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GROUP MEETING

May 22, 1939.
9:30 A. M.

PRESENT: Mr. Graves
Mr. Gaston
Mr. Duffield
Mr. Haas
Mr. Gibbons
Mr. Bell
Mr. White
Mr. McReynolds
Mr. Foley
Mr. Hanes
Mrs. Klotz

H.M.Jr: Dan, what is the overhead on Home Owners Loan?

Bell: About \$25,000,000 or \$26,000,000.

H.M.Jr: Then, by saving them one and one-fourth per cent, we save them twelve million dollars a year, or half of their overhead. Would that be a correct statement?

Bell: You are saving them about \$11,000,000.

H.M.Jr: No; one and a quarter per cent -- well, roughly, yes.

Bell: Yes.

H.M.Jr: Will you check that?

Bell: Yes; I will check it. \$25,000,000 or \$26,000,000 is the appropriation. We save them half of it.

H.M.Jr: If I can make it, it would be sort of nice talk.

Bell: Do you want to take in the \$300,000,000 too.

H.M.Jr: Yes.

Bell: It is over half.

H.M.Jr: Well, make it look good.

Bell: O.K.

H.M. Jr: All right. I thought for the week it would be a nice statement. I just wanted to help them out. Seriously, will you let me have it after lunch?

Bell: Yes, surely. Those figures are about right though.

H.M. Jr: Mac?

McReynolds: I have nothing to say. You are going to see Mr. Marshall this morning.

H.M. Jr: Oh, yes; at ten-fifteen.

McReynolds: At ten-fifteen?

H.M. Jr: Yes. Do you want to see me for a couple of minutes before that?

McReynolds: If you want me to. I have nothing special to report.

H.M. Jr: Let him come in and tell his story.

McReynolds: Yes.

H.M. Jr: And you will be here.

McReynolds: All right. Shall I contact him?

H.M. Jr: Yes, you make the appointment.

McReynolds: I can get him here. I tried to get him on Saturday.

Mrs. Klotz: You better deny it, Mac.

H.M. Jr: As I says to myself "Did he want me to do it or didn't he?" "Well, I don't think he did, or maybe he did. I will ask him Monday."

McReynolds: I tried to get his office.

H.M. Jr: Mac won.

McReynolds: I will be glad to have him come in at 10:15, or fifteen minutes ahead.

H.M. Jr: I will tell you what we will do under those circumstances --

McReynolds: I think I can get him.

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H.M. Jr: Mac having won, we will make it 12:45.

McReynolds: 12:45.

H.M. Jr: What other argument do you have?

McReynolds: I have no more.

H.M. Jr: That is marvelous. All right.

McReynolds: I won at golf yesterday.

H.M. Jr: Did you?

McReynolds: Yes.

H.M. Jr: Swell.

Bell: The Comptroller's office has a hundred and fifty million dollars to invest in retirement funds. He does not want to go out in the market and buy Government bonds at the premium at the present time, and he is wondering if you would issue two per cent obligations, the same as you did in some of the other cases. I told them we would like to confine that pretty well to --

H.M. Jr: Well, I do not like that. I don't know --

Bell: I do not like it very well, either.

H.M. Jr: No.

Bell: He asked me to ask you.

H.M. Jr: No. Let us take, for example, "X" note or a "X" bond, just a refunding on the 15th of June. I would like to do what we have never done before -- issue whatever is necessary, fifty to a hundred million dollars extra for Government funds. The British Treasury always does that, and I would like to know whether we can do it legally. That will take care of people like this. There is no reason why we can not do that. We have never done it before.

Bell: We have already worked it out.

H.M. Jr: Well, there's your answer.

Bell: I will take it up with the General Counsel's office.

H.M.Jr: Do you get the idea?

Hanes: Yes.

H.M.Jr: The agencies need fifty million dollars worth of securities. Let us issue them fifty million at par or whatever it is going to be.

Hanes: And the church, too.

H.M.Jr: And the church, too.

Bell: No. I object to that. Keep it in the family.

H.M.Jr: Oh, we could make one for Hyde Park and one for -- what is the town that that man comes from in Texas?

Bell: Uvalde.

H.M.Jr: Hyde Park - Uvalde special; but seriously --

Bell: Yes; we are working on that.

H.M.Jr: That would take care of this, you see.

Bell: It all depends upon the coupons.

H.M.Jr: Why shouldn't they, anyway? I was thinking of the FDIC. They ought to have some notes.

Bell: Yes; it would be hard for us to get some of those special notes.

H.M.Jr: Will any of you who are interested be thinking about that? Incidentally, on the Home Owners Loan, the price is just about where we priced it, and not a listed price or Federal Reserve price. He is a funny specimen but I did not want to talk that way about your friend.

Bell: My friend? -- Just a casual acquaintance.

H.M.Jr: What else have you?

Bell: I guess you have seen that the orange and blue stamps are going very well. \$35,000 issued up

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to the 19th -- a hundred and thirty dollars yield. We get a report on that every day, if you are interested.

H.M.Jr: Yes; I am interested. .

Bell: Here is the information you asked for on the expenditures of the United States Housing Authority. In the first column are the obligations incurred. Those are contracts actually signed -- not allocations.

H.M.Jr: The money going out.

Bell: But actual cash, only \$37,000,000.

H.M.Jr: That is blankety blank \$37,000,000 gone out since July 1, 1938 to date.

Bell: What is that figure -- two hundred and some million.

H.M.Jr: Three hundred and fifty one of contracts; and here he comes around; just rides the hell out of me about getting out a national issue.

Haas: There are the figures on employment projects too.

H.M.Jr: Well, it can not be an awful lot. They may be beautiful figures. I would like to see it about thirty-seven million dollars.

Bell: Three five one is the figure.

Foley: Those construction contracts, Dan?

Bell: Yes.

H.M.Jr: Yes; but they are drawn on the Treasury for \$37,000,000

White: When do they pay -- after they are complete.

Bell: No; during course of construction.

H.M.Jr: As the stuff goes out.

Bell: You asked me to look into the history of the --. Mr. Matteson wants me on the phone. It is regarding that twenty million dollars.

H.M.Jr: Well, finish your statement first.

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Bell: Yes. You asked me to look into the history of the authorizations given to the Assistant Secretary of War.

H.M.Jr: Oh, yes.

Bell: Prior to the National Defense Act, there were three assistant secretaries, low-salaried, and prior to our entry into the war there was no study of industrial mobilization. We were toally unprepared when we went into the war, from that standpoint; so when they passed the National Defense Act there was a great deal of discussion in the Congress on the unpreparedness of the United States, from the industrial mobilization standpoint. When they passed the National Defense Act, they abolished two assistant secretaries of war.

H.M.Jr: What year was that?

Bell: That was in 1920, and created an assistant secretary at \$10,000 which was just about double the salaries that they were getting during the war, and lodged in him all the procurement authorities plus the industrial mobilization under the National Defense Act.

H.M.Jr: Will you get me the report on that?

Bell: I will give you a memorandum.

H.M.Jr: I want a copy of the 1936 report, which was gotten out by the assistant secretaries of War and Navy. The Assistant Secretary of the Navy must have had about the same power. (m dx 15A p.19)

Bell: Yes. I did not look that one up, but they are the same.

H.M.Jr: Send me the 1936 report on that. They have a report which they made.

Bell: The two of them.

H.M.Jr: The two assistant secretaries signed it.

Bell: All right.

H.M.Jr: Has the President changed that under his Re-organization? Would that have to go to Congress?

May 22, 1939
9:43 a.m.

HMJr: O. K.

Operator: Go ahead.

HMJr: Hello.

Fredric Delano: Hello.

HMJr: Hello.

D: Good morning, Mr. Secretary.

HMJr: How are you?

D: I'm well.

HMJr: How's things in the Hudson Valley?

D: No, I haven't been up there lately. I hope to go next week.

HMJr: Uh-huh.

D: I -- I got a call from your office to call you, but I had already dictated a note which would go normally to you and -- in a few minutes, asking -- saying that our group would like to have a meeting with the -- with you -- the Fiscal Advisory group, at your convenience. We've -- last week.....

HMJr: Well, that's fine. I'd be delighted. Somebody else, Mr. Delano, must have called you. I -- I didn't call you.

D: Well, then -- then I got -- I got the message wrong.

HMJr: Oh!

D: I asked -- I asked Dr. White on -- on Saturday if he saw you to explain the matter to you.

HMJr: Yes.

D: WE've been meeting with the.....

HMJr: He did.

D:our Industrial Committee and we wanted to have a meeting with you, if we could, tomorrow.

HMJr: Well, how's -- how would ten thirty be?

D: Fine.

HMJr: I'd be delighted.

D: All right.

HMJr: Now do you want me to -- you'll bring the people, as I take it? Who are coming.

D: Well, I -- yes.

HMJr: I don't invite anybody.

D: Well, all right. I'll -- I'll do that. I'll arrange it that way.

HMJr: You.....

D: That is -- I'll only have to notify Smith and Eccles.

HMJr: I see.

D: All right.

HMJr: I see.

D: Thank you.

HMJr: Thank you.

Bell: It is a function definitely lodged in an individual. I suppose he could transfer it.

McReynolds: He could transfer it.

H.M.Jr: Without having to go to Congress?

McReynolds: He would have to go to Congress under the executive order, in order to change it.

Bell: The language is very broad. It says: "Under the direction of the Secretary of War, Chiefs of Branches of the Army charged with the procurement of supplies for the Army shall report direct to the Assistant Secretary of War regarding all matters of procurement."

H.M.Jr: I know; it is most unusual.

Bell: Now, you will recall that Senator Wagner wrote you a letter several days ago, asking you not to do anything on the Straus bill until he had an opportunity to see you. I have here a report on that which has gone through the channels --

(Telephone conversation at 9:42 A. M.
with Frederic Delano.)

Bell: This bill had been in the office some time, but it has been rather carefully considered by the Comptroller of the Currency. We are opposed to the last section, which permits the national banks to invest these bonds beyond the ten per cent limitation.

H.M.Jr: Yes.

Bell: It puts it in the same class as Government securities.

H.M.Jr: Yes.

Bell: This is an eleven page report. We are opposed to that provision, and ask for its elimination.

Duffield: And are also opposed to any right of the national banks to ---

Bell: Yes; that is right. Wagner asked you not to take any action until he saw you. I do not know how else to write that letter except to say: "I will give you a copy of the report which I contemplate sending to the Director of the Budget. If after reading it, you want to see me, I will be glad to speak to you."

H.M.Jr: Do you want to go into this?

Hanes: If you want me to.

H.M.Jr: Before I sign this.

Hanes: No.

Bell: Do you think that is all right.

Foley: Absolutely.

Bell: To hold this a day or two?

Foley: Surely.

McReynolds: Wagner would have no kick coming if you gave him a copy before you signed it.

H.M.Jr: I feel very strongly about this. This is the second pressure put on us now within a week or two to lower the standards of the Comptroller of the Currency, and that is not the way to recovery.

Bell: That is all I have.

H.M.Jr: Do you want to talk to "Mattie" now?

Bell: Yes.

H.M.Jr: Listen, Ed. The Attorney General has again asked me for a copy of the memorandum. He is going to Los Angeles on the so-called movie cases, and I thought I would send him over a memorandum today, saying that we are not ready. I asked him whether you had spoken to him, and he said you had not.

Foley: I spoke to Miss Baumgartner, his secretary. I could not get hold of him. She said she would give him the message. I told him the material would not be here from the Coast until this morning, and we just would not be able to get up anything and get it to him before he left. She said he was not leaving until noon time, and if there was anything we could get up this morning, would we send it over. I told her we would do the best we could, but I did not think we could get anything to him.

H.M.Jr: Well, I have never done that before, until a case was finished and ready, and I do not like to send it over until it is.

Foley: I think that is right.

H.M.Jr: I just do not like to do it.

McReynolds: You may find yourself embarrassed by what he said about it.

H.M.Jr: Naturally. If there is something that comes up through Hanes and it is a finished case, all right, but if it is not finished I do not want to.

Foley: I asked Elmer Irey to give us a memorandum on it. He said that he did not feel justified in sending it over until they thought they had something that was worthwhile.

H.M.Jr: It may not be even a case for the Attorney General; it may not be a criminal case at all. It may be a civil case. I think we will just sit tight.

Foley: Sit tight.

H.M.Jr: O.K. Harry?

White: The State Department sent over the correspondence between the President of Nicaragua and the President of the United States. They did not ask for or receive your O.K. I do not know whether you want to go over it or not, but it is here.

H.M.Jr: Is there anything that I can do?

White: No, it involves the expenditure of two and a half million.

Lochhead: It involves the promise of the expenditure of two and a half million dollars. It is very open though. I have not gone into the details.

H.M.Jr: Well, look it over, and let the General Counsel take a look at it.

Lochhead: Yes.

H.M.Jr: And if there is anything you think we should do, then Hanes and I will look at it. You three have a look at it and let us see if the President of the United States is going to be out on a limb.

Lochhead: Yes.

H.M.Jr: If he is, let us do something, even though we step on somebody else's toes. But you three look into it, White and Lochhead and Foley.

White: This will not come out for several weeks. (Handing a book to the Secretary.)

H.M.Jr: Thanks.

White: Some time today, if you have a chance, there are a couple of things which we can put together and get it off our minds.

H.M.Jr: You mean the Coast Guard?

White: Yes.

Bell: Childs has offered to buy up to \$20,000,000 at point twenty-four thirty seconds. I am inclined not to let more than half of them go at the present time, and keep some of them for later on in the day.

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H.M. Jr: Oh, I see -- let a quarter of them go?

Bell: Five million.

H.M. Jr: Five million.

Bell: And feel him out that way during the day.

H.M. Jr: I would not let any one bond house -- if Childs get five million, that is all, let someone else have some.

Lochhead: I think we should have actual bids in. They are talking about pricing it to a maturity.

H.M. Jr: Tell that to Bell. Seriously, tell that to Bell. that we would like to have a bid from someone else. Is there anything else, Harry?

White: No.

H.M. Jr: George, the English Consul figures; I would like to take another look at them.

Haas: I have a daily chart. That would be sufficient.

H.M. Jr: Yes, once a week.

Haas: There are very favorable developments. These come in; it is a weekly figure. There are some developments in the business situation that are favorable, and I am writing it up.

H.M. Jr: I would like to have it. Is there anything else, George?

Haas: That is all.

H.M. Jr: The department store figures in the New York Times of over a year ago are simply amazing.

Haas: Yes; there is a little difference there. The improvement is very good, but you have to take into consideration that Mother's Day in that one year was in a different week. That accounts for some of it.

H.M. Jr: Archie?

Lochhead: The foreign market is quiet, and shows more on the off side, on account of the --

Foley: Here are a couple of letters, one to the Secretary of State, and one to the --

H.M.Jr: Now, Mrs. Klotz watch him try to grab this.

Foley: There is another one there.

H.M.Jr: Send Hull a copy of the stenographic minutes of what took place between Cairns, Johnson and the Secretary of the German Embassy.

Foley: Yes. Joe O'Connell is going to stop off on the way back from the meeting this morning to see Kelly about that matter that the Secretary talked to you about.

H.M.Jr: All right.

Foley: He is also going to talk to Judge Davis, who is the Federal Trade representative on the committee.

Hanes: Do you want to talk about the Pennsylvania Turnpike matter, this morning sometime?

H.M.Jr: Let us do it right here. Who is interested in that?

Foley: I know about that.

Hanes: I think, perhaps, we had better get somebody in that knows about this.

Foley: I can tell you about it if you want me to.

H.M.Jr: No; I want to decide it.

Foley: Well, there is a memorandum from the Comptroller to the President.

Hanes: Yes, that is right.

Foley: So it is not anything for you to sign.

H.M.Jr: No, but the Comptroller has put it up to me.

Foley: Oh yes; I thought you said to sign it.

H.M.Jr: No; put it up to me. (At this point the Secretary telephoned for Mr. Delano and Mr. Upham.)

Whom do we want -- Gene?

Bell: Gene and Ed.

(At this point Mr. Delano and Mr. Upham came into the meeting.)

Hanes: We will save a little time, if you care to --

H.M. Jr: Yes.

Hanes: To read this memorandum which has been issued by the Comptroller of the Currency. You initialed that, didn't you Ed? Is that your initial?

Foley: Yes.

Hanes: (Reading)

"This memorandum is in response to your request for a statement of the position of the Comptroller of the Currency as to the eligibility, for inclusion in the investment portfolios of national banks, of Pennsylvania Turnpike Revenue 3 3/4% bonds.

"As you know, under the National Bank Act and the regulations issued under it, investments to be eligible for purchase by national banks must be marketable and must not be predominantly speculative.

"It is estimated that the total construction cost of the Pennsylvania Turnpike will be approximately \$58,300,000. Of this amount the Reconstruction Finance Corporation is committed to purchase approximately \$35,000,000 of the bonds at a price to return to the Turnpike Authority approximately \$32,000,000. Public Works Administration is committed to make a grant of not to exceed \$26,000,000. Approximately \$10,000,000 of the bonds of the \$35,000,000 commitment have been purchased and resold by the Reconstruction Finance Corporation to an underwriting group. The balance of the issue has not yet been taken up by the Reconstruction Finance Corporation. Public Works Administration has paid none of the grant. The sole security behind the bonds is the tolls to be paid by the users of the road. There is no recourse to taxing power or to other sources of revenue for the retirement of the bonds. Although title to the property is in the Commonwealth of Pennsylvania, the obligations in no way are guaranteed by the Commonwealth.

"Contracts for the construction of only a portion of the Turnpike have been let and the project has just reached the construction stage. There is no assurance at this time that the road will be completed or, if it is, that the tolls will be adequate to retire the indebtedness. Under these circumstances it seems clear that revenue bonds for an authorized but uncompleted self-liquidating project are speculative in character, and so do not meet the tests of the National Bank Act and the Comptroller's Investment Regulation. This is the opinion generally shared in responsible financial quarters.

"So much of the Pennsylvania Turnpike Revenue 3 3/4% bonds as have been sold have had no such public distribution as would bring them within the test of marketability. There is no active market in the bonds and quotations are somewhat nominal in character. Insurance companies and other institutional investors are not purchasing them. Competent financial authorities, including officials of the Federal Reserve Bank of New York, do not regard them as having marketability. They are not seasoned securities such as banks should invest "other people's money" in. They belong in the risk category.

"Section 5136 of the Revised Statutes provides that for securities to be eligible for purchase by national banks they must be:

- (1) marketable;
- (2) bonds, notes and/or debentures commonly known as investment securities;
- (3) within the regulations prescribed by the Comptroller of the Currency. Under this provision of the law the regulations of this office prescribe that the securities which are predominantly speculative are not eligible for purchase by national banks.

"Because these bonds fail to meet the legal requirement as to adequate marketability, and because they are speculative in character, it is the conclusion of the Comptroller of the Currency that they should not be eligible for investment purchase by national banks."

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- H.M. Jr: Let me see that.
- Hanes: And here is a record of the White Face Mountain, if you want that.
- Foley: These are not as good as the White Face Mountain bonds, Mr. Secretary.
- H.M. Jr: No; I just brought up the White Face Mountain, because I happened to go through that, and nobody else would buy them. As I remember it, the Government or the Treasury ---
- Foley: This is the public authority that has been sent here, just like the Tri-Borough Bridge Authority in New York. The obligations are payable only out of the tolls that the highway will provide when it is completed. They have no way to pay the interest on those obligations out of the proceeds of sale until the road is finished, and it will be two or three years before this road is finished. Every time Jesse has taken a big commitment, he has held the bonds until the project was finished and they have a record of earnings, and then he offers them to the public and he makes his profit. That is what he should do here; but either because he is afraid of the security or because he has been high pressured by some syndicate into making an offer for ten million dollars of these bonds, he now wants the Comptroller to withdraw and issue instructions that these obligations are not proper obligations for investment on the part of national banks, and the Comptroller is absolutely right.
- H.M. Jr: Here is the thing to do, after all, to get the President off the spot; the thing I suggest doing is this: That Mr. Delano write this, and then I forward this with a memorandum to the President, something along this line, that "Mr. Delano has shown to me his memorandum, the enclosed memorