Government to make loans to help rehabilitate the carriers. There is still owing to the Government under sections 207 and 210 of the Transportation Act, 1920, a total of approximately \$40,000,000 principal and accrued interest, which the Treasury Department is attempting to collect.

The office of Director General of Railroads has been continued up to the present for the purpose of liquidating the various items resulting from Federal control. Since the appointment of Andrew Mellon as Director General of Railroads by Proclamation of December 14, 1925 (No. 1760) the various Secretaries of the Treasury have served as Director General of Railroads. Mr. Morgenthau was appointed Director General of Railroads by a Proclamation, dated February 7, 1934 (No. 2074), and was appointed as the agent provided for in section 206 of the Transportation Act, 1920 by another Proclamation of the same date (No. 2075). Mr. Morgenthau, as Director General of Railroads, by an order, dated March 2, 1937, designated Messrs. D. W. Bell, E. F. Bartelt and Maurice Collins as Assistants to the Director General of Railroads. It appears that at a later date W. T. Heffelfinger became an Assistant in place of Maurice Collins.

In view of the countless difficulties involved in Government operation of the railroads during the World War and the disrupted condition in which the carriers found themselves after the War, if it is contemplated that the railroads are to be operated by the Government if and when another war comes, steps should be taken now to prepare a comprehensive law cover-

- 3 -

ing such operation. The drafting of such a law would require the assistance of experts in the field of railroad administration. The least that should be done at this date is to canvass various officials for constructive ideas along this line.

WOT

FEDERAL RESERVE BANK
OF NEW YORK

360

April 21, 1959

Dear Mr. Secretary:

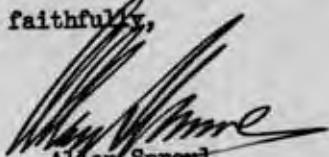
The only sizable piece of corporate financing to reach the market during the past week was the public offering at \$112.50 of 225,065 shares of 4 1/2 per cent cumulative preferred stock of the Consolidated Gas, Electric Light, and Power Company of Baltimore. This offering, amounting to about \$25,095,000, was originally scheduled for last week, but was delayed because of market uncertainty generated by unsettled conditions abroad. Sale of the issue to the public is subject to the exchange rights offered to stockholders of outstanding 5 per cent preferred stock, and in view of the fact that the 5 per cent stock will be redeemed at \$110 a share, as against the offering price of \$112.50 on the new shares, it is expected that a substantial amount of the new stock will be taken by the holders of the outstanding preferred. It is felt that whatever part of the issue remains, after the subscription rights expire on April 21, will be easily distributed. There was also an offering of \$1,545,000 of Jamaica Water Supply Company \$5 cumulative preferred stock during the week, which presumably was entirely sold on the day of issue.

The large contemplated refunding offering of the Gatineau Power Company, a Canadian corporation, was again postponed and is now expected to reach the market next week. Also scheduled for the coming week, international conditions permitting, is the National Steel Corporation offering, consisting of \$50,000,000 of first mortgage bonds of 1965 and \$15,000,000 of serial notes of 1940-1949, most of which is for refunding purposes.

In the municipal field, \$20,000,000 of New York State 1 5/4 per cent serial bonds maturing 1940 to 1979 were awarded on April 18 at a net interest cost of 1.7598 per cent, a new record low. (It is felt, in the market, that these bonds offer a good test of the value, in terms of the interest rate, of the tax exemption privilege, when their yield is compared with yields on Treasury bonds of similar maturities.) These bonds were subsequently reoffered at prices to yield 0.20 to 1.85 per cent, depending upon maturity. Nearly three-quarters of the issue was reported to have been disposed of on the first day, but the remainder, consisting mainly of the intermediate maturities, is moving rather slowly. Other municipal bond awards during the week totaled \$8,500,000, of which \$7,500,000 was for new capital.

With the possible exception of the award of \$17,500,000 of Port of New York Authority bonds, which was held up last week pending more favorable conditions, no large municipal offerings are expected in the coming week.

Yours faithfully,



Allan Spreul,
First Vice President.

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

PERSONAL AND CONFIDENTIAL

April 21, 1939.

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

In my statement today I desire to place chief emphasis on the role of fiscal policy in business recovery.

We must rely upon the private enterprise of our country to produce most of our national income and to provide most of our employment. We have all the physical essentials of economic prosperity — resources, labor, capital, managerial ability, and a vast domestic market. Although our progress from the bottom of the depression has been great, we are still in a period of incomplete business recovery with an inadequate national income and a large volume of unemployment. An important contributing factor has undoubtedly been the international economic and political situation. Reduced world trade and fear of war are a drag on our industrial enterprise. Unfortunately, however, the international situation is largely beyond our control. We must find such solution as we can in our own domestic economy.

- 2 -

It is highly important that we increase national income and decrease unemployment. Not only our material well-being is at stake -- the future of our system of government rests largely on the success with which we solve our economic problems. As Secretary of the Treasury, I want to discharge my duty and leave no stone unturned in the fiscal field that might contribute to complete recovery and continued prosperity.

As I said in November 1937, "The basic need of today is to foster the full application of the driving force of private capital." One of the obstacles to long-term commitments in private enterprise seems to be an uncertainty over the general fiscal policy of the government. Almost everyone believes that the budget must be balanced eventually, and, moreover, evidently believes that it cannot be done without cutting the expenditure program, or, if this fails, increasing tax rates. So long as there is no firm indication of when or how the balance is to be achieved, investors will be uncertain what taxes will be imposed or what expenditures will be decreased, and consequently their own business plans remain uncertain.

There is, to be sure, no inherent reason why taxes must exactly balance expenditures each year any more than each month or each week. In periods of temporary depression it

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is inevitable that there will be deficits. Revenue decline and expenditures increase too rapidly to make possible immediate achievement of a balance by tax increases. Relief must be given to human needs caused by the depression. In such times, furthermore, it may be justifiable to incur a fiscal deficit for the sake of the stimulus which the spending of newly created money may give to business activity.

If the deficit is long-continued, however, the depressive effects of uncertainty increasingly tend to nullify the stimulus of the spending. Furthermore, a necessary sequel to deficits in depression is that in years of very active business an excess of taxes above current expenditures should be collected and applied to reducing the public debt. In this way the government can be prepared for the strain of new emergencies without the burden of high taxes for debt service.

Fiscal deficits are thus defensible only if they are followed within a few years by substantial surpluses and only if they are the result of a carefully formulated program announced in enough detail to remove major uncertainties and fears concerning fiscal policy.

I wish to be completely realistic about this matter of fiscal policy. Balancing the budget this year or next appears to be impossible. Without attempting to forecast what action

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Congress will take, I think it is abundantly clear that the appropriations will be vastly in excess of anticipated revenues. Furthermore, the formulation and adoption of a financial plan pointing clearly to a balanced budget in a later year will not be easy. Although the existing tax system is a powerful one and in years of high business activity may produce sufficient revenue to meet expenditures, there is no reasonable prospect that it will enable us to reduce the public debt substantially in such years. Consequently, if higher taxes are to be avoided, the total of expenditures must be sharply lowered.

To reach the goal in this way, we must force ourselves to realize how difficult will be the task of getting a net reduction in expenditures. The present task is doubly difficult because a large and growing part of our expenditures is controlled by forces entirely outside our power. I refer to the armaments race abroad and its inevitable reaction on our own expenditures for defense. The German

- 5 -

national government has been devoting from 40 to 60 percent of its total outlays in the last few years to armaments. Great Britain has recently departed from a long-established tradition of annually balanced budgets and in the fiscal year 1940 is spending £580 million on armaments, most of which, £352 million is to be borrowed money. Forty-three percent of the French budget in 1939 is for the same kind of expenditure. In Italy, 50 percent of the 1939 national budget is to be devoted to this purpose.

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It is not easy to grasp at once the full implications that these facts carry for our own budget. While we fortunately need not go to such extremes, we cannot avoid going part way; and that in turn means that we must stint ourselves on other expenditures if we are to maintain fiscal sanity in a fiscally desperate world. We are in the position of a family whose house is suddenly threatened by a hurricane. The efforts and financial resources of the family must first of all be devoted to strengthening the shelter against the storm for which they are not responsible and which they cannot control. As a result, many of the luxuries of life must be foregone for the time being, and there may have to be curtailment of what are normally considered necessities. The alternative is one that, I take it, we cannot consider: fiscal irresponsibility, and a failure to look beyond the next month or next year.

The minimum needs for recovery and relief depend on business conditions. Expenditures for these purposes can decline as recovery proceeds. On the other hand, even in such a period we must expect a perfectly understandable pressure for a number of other worthy expenditures having nothing to do with national defense or relief.

- 7 -

Finally, it is desirable to keep in touch with reality by reminding ourselves that any chance of budget balancing over the long term through expenditure reduction involves a reduction on the order, not of a few hundred million dollars a year but of more -- perhaps appreciably more -- than a billion dollars a year.

I emphasize these points, not to indicate any feeling that a sound fiscal goal through reduction of the expenditure total is beyond our reach, but to emphasize my belief that a definite policy and firm resolution to give effect to it are necessary. If Congress should, however, find it undesirable to reduce expenditures sufficiently to reach that goal, there would remain, in my opinion, but one alternative -- increased taxes. The points at which, apparently, any such increases might best be made will be indicated in a later portion of my statement, dealing specifically with taxation. I should like to make it clear, however, that I think the preferable way to carry out the general fiscal policy is through a reduction in the total of expenditures, and that the time has arrived to take the first steps in this direction. Every proposed expenditure, without exception, should be scrutinized with the general fiscal policy in mind.

Mere talk of such scrutiny, of a definite policy and a firm resolution, is not in itself likely to give our economy the reassurance it needs. The real encouragement will come when a plan has been adopted that the community recognizes to be realistic. The Congress will know what mechanism is best suited to the development of such a plan. As far as I know, the committees charged with considering appropriations and revenues work independently of each other. I know from conversations with many of you that the lack of consultation makes it difficult to bring about the objective that both you and I desire. A method that might well be of assistance would be for the Ways and Means and Appropriations Committees of this House, and the Finance and Appropriations Committees of the Senate to meet each session as a Joint Committee on Fiscal Policy to consider the overall aspects of the expenditures and revenue programs. In this way each expenditure proposal could be compared with all others in the light of the total resources available. I understand that a method similar to this joint-committee suggestion has been in successful use in the State of Wisconsin for a quarter of a century. Another method of value would be to follow the procedure that no tax bill shall be brought up until the

- 9 -

last appropriation bill has been passed. This method, I believe, is in use with good results in Sweden. 1/

Thus far I have been dealing with the fiscal policy of the Federal Government alone. There is, however, another highly important problem which concerns both the Federal and the State Governments. We should bear in mind that more than half the total of tax revenues is collected by State and local governments. There is no unity or ordered relationship between the Federal fiscal system and the State and local fiscal systems. Overlapping taxes have grown in number and size as both Federal and State Governments have sought new revenue. Grants-in-aid are being demanded of the Federal Government in increasing amounts. The results of our anarchic fiscal situation have become increasingly unsatisfactory to both the State Governments and the Federal Government, and are becoming intolerable to many taxpayers.

There has been much consideration of how order can be introduced into the Federal-State fiscal picture. For example, the Treasury Department has been studying aspects of the problem for several years. It is, however, a problem of such great scope that special methods will be required for substantial accomplishment. A suggestion that has merit

1/ Footnote to be checked.

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

I pass now from the problems of general fiscal policy to those of taxation.

Some people say that the way to stimulate business is to cut taxes. That would be an easy and popular thing to do and I should like to be able to agree with it, but I must instead condemn it with all my strength. A country that is facing the deficit that we face and that has been passing through a series of deficits, as we have, should not even consider such a move. Its adoption would convince everyone that there was no intention of ever balancing the budget.

This does not mean that no changes should be made in the present tax system. On the contrary, there appear to be at least four general ways in which obstacles to business enterprise might be removed by shifts in tax burdens that would not reduce revenues and would be fundamentally sound.

(1) The first way is to make the chances for profit in new and therefore venturesome undertakings greater than they now are. Our present tax system, especially in the income tax, contains features which operate against new enterprise. There are a number of these which might be altered with, in my opinion, an increase in equity. Future issues of government obligations, Federal, State, and local, might be made fully taxable under the income tax. The Treasury Department has already recommended this action. Allowance might be made for business losses to be carried forward and offset against income in future years. Corporations might be allowed to deduct capital losses from their ordinary income. Somewhat greater deduction of capital losses, perhaps in the carry-forward provisions, might be allowed individuals. Tax penalties on the issuance of capital stock as compared to the issuance of bonds might be removed through elimination of the capital stock and excess profits taxes and a substantial dividend credit to individuals. The top rates in the individual surtax schedule might be reduced. I shall not discuss these features in

detail. If you are interested in further information concerning them, or any other aspects of this statement, my staff and I are prepared to furnish it and will be happy to work with you to the extent you may desire.

(2) A second way in which to make our tax laws less of an obstacle to investment and business expansion is to avoid taxation of a kind that may impair a business firm's working capital -- a result that may occur when the firm is operating at a loss or is trying to make good a cash drain caused by recent losses. Some examples of changes which would operate in this direction are: elimination of the capital stock tax; allowance of a business loss carryover to future years; increase in the deductibility of capital losses by corporations and of capital losses in general.

(3) Other changes that would help business are those which lessen the complexity of the tax structure. A highly productive tax system such as ours cannot be very simple if it is to be equitable and not excessively burdensome at any point. However, we can continue to move towards simplicity

in both administration and legislation. I believe the current decentralization of the operations of the Bureau of Internal Revenue to permit tax differences to be settled close to the taxpayer's residence is an administrative move in that direction.

(4) A major legislative move in the same direction would be to substitute a single corporation tax on net income for the four different corporation taxes now imposed. These corporation taxes are a capital stock tax and an excess profits tax enacted in 1932, a remnant of the 1936 undistributed profits tax, and the ordinary income tax. The capital stock tax is not based on the actual value of a company nor is the excess profits tax actually a tax on excess profits. Both depend largely on the ability of management to forecast profits. In its present form, the undistributed profits tax is ineffective but is, unduly I think, resented. The corporation tax system would be greatly simplified, its justice measurably increased and the burden on new and uncertain enterprise diminished, if all four taxes were consolidated into a single flat tax on corporate incomes with some concession in rate to corporations having less than perhaps \$25,000 net income.

In the previous section I have discussed the types of change in the tax system that would remove obstacles to enterprise. Since most of those changes will reduce the revenue-producing power of the system, we must find ways of replacing the lost revenues. Furthermore, if additional taxes should prove to be necessary due to an insufficient reduction in the expenditure program, they should be imposed in ways that would be equitable and would have the least harmful effects on business. I suggest the following brief summary of methods for your consideration.

(1) Certain changes that would increase revenues should be made in any event because of their effects on tax equity. Excessive depletion deductions for oil and gas wells and certain types of mines should be eliminated. As the Treasury has often pointed out, a large amount of revenue can be recovered by closing this loophole. The capital gains tax rates on individuals might well be brought closer to the rates on other incomes. This could be done without substantial discouragement to investment, provided the capital loss deductions were made more generous,

as previously mentioned. A desirable change that would increase the revenue for the future is to coordinate the estate and gift taxes into one tax.

(2) The revenue lost owing to adjustments in taxes on corporations could properly be replaced by increases in the corporation income tax rate, while revenue lost due to adjustments in taxes on individuals could be replaced by increases in the individual income tax rates, particularly in the middle surtax brackets.

(3) If additional revenues are needed, the least discouraging effect on business would probably result from further rate increases in the middle brackets of the personal income tax and the estate and gift taxes, accompanied by a reduction in the exemption for estate and gift taxes and elimination of the \$40,000 insurance allowance for the estate tax. In view of present business conditions the economic impact of any such increases should be postponed for a year or so. This postponement will come almost automatically for the estate tax, owing to the long period of time allowed for payment, but for the income tax some special provisions might be desirable.

I think we should continually have in mind that as a general principle of fairness, we ought to increase the proportionate part played by direct taxes that can take account of individual differences in the power to support government. The chief examples of such taxes are the individual income and estate and gift taxes. The Federal reliance on such taxes should be especially great since State and local governments are not able to use them nearly as effectively as is the Federal Government. We should look forward eventually to eliminating from our Federal tax system the manufacturers' excises and, with two or three important exceptions, other miscellaneous excise taxes that tend to be shifted directly to consumers. However, in view of the present revenue needs of the government and the fact that these taxes have been in operation long enough so that the businesses affected have in general become adjusted to them, I recommend that they be continued at this time.

In discussing what revenue sources are most desirable -- or least undesirable -- I have spoken as if we had free choice between good tax measures and bad tax measures. To some extent we do have it, but as we seek more and more revenue, the choice becomes increasingly restricted. Already we have less real choice than we are apt to realize. Any tax, however good, if pressed too far, becomes unduly burdensome or goes beyond the

point of maximum revenue, or both. It will be a serious matter if we have employed our taxes so fully that virtually all considerations of fairness and effects on business must give way in order that every feasible tax may be used to its practicable limit.

In this statement I have discussed four matters which seem to me to be of very great importance. The first related to the imperative desirability of planning expenditures to the end that the Federal budget may be really balanced within the next few years, and suggested some means for attaining this end. The second related to Federal-State fiscal relations and suggested a commission as the most promising method of solving the complex problems involved. The third suggested changes in taxation that would remove specific burdens on enterprise; while the fourth indicated the possible sources of replacement revenue and of new revenue if it should prove essential.

In closing, I should like to stress that if we are to give businessmen the reassurance necessary to remove obstacles to investment and expansion, it will be necessary to go beyond a few specific measures that may remedy points of local irritation. These are important, but it is even more important to approach the problem of fiscal policy from the broad viewpoint and to lay

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down a well-defined plan leading towards a balanced budget. Only then will the basic fiscal deterrent to business be removed. Unemployment and lack of investment are doubtless traceable to many things besides fiscal matters, and there can hence be no assurance that a sound fiscal policy alone will bring complete recovery, but without such a policy the chances for recovery are materially lessened.

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

H.M.Jr: When are you fellows going to see me on reorganization? I'm going to leave around noon.

McReynolds: I don't know, but I find out from the Budget Bureau that they are not going to dispose of these bureaus as a matter of this week end.

H.M.Jr: Tell that to Hanes.

McReynolds: I find out from the Budget Bureau that they are not planning to dispose of the reorganization memorandum this week end.

H.M.Jr: Well, when you're talking - you two guys (McReynolds and Bell) talk about that. Did you (Hanes) hear what he said?

Hanes: I didn't get the last part.

McReynolds: I say they are not planning to dispose of the reorganization memoranda this week end, as they had intended. That's the last information I get.

H.M.Jr: You don't get the impact of this, do you?

Hanes: No, I don't.

H.M.Jr: The impact of this means that Mac can play golf tomorrow.

McReynolds: What do you mean tomorrow?

Bell: This afternoon.

Hanes: Mac, you were counting on his going at 9:30 this morning, weren't you?

H.M.Jr: Everybody has been trying to find out when I'm leaving, and it's almost like the tax story - it's almost as hard - a cloud has descended on the Treasury.

Hanes: Have you changed your mind?

(hearty laughter)

McReynolds: I don't know where Herbert is, but.....

Hanes: Herbert thought you were going at daybreak.

McReynolds: I think Herbert, Dan and I had planned for the afternoon. We weren't sanguine enough to believe you would leave at 9:30 this morning.

H.M.Jr: The plane was only ordered for 10:00.

Hanes: Mr. Kieley said he had the automobile ordered for Springfield at 9:30 this morning.

H.M.Jr: Most unpopular man in the Treasury on Friday.

You two gents (Lochhead and White) have something for me, if you can, by Monday. Now, Mr. Welles is coming in Monday at 10:30 with a whole group on Nicaragua, and if Archie and Harry and you (Hanes) will see me at 10:15 and at least tell me what it's all about.

White: Nicaragua.

H.M.Jr: I mean they're bringing a big group - Export-Import.....

White: Want Foley?

H.M.Jr: Foley, yes. Evidently Welles isn't satisfied. He wrote me a formal letter about it. Give these people copies of that formal letter from Welles on.....

Chauncey: On.....?

H.M.Jr: On Nicaragua. Mrs. Klotz has it. She has it.

She's coming in Monday. Then we might as well do Bolivia at the same time.

White: First I've heard of Bolivia.

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H.M.Jr: Well, it's just - I just handed it to you.

Lochhead: It's Colombia, isn't it?

H.M.Jr: Colombia.

White: Guess I've heard of that too. Then Argentine is not coming - going to come up Monday?

H.M.Jr: Well, I'm going to bring it up.

White: Monday?

H.M.Jr: Yes.

White: We'd like to have something for you before you bring up Argentine.

H.M.Jr: Evidently you haven't been talking to Archie on the Argentine. Will you get together on the Argentine?

White: Colombia and Nicaragua.

Lochhead: Taking all the South Americans that have seaports for Monday; leave Bolivia.....

White: If you can postpone the Argentine for another day or two, until we can get.....

H.M.Jr: It's been postponed plenty. After you read the telephone conversation, you'll see. I sit down next to Espil the other night and I say, "I think it's fine that your financial attache came in and talked to me. We're waiting to hear from them. Glad to see him. We're waiting to talk business."

He said, "Huh?"

I repeated. He said, "Huh? Was he in to see you? I've got to tell you, I'm terribly embarrassed. He hasn't reported the conversation. I didn't know he had been in to see you."

So I said, "Well, why don't you cooperate the way we do in Washington? Everybody let's the other fellow know."

McReynolds: Sometimes.

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H.M.Jr: Did you see the latest? You may not have seen that.
(hands a newspaper clipping to Hanes)

Hanes: Barney Kilgore called me up yesterday and told me
that it was all over the place, that the news
fellows all had it.

H.M.Jr: Jesse Jones for Secretary of Commerce and Harry
for Secretary of Navy.

Bell: I expect that's the only way they could hold R.F.C.
and Commerce together.

H.M.Jr: Well, its all right. As I said yesterday, I can't
argue with ghosts.

Johnny, got anything?

Hanes: No, I haven't anything this morning.

Duffield: Nothing.

White: This is the letter here from the American Farm
Bureau Federation. They did a very nice job,
much better than appeared from the way they taxed
that other thing and the statement they made.

H.M.Jr: I'd like to take it with me.

White: Yes.

Then here is - you asked for a report on this
"Economic Program for American Democracy" by
this man from England.

And here is a report on Vice President Garner's
request that you asked about.

H.M.Jr: How many delegates has he got?

White: He won't get any on this report.

H.M.Jr: All right. The American Farm Bureau thing I'd
like to take with me.

Where is everybody today? God, these fellows can't
take it the way I can.

(on phone) Find out whether Mr. Gaston and Mr. Foley
are sick. I'd like to know. Please.

White: I think that this - if you get a chance to look at some of this report, first four or five pages would be helpful.

H.M.Jr: I'm taking some light reading matter with me.

White: Parts of it are light.

H.M.Jr: I'm going to read "Disputed Passage" first, so I don't know whether I'll get to that.

Haas: Eight hundred pages - by Douglas.

White: That's all I have.

Lochhead: One mystery story.

H.M.Jr: (to Miss Chauncey) Fish me out Hansen's letter. Is Hansen's letter there?

Now listen, Danny, you get me all worked up, you and John Hanes, to sign a memorandum that I didn't believe in, had grave doubts about; but you say you and Hanes want me to do it and I do it, and you set up a new corporation to guarantee farm mortgages and I sign on the dotted line, and you fellows - Dan came in here and said you fellows had worked on it about a week, and I sign the thing - the Lee plan, you know? I thought it was a phony.

Hanes: Are you in trouble?

H.M.Jr: No.

Bell: I think it doesn't follow the indications there. You said "if."

H.M.Jr: I mean I just play ball, I'm just a good fellow, and here it comes back from the President - "For the Secretary of the Treasury, Secretary of Agriculture....." - have you fellows seen this?

Bell: I haven't seen it.

H.M.Jr: Here's a memorandum signed "F.D.R." It says; "Do you think anything better be done about this, or do you think better let the whole thing ride?"

Bell: Gee, that's easy. I think that was a swell job, if you ask me. If you get a reply back like that, write "No" on it quickly. I see where Josh Lee is the fair haired boy at the White House now, so that makes it simple.

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- H.M.Jr: I wrote: "My dear Mr. President: As far as I am concerned, let'er ride." O. K.?
- Bell: Is he going to send my memorandum to Wallace on it?
- H.M.Jr: Well, will you take care of it? I won't send it that way. But that's what I'll send the President. O. K. - unless you want to over-rule me. Last chance.
- Hanes: No, sir, let her ride.
- H.M.Jr: Don't send that. I mean I'll send it formally to the President, see?
- Chauncey: Hansen's letter.
- H.M.Jr: But get it from Wallace. Will you carry it for me?
- Bell: Yes sir.
- H.M.Jr: I'll take that with me too.
- White: Did you intend to do anything with respect to the plan suggested by Wallace about the exchange of commodities? You said you would like to hear about it. He sent you a letter explaining it and I have it.
- H.M.Jr: That's all Wallace - I asked Wallace, "What's this barter plan?" and I said, "Won't you put it on a piece of paper?" and he did.
- White: I'll have a little memorandum on it merely for your information.
- (Foley comes in)
- Foley: Good morning sir.
- H.M.Jr: Good morning. You're all right. You were all set for me to leave at 9:30 this morning. I've been feeling that the word was around that I was to be in Springfield at nine o'clock.
- Mac's golf clubs are all out, Ed's got on his nice spring country gentleman suit - kind of tough.
- Bell: Should change your plans, Mr. Secretary.

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H.M.Jr: Has anybody heard from Congressman Somers? Does anybody know how it went?

Foley: Well, it went fine, and they're meeting at eleven o'clock this morning.

H.M.Jr: Would it be appropriate if I called him up now and asked him how it was going?

Foley: Sure.

H.M.Jr: (on phone) Congressman Somers of New York.

White: Clerk of the Committee said that things looked better than they had been and they were very optimistic.

H.M.Jr: Well, being serious, that's sort of why my plans are uncertain, because I didn't know how this thing was going to go.

Foley: They are going to vote today; they're finished with the debate and they're starting at eleven o'clock on the amendment, with five minutes to each amendment. They're going to try and get a vote, so they can all go to the ball game.

H.M.Jr: That's pretty good.

Foley: They're meeting at eleven o'clock instead of later.

White: The man I sent said that Voorhis made a very excellent speech for the bill.

H.M.Jr: Voorhis?

White: Voorhis - Congressman.

H.M.Jr: Where's he from?

Hanes: California.

Foley: It was very interesting that the vote on the rule was 208 to 147, strictly a party vote. I think only two Democrats voted against the rule and only two Republicans voted in favor of the rule. So it was strictly a party vote on the rule, which I think will be about the vote on the bill.

H.M.Jr: What was the rule? I don't understand.

- Foley: Seven hours limited debate. Strictly party vote, 208 to 147.
- McReynolds: That's a pretty good indication.
- H.M.Jr: And Dies got his spleen up, didn't he?
- Foley: Yes.
- White: Dirksen made a speech against the bill, the man said, claimed that the funds were being used, stabilization funds were being used for purposes not.....
- Lochhead: Very interesting that the New York Tribune quoted his speech in full in regard to that and didn't make any reference to the fact that Cochran had answered it. The Times gave both sides.
- H.M.Jr: Well, Herbert Gaston told me that from now on, since they have removed their manager, Al Warner, who was a very good fellow, at the head of the Tribune Bureau here in Washington - that from now on they're going to get much more partisan. But I always thought that the Washington Bureau of the Tribune sent out about the fairest news out of Washington. I mean their stories were never colored - their news stories. Really did an awful good job. But they've moved him out, you see; going to go political now.
- Hanes: What's he going to do?
- H.M.Jr: He's got a job with the Columbia Broadcasting Company as commentator.
- Hanes: Good man.
- H. M.Jr: He's an awfully nice man. I knew him in Albany.
(on phone) Hello. - I see. - How about Congressman Somers? - Thank you.
O. K., Harry?
- White: That's all.
- Lochhead: Things are quiet. I was laughing - saying this was the third, the odd-number week, the non-crisis week. I mean they come on even weeks.

England says that the market is not so pessimistic this morning and they've only got a million dollars this morning, which is very small compared to what they have been doing the last week.

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- H.M.Jr: Well, I don't believe that Mr. Hitler is going to do anything with his fleet in the Atlantic. I just think that he isn't going to do anything with that fleet down there. I think they'll just rub him out over night if they want to.
- Lochhead: But there isn't as much tension this morning.
- Graves: I talked yesterday with Mr. Milligan, as you asked.
- H.M.Jr: Yes.
- Graves: And I'll give you a summary of my conversation.
- H.M.Jr: I told that gentleman when he was in here that if he continued the way he was - that he was getting the Treasury very much upset, see?
- (on phone) Hello. (H.M.Jr. holds conversation with Congressman Somers)
- Are you through, Harold?
- Graves: Yes, sir.
- (Gaston comes in)
- Gibbons: Have you heard from Senator Wagner?
- H.M.Jr: Not a word.
- Gibbons: They said Townsend and Bankhead introduced the bill, and he grabbed one of his own so he could control it. He said, "I'll call Henry. Tell him not to worry, that I can control this thing, keep control of it." He said Townsend was trying to put this thing over. I saw where Eccles testified yesterday before Townsend's committee.
- But he said, "Henry knows me well enough to know I wouldn't do anything to offend him."
- H.M.Jr: You didn't have to do any threatening.
- Gibbons: No. He mentioned your father. He said, "His father was my benefactor when I was a kid."
- H.M.Jr: That's right.

- Gibbons: Very nice, you know. It makes sense. He said, "I'm not going to let this thing go on anyway; I'm going to be to busy. I'm chairman of this committee. I'll talk to Henry." He won't do anything, because he doesn't want to.
- H.M.Jr: Well, of course - well, I just say I don't gang up with people, but I just - Crowley, of course, says he had nothing to do with the Brown Bill; I believe him with my tongue in my cheek; and Eccles has nothing to do with the other bill.
- (on phone) Hello. - Right. - Hello, Mac. - - On the pavement they break an axle? - Good. - I thought Coast Guard was an emergency organization. - All right. It's good it isn't raining. - Goodbye.
- This radio truck I asked them to send up from Springfield, where there is no radio station - leaving out of Springfield, on the pavement, the axle broke.
- Gibbons: Couldn't they get another one right away?
- H.M.Jr: Not the radio truck. It isn't important, but.....
- Gibbons: There should be a radio outfit in Springfield. Want me to go to work on it?
- H.M.Jr: No, no, this is one of these radio trucks. I mean it's all right.
- Gibbons: I know, but.....
- H.M.Jr: It's good for the boys - I mean whenever I once or twice test them out, it puts them on their toes when they break down.
- Gibbons: I thought W O R, National Broadcasting - they'd probably have a truck right there.
- H.M.Jr: Huh uh. No, they couldn't handle it. They haven't got a direction finder and all that stuff. No, it's the direction finder and all the rest of the equipment that goes with it.
- Gibbons: Do you remember Mr. Cairns and Mr. Johnson the other morning mentioning about this twenty-five percent additional duty - that they were going to try to prevent importers from putting up the money if the stuff had been shipped prior to - if it can be proven that there was nothing

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paid to them by the German Government? Remember we were discussing that with you?

H.M.Jr: Well, the point was that the man wouldn't have to put up the cash. That was the point.

Gibbons: That was the thought on Johnson's part, but it won't work out. They'll have to put up the twenty-five percent duty because we have no way of telling; there is only an affidavit, and Collector Durning thinks that would be too much of a gamble.

H.M.Jr: Well, I don't know anything - I don't know who brought it up to me.

White: Johnson brought it up.

H.M.Jr: We'll let you and Johnson handle it.

Gibbons: Yes.

Did you discuss Mrs. Pike with Jim yesterday?

H.M.Jr: How did you know Jim was here?

Gibbons: I wanted to talk to him; he said "I'm going to have lunch with your boss; I can't talk to you."

H.M.Jr: Yes.

Gibbons: Senator Pepper submitted a name in place of Allie Angle for investigation.

H.M.Jr: Allie Angle?

Gibbons: The Collector of Customs in Florida - I'm sorry.

H.M.Jr: Oh.

Gibbons: I guess we'll have to investigate it.

McR: We'll investigate it as a revenue case. We ought to investigate that. But as I told you, the boss has already had his talk with Pepper.

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Gibbons: I thought you'd want to know it.

H.M.Jr: Yes.

Gibbons: Mrs. Lynch has been confirmed.

H.M.Jr: Oh, that's nice.

Gibbons: One executive session. I don't know whether they have had the second executive session or not.

H.M.Jr: But it's equivalent to being confirmed by the Senate?

Gibbons: By the whole Senate. Then they go over it again.

H.M.Jr: She's been confirmed in one session.

Gibbons: Now they adjourn that day. And I don't know whether they have had an executive session since or not.

H.M.Jr: But Bob Wagner was nice?

Gibbons: Oh, very nice.

H.M.Jr: All right.

Gibbons: Perfectly nice.

H.M.Jr: Anything else?

Gibbons: That's all.

White: Before you turn from that, I wonder whether you might not make a note to get in touch with Somers after this thing is over. He has practically promised the fellow from the American Farm Federation that you would give sympathetic consideration - in fact he used a much stronger word than that - to their request for an inquiry, similar to the one which the Wagner Committee was going to offer; and he even said that he would get in touch with Wagner and tell him that he would support it. I spoke to him later and said I thought the Administration and yourself

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were not enthusiastic about it, and he said at the time, "Well, there's no harm in telling them we'll do what we can." I don't think he knows your position. And I think before it's too late.....

H.M.Jr: Will you remind me again?

White: Yes, I will.

H.M.Jr: I mean this comes under the heading of fun - I mean this committee business. I mean I don't take it too seriously.

Dan?

Bell: Here's the memorandum on the war loan staff.

H.M.Jr: Oh. I'll take that with me. Yes, I'll read that.

Bell: Should have been a little more complete. Back in 1931 I was designated as the head of a war section of this War Policies Commission to write a history of this war financing and all the agencies that had to do with it. Just about the time they started to hold their hearings, I took sick, and when I came back my boss went away sick.

H.M.Jr: Who was your boss?

Bell: Mr. Hand. He killed himself, you remember, in July 1931. So that thing has never been completed.

H.M.Jr: I see.

McR: Hand was the first Commissioner of Accounts and Deposits when it was set up.

H.M.Jr: Now, on that - Monday morning I want somebody - don't know who's doing it - but if anything is left of the Railroad Administration.....

(Bell hands H.M.Jr. a memorandum,
apparently re Railroad Administration)

Wonderful - such service.

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Bell: One employee, I can tell you.

(Mrs. Klotz comes in)

H.M.Jr: Look, Miss Chauncey, sit here.

Foley: That's a memorandum from Tietjens to me, but it's.....

White: That's why you possibly came late this morning.

Foley: Doing that.

H.M.Jr: Well, this goes with me.

Foley: We're getting another one on the port control.

H.M.Jr: Yes.

Mac, I spoke to the President last night and asked him if I could get in touch with Carl Gray, former head of Union Pacific - he said, "Fine" - on this thing. And find out - and will you ask if they'd be here at 3:00. The President also suggested I have the president of the B. & O. come down, and talk to the two of them.

McR: Gray, that's the former head of U. P.

Hanes: And Dan Willard.

McR: And Willard.

H.M.Jr: And tell them what it's about - that very confidentially, without any publicity, I want to talk to them about, in case there is trouble abroad, what they think we should do.

McR: Yes, sir.

H.M.Jr: And I'd like you and Bell in on it. Get that thing started. That's 3:00 P. M. next Monday.

White: In conversation with them, you might drop a word with respect to the possibility of seeing that same group again sometime in the near future

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with respect to the railway equipment proposal. Their views on it would be very valuable.

- H.M.Jr: Well, I don't want them to know what I'm doing in respect to getting this ready for the President. I mean I.....
- White: O. K.
- H.M.Jr: I mean let's keep them on fiscal and monetary stuff. And they are not thinking in terms of getting ready. I mean I just - well, I wouldn't use that sort of people on this. I mean on this getting ready for war stuff I'm using entirely different type of people, and I'm using people in the industry who know the business, you see. And if one of those men wanted to find out, they'd have to go to a fellow like Carl Gray to find out. I mean they're purely theoretical, and these fellows are operators. You may not - I mean they can do it from the theoretical approach and statistical and the rest; but if we get into this thing, I've got to have operating men that have come up through - from brakemen up through the line, that know their stuff and are practical fellows.
- White: I guess you didn't understand me, but it's all right. I gather that you didn't, but we can postpone it.
- H.M.Jr: (laughs) What you mean to say is you don't want to understand me, which is something quite different.
- White: No, no, I.....
- H.M.Jr: It's all right, Harry.
- White: If I understand what you said, then you didn't understand me. Let's put it that way.
- H.M.Jr: Well, let's say we both understand what we didn't say, what we left unsaid. O. K.?
- White: O. K.

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H.M.Jr: Is that all right?

White: It's all right.

H.M.Jr: Willing to leave it that way?

Very funny - we had this meeting at the house last night and during the discussion something came up - I don't know what it was - Eccles said that he - he opened the meeting by saying he hadn't seen Currie in a month. So I said, "Well, I'm always glad to meet Currie at my house," or something like that. Then when the next thing came up - something came up about his work, Eccles said he didn't quite understand.....

White: He said, "If I understand Currie....."

H.M.Jr: Then we asked him if he questioned it. He said, "Well, of course, I brought Currie over from the Treasury with me because he agrees with me."

Then Harry says something about - it wasn't so bad having a boss that you could disagree with.

Incidentally, you know, you (Bell) were invited last night.

Bell: Yes. I thought it was called off. But I had this other engagement. Incidentally, I was the honor guest and couldn't very well stay away.

H.M.Jr: But I mean you were extended an invitation.

Bell: Yes, thank you.

H.M.Jr: Smith said he was very pleased with the meeting. He said he hoped that that was just the kind of meeting that could take place in Washington.

White: Did you purposely not call on him?

H.M.Jr: I thought it was unfair to call on him the first time.

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Bell: He's got plenty on his shoulders without policies of this kind.

At your last staff meeting you asked about the peak of expenditures.

H.M.Jr: Yes.

Bell: With a hurried check on the budget, it looks to me as though the deficit for 1939 would be nearer three and a half billion than four billion; looks as though we're going to get about 125 to 150 million dollars more revenue than our estimates, and that our expenditures will probably drop off from 250 to 300 million dollars. So that the total expenditures in 1939, that is, your budget cash outlay, will not be far off from the estimated expenditures for the 1940 budget as it now stands, unless Congress appropriates a great deal more money.

You talk about the budgetary expenditures of General and Emergency. I don't see much difference in any month from now until the end of December. I think they'll run between 600 and 650 million dollars a month as an average. If you add interest on the public debt and the special transactions such as for the corporations and so forth, I'd say June is the high month; but that includes 150 million dollars of cash outlay to redeem the Home Owners Loan bonds. Now, the chances are we won't do that, we'll refund the whole maturing issue and leave the cash in the Treasury, in which case it makes September the high month. But that also has fifty million dollars of special transactions in it for the Farm Credit Administration. When we come to that period, we may not pay that off in cash, we may refund that maturing issue and save the cash. I don't see that there is enough difference between any of the months, outside of the interest, between now and December to make any difference in the peak.

H.M.Jr: O. K. Got anything else?

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- Bell: Well, I still have some Commodity Credit unfinished business.
- Hanes: Dan, may I ask what is the total outgo for 1939 now that you estimate?
- Bell: I figure as a total budget expenditure it will be nine billion two instead of nine billion five; and that includes the transfer to trust accounts. And it's eight billion 994, almost nine billion, for the 1940 estimate. So there is just about two hundred million dollars difference between the two years, and what happens there is that your regular expenditures, national defense, et cetera, begin going up in July and will gradually - that, plus the increase in public works, will gradually take the place of what goes out in WPA.
- White: Did you push it beyond December, Dan?
- Bell: No, up to December.
- H.M.Jr: Well, Dan, do you want to come back about 11:00 and we'll clean up whatever else you have?
- Bell: Yes, fine.
- H.M.Jr: What?
- Bell: All right.
- H.M.Jr: Mac?
- McR: No, I haven't anything. I might say on that conference the boys had.....
- H.M.Jr: What conference?
- McR: With Milligan - he was perfectly happy on it; there was no friction. Elmer Irey was in at the latter part of the conference. And he is entirely satisfied with the way the Treasury is treating him.
- H.M.Jr: Who? My God, he should be.

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- McR: Yes.
- H.M.Jr: It's the other way around. I'm not satisfied with the way they're treating us.
- McR: Well, he's pretty well lined up. I was delighted with the results.
- H.M.Jr: Take a look at this week's issue of Life - the great racket-buster, Governor Stark.
- McR: He'll get quite a campaign out of that.
- H.M.Jr: Now, what I'd like to do now is - I'd like Hanes and Gaston and Foley and Duffield to stay with me, please.

April 21, 1939
9:45 a.m.

HMJr: Hello.

Operator: Mr. Gaston left his home at 8:30 and the maid said she thought he was coming to the office.

HMJr: I see, and what about Congressman Somers?

O: I'm trying him at the hotel and his room is busy.

HMJr: Thank you.

O: Right.

9:46 a.m.

HMJr: Hello.

Andrew L. Somers: Hello.

HMJr: Morgenthau talking.

S: Good morning, Mr. Secretary, how are you?

HMJr: I -- I'm fine. I want to congratulate you on the magnificent job you're doing.

S: Now wait a minute, don't do that until tomorrow.

HMJr: Well, you're two -- two-thirds through.

S: Well, I hope so.

HMJr: I think you've handled it simply wonderfully.

S: Well, I'm doing the best I can.

HMJr: How do you feel about it today?

S: I feel fairly good and, of course, you know that almost anything might happen but I -- I think I've gotten our side so lined up now that they won't break up.

HMJr: Uh-huh. When do you start voting?

S: About -- we'll start voting about twelve o'clock, I think -- between twelve and one.

HMJr: And then everybody goes to the ball game, huh?

S: That's right.

HMJr: Well, we're down here and if I can be of any help, don't hesitate.

S: Well, that's fine, Mr. Secretary. I certainly appreciate the -- the help that your office has given me so far. Mr. Bernard, Mr. White and the attorney, Mr.....

HMJr: Foley?

S: No, the -- his assistant, I believe.

HMJr: Bernstein.

S: Yeah, that's right -- Mr. Bernstein. They've been very wonderful.

HMJr: Good. Well I -- well I'm glad to hear that and just don't forget that I'm -- I'm here if I can be of any use.

S: All right, Mr. Secretary, thanks a lot.

HMJr: My money is on you.

S: Thank you.

HMJr: Two billion dollars.

S: I -- I hope that we can bring it through.

HMJr: O. K.

S: All right.

HMJr: All right.

S: Bye-bye.

HMJr: Good bye.

April 21, 1939
10:47 a.m.

Frank
Murphy: Hello.

HMJr: Yes, Frank.

M: Henry?

HMJr: Talking.

M: Henry, this is Frank Murphy.

HMJr: I understand.

M: In regard to the.....

HMJr: Hello.

M: Hello.

HMJr: Yes. Somebody on the wire?

M: Yes, just a minute, Henry. Hello?

HMJr: Yes.

M: Now it's all right.

HMJr: Yes.

M: In regard to the Skidmore case.....

HMJr: Yeah.

M:which I have been checking up on

HMJr: Yeah.

M:it's not in this office on a very satisfactory basis.

HMJr: It is not?

M: It is not.

HMJr: Yeah.

M: There's practically nothing been submitted to us except a request to have a Grand Jury available.

HMJr: Yeah.

M: It's not in any condition here at all where we could go ahead with it, and what I wish you would do -- if it's agreeable with you -- is instruct your man there to contact Mr. Morris right away and see if that can't be brought up to where we can take some action on it if we're going to.

HMJr: Uh-huh.

M: Morris -- I sent for him this morning to talk over with it -- talk it over with him, and he's reported to me just how it stands in this office, and there isn't anything that we could do until some further material reaches us from your investigators.

HMJr: I see. Well.....

M: So if you'd have your man contact Morris, I think they can work out the program to be followed here.

HMJr: I'll do that.

M: All right.

HMJr: Thank you.

M: Good bye.

April 21, 1939
11:25 a.m.

HMJr: Hello.

Operator: Mr. Jones. Go ahead.

HMJr: Hello.

Jesse
Jones: Hello, Henry.....

HMJr: Why didn't you tell me you were going to become Secretary of Commerce?

J: Well, you didn't ask me!

HMJr: Well, God damn it, I can't keep up with you.

J: Oh -- well, we're pretty fast on our feet some of us boys.

HMJr: You're telling me!

J: Yeah. Well.....

HMJr: Anyway.

J:anyway, the thing I called you about now is that I was asked sometime ago to -- Walter Cummings suggested to try to see if sometime or other I couldn't find a little better paid job for Steve Gibbons.

HMJr: Uh-huh.

J: Now, I could drop him in a reasonable spot, I think. Not definite about it, and sometime in a month or two or three, in a little bank where he wouldn't -- you know where he wouldn't be over his head.

HMJr: Yeah.

J: And where it would be perfectly safe to put him. And I'm just telling you about it first so that.....

HMJr: Well.....

J:to see whether you think I ought to consider him.

HMJr: Well.....

J: I think the job would probably pay him about fifteen thousand dollars.

HMJr: Well, I'd like to talk to Steve if I could.

J: Well, of course you could.

HMJr: Because this is.....

J: But I want -- before I talked to Steve I wanted to talk to you.

HMJr: Yes. Well, it is all right if I talk to Steve?

J: Yes, -- be fine.

HMJr: O. K.

J: Could you do that?

HMJr: I'd like to, yes.

J: Well, I'd -- all right, because I know you -- you're just like I am; you'd be glad to help him if you can.

HMJr: Well.....

J: If -- that is -- if you -- if you can get -- if you can spare him.

HMJr: Well, if that's what he wants.

J: Yeah.

HMJr: Is this what he wants?

J: I don't know if it is or not. So I am talking to you first about it.

HMJr: I see.

J: I think we could. We've got some of those little old Jersey banks up there, as you know, we're mending up.

HMJr: Yeah.

J: I think I might fix him a place there where he couldn't get hurt, where he wouldn't, you know, be over his head.

HMJr: Yeah.

J: Where he'd be -- be -- wouldn't be objectionable to the Administration -- to the Administration. So.....

HMJr: Well, I'm -- I'm surprised. I didn't know Steve had anything in mind.

J: Well, I guess he's just looking for a little more money.

HMJr: Uh-huh.

J: He's probably had all the glory he's going to get where he is, you know.

HMJr: Well, I -- I appreciate very much your calling me, and I'll -- I'll ask him to come in and see me.

J: That'll be fine.

HMJr: And -- on this reorganization business, I've got my ear to the ground but.....

J: Yeah.

HMJr: I don't -- I don't know what's going to happen.

J: Well, of course, everybody's asking me and I -- I know nothing to tell them.

HMJr: Yeah.

J: And I just tell them I have no comment.

HMJr: Yeah.

J: I guess I've had a hundred calls.

HMJr: Well, you saw what I said yesterday. They asked me at the press conference, and I said, "I can't fight ghosts."

J: Yes, I noticed that.

HMJr: I don't know just what I meant, but I thought it sounded pretty good.

J: I wondered what you meant when I read it. I think it was all right.

HMJr: All right.

J: Well, thank you.

HMJr: Thank you.

J: Good bye.

April 21, 1939
12:01 p.m.

Andrew L.
Somers:

Mr. Secretary, there's very little change down on the Hill. They're debating now an amendment that some -- the Republicans proposed to put -- accounting control of the fund under the General Accounting Office.

HMJr: Yes.

S: But they haven't come to any vote yet.

HMJr: I see.

S: Now, we have Bill Johnson here, Herbert Gaston and Doc White, Huntington Cairns, Aggie and I, -- we're talking about a visit that Bill got this morning from Dr. Tannenberg, the Commercial Attaché of the German Embassy. He came in and admitted that they had exhausted every effort to -- to subsidize, in a manner satisfactory to us, their exports to the United States and put forward a proposal for limited trade on a free exchange basis.

HMJr: Yeah.

S: So it -- it's a complete capitulation, Bill believes.

HMJr: I see.

S: And a recognition on their part that we were entirely right in the way we sized the situation up and we had no alternative but to impose the countervailing duties.

HMJr: I see. All right.

S: Would -- would you like to talk to Bill?

HMJr: Bill who?

S: Bill Johnson.

HMJr: No.

S: All right. O. K.

April 21, 1939
12:06 p.m.

HMJr: Hello.

Operator: Mr. Crowley. Go ahead.

HMJr: Hello.

Leo T. Crowley: Hello, Mr. Secretary.

HMJr: How are you?

C: Fine, how are you?

HMJr: Good. Leo.

C: Yeah.

HMJr: I'd like to ask you a question which you needn't answer if you don't want to.

C: Sure.

HMJr: But I'd like to ask you in the strictest of confidence, see?

C: Yeah.

HMJr: And if you don't want to answer, you can forget it, see?

C: Yeah.

HMJr: Have you offered Steve Gibbons a job?

C: No. No, here's what -- here's what happened. Jesse called me up one day and said that Steve would like to be, sometime in the near -- before 1940 -- would like to get a job in a banking setup, and he asked me if we had covered all of our liquidations up in New Jersey.....

HMJr: Yeah.

C:and I told him no that we had not, and that if Steve wanted to go into a setup like that we would be glad to consider him for it. Then he called me back a few moments later and said, "Well now, I was wrong about that. Steve didn't want any job and -- liquidating in. He was looking forward to the time that maybe the Administration would end and he didn't want to be out in the street.

- 2 -

HMJr: Uh-huh.

C: And he was looking for some connection in an industry or in a bank -- in a going institution.

HMJr: I see.

C: And that was all there was to that.

HMJr: Uh-Huh.

C: But I think what Steve is looking for was something -- thinking that maybe at the end of next year he'd be out -- he'd have to get a job.

HMJr: Uh-huh.

C: But I think that's all there was to it.

HMJr: I see. Well, just -- this is just between the two of us.

C: Well, that's -- that's the story and I'll keep it strictly confidential.

HMJr: Right.

C: Thank you.

HMJr: Good bye.

April 21, 1939
12:16 p.m.

Andrew L.
Somers:

.....amendment was beaten 182 to 100.

HMJr:

A hundred and eight-two to a hundred!

S:

Yeah.

HMJr:

Well, on that basis, if they can beat that they can beat anything.

S:

I think so. The -- the Democrats are sticking together and they are getting a party vote, you see.

HMJr:

Well, because that, I would say, would be one of the weakest things.

S:

Yeah. Well, I mean, if you could put this audit in the -- in the General Accounting Office, then you'd have to take up questions with the Comptroller General as to what uses the Fund could be put to, and you'd have to tip off your hand each time you wanted to get off the beaten path. So it would be very embarrassing to have that kind of impediment, and I -- I think we're in pretty good shape. As you say, if they can beat an amendment of that kind, it looks as though they are going to stick together.....

HMJr:

O. K.

S:

.....the Democrats. Yeah, I'll keep you informed. Mr. Secretary, do you think that the State Department ought to be informed on this conversation that Bill Johnson had with.....

HMJr:

Yes.

S:

He -- it's all right for him to report it to Fels.

HMJr:

Yes.

S:

All right.

HMJr:

Thank you.

S:

Fine.

April 21, 1939
12:32 p.m.

HMJr: Hello.
Hull's
Operator: Just one moment, please, Mr. Secretary.

(Brief pause)

Cordell
Hull: Hello.

HMJr: Cordell.....

H: Yes, sir.

HMJr: How are you?

H: All right.

HMJr: I'd like to make a suggestion for you to think over.

H: Yeah.

HMJr: You know, in regard to letting the British know about our having gotten an Attorney General's ruling on that matter I showed you yesterday.

H: Yeah.

HMJr: I'd like to make this suggestion, and -- I discussed this with the President -- that I tell it to him verbally.

H: Yes.

HMJr: With the understanding that if it ever got out, I'd deny it.

H: Well now, something like that would be very....

HMJr: See?

H:would be very helpful, because if -- if it should get out that we had -- they -- you see, they won't take notice of the fact that you are not making any promises.

HMJr: Yes.

H: They'll just -- they'll just say, "Well, that means that we are turning our Government over to furnish credit over there."

HMJr: Yeah.

H: And that they've got that -- all that

HMJr: Well, would you turn it over in your mind, and then I'll talk to you about it again Monday?

H: Yes.

HMJr: You see I could do it -- I could do it one of two ways - I could call Butterworth on the phone.

H: Yeah.

HMJr: Or I could send for Bewley, the financial attaché and tell it to him verbally, either way.

H: Yes, now they -- you see, if that should get out.....

HMJr: Yes.

H:they would amend the Neutrality Act over night, and make it airtight on that line.

HMJr: Well, I -- I talked to the President. That was -- ah -- his idea that if -- to say that if it got out, I would deny that I ever made any such statement, but tell him so that before hand.

H: Yes. Now, this is no -- I'm not bothering at all about that, but the fact is, that in my opinion, a pretty close question of construction of that neutrality provision.

HMJr: Yeah.

H: And that's why I felt that there would be all the more controversy if it should get out, you understand.

HMJr: Well, you know, we have a formal opinion from the Attorney General.

H: I know you have, but you'll find the best lawyers/^{will}differ on that.

HMJr: Well, I didn't.....

H: As I say, I'm not raising that question at all, you understand.

- 3 -

HMJr: Well.....

H:except to -- in connection with the aggravated attacks that will be made if it should get out.

HMJr: Well, I don't want to make things any more difficult, and -- but I thought I'd give you this today and then I'd call you up again Monday.

H: All right.

HMJr: Is that all right?

H: Yes.

HMJr: Thank you.

H: Yes, thank you, Henry.

April 21, 1939
2:05 p.m.

HMJr: Hello.

Operator: Go ahead.
Andrew L.
Somers: Hello.

HMJr: Mr. Somers?

S: Mr. Secretary, there's your bill 225 to 158.

HMJr: Well.....

S: Just as you handed it to us.

HMJr: Well, that's simply wonderful and my very, very
heartiest congratulations and appreciation.

S: Well, thanks. Now I suppose that the Senate will get
it and we may have to into conference, but I'll do all
I can for you in conference to.....

HMJr: Well, I'll -- I'll.....

S: We'll kick that old fellow Carter Glass around a little
bit, maybe.

HMJr: Well, I'll need you badly. We'll have -- they won't
handle it the same way that you did.

S: Well, we'll -- we'll see what they do.

HMJr: I guess you're pretty tired, aren't you?

S: Well, I tell you, candidly, when I get into a thing
like this I -- I get a little bit nervous and I can't
sleep and I haven't had any rest now, nor any sleep,
three nights and I just feel about -- about ready to
go to bed. So I'm going to do that and probably wake
up Monday morning sometime.

HMJr: I can't tell you how much I appreciate it.

S: All right, Mr. Secretary. Thank you, and I certainly
want to thank you again for all the help that your
office gave me. Without them why I might have been
in some difficulties.

HMJr: Well, I'll be seeing you soon.

S: All right, sir.

HMJr: Good bye.

S: Bye-bye, Mr. Secretary.

REB

GRAY

Rio de Janeiro

Dated April 21, 1939

Rec'd 2:07 p. m.

Secretary of State,
Washington.

126, April 21, 1 p. m.

Department's 65, April 20, 4 p. m.

The Director of Exchange informs me that he intends gradually to bring the cross selling rate between the compensation mark and the dollar and the spread between the compensation mark and the dollar ~~and the spread between~~
~~compensation mark and the dollar~~ into line with the agreements arrived at in Washington. He would not make a definite promise as to when this will be accomplished as he states that the bank wishes to avoid perturbing rudely trade between Brazil and Germany and working hardships on Brazilian firms who already have contracts for purchases of German merchandise. (In my opinion a contributing factor is the strong pressure of the Sao Paulo cotton interests to protect their sales in Germany) the Director assured me that he will continue to maintain a strict control of the commerce between the two countries and to prevent the Banco do Brazil's "bought" position from becoming too large.

Commercial

REB

2-#126, From Rio, Apr. 21, 1p.m.

Commercial banks are purchasing export drafts on the free market at 18.740 to 18.750 and selling free exchange for payment of import drafts at 18.900 to 3 milreis.

The selling rate for the compensation mark remains at 6.100 and the buying rate at 5.700.

While I understand that the question of the Central Reserve Bank is being studied no great progress appears to have been made and from present indications the Brazilian Government will not request the loan of gold in the near future.

CAFFERY

HTM

KLP

RECEIVED

APR 22 1940
TREASURY DEPARTMENT
WASHINGTON, D. C.

CJ

PLAIN

417

London

Dated April 21, 1939

Received 2:40 p.m.

Secretary of State,
Washington.

537, April 21, 7 p.m.
FOR TREASURY FROM BUTTERWORTH.

ONE. The exact wording of the following statement by the Chancellor of the Exchequer, as reported in the official Parliamentary Record, is noteworthy: Asked in the House of Commons yesterday "Whether in order to facilitate the financing of the armament expenditure he is proposing to take steps to prevent or control export of British capital for the purchase of foreign securities," Sir John Simon replied: "As the House has been informed on several occasions, the purchase of foreign securities for resale is already regulated by the Foreign Transactions Advisory Committee and I am glad of this opportunity of expressing my hope that no such purchases will be made for investment either. I am sure that the good sense of investors will indicate to them that the export of capital at the present time when the requirements for national defence are so great would be deleterious to the national interests."

Though in form hardly more than a casual observation,
in

-2- #537, April 21, 7 p.m., from London

in effect this announcement constitutes another step in the direction of financial restrictions in Great Britain. For information on the inception and subsequent actions of the Foreign Transactions Advisory Committee reference is made to my telegrams 192, April 8, 6 p.m., 1936, 92, February 23, 7 p.m., 1937, 81, February 1, 8 p.m., 1938, and 1451, December 20, 6 p.m., 1938.

Two. Although the London stock exchange was again firmer today, the volume of trading was of negligible proportions. Likewise the foreign exchange market was very inactive; for example, up to noon the largest broker in the market had not done a single spot dollar deal. Of the 126 bars sold at fixing 33 were married and the Bank of England supplied a few. I understand that Samuel Montagu and the Chase Bank are the only buyers willing to arbitrage pending a clarification of the insurance position.

KENNEDY

PEG

RECEIVED

APR 22 1938

TELETYPE UNIT
APR 22 1938
U.S. DEPARTMENT OF THE TREASURY

03213078

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 21, 1939, 5 p.m.

NO.: 801

FROM COCHRAN.

This afternoon there is to be a meeting of the French Cabinet. At eight o'clock tonight Reynaud will broadcast a speech in which it is expected that he will make known the additional burdens that the French people will have to assume in order to meet armament bills. It is believed that these burdens will be heavy and protests are already being voiced by Blum and other Left leaders lest the capitalists are favored more than the laborers.

Exchange and security trading continues inactive, awaiting developments. Very little sterling was gained by the French control. In Belgium, technical measures of restriction similar to those employed in the crisis of last May are being followed, but there is continued flight of capital. Observers on the market know that today at least three million dollars were lost by the National Bank of Belgium. There is gossip that after the Pierlot Government appears before the Belgian Parliament next Tuesday the belga will be devalued 8 percent.

BULLITT.

EA:LWW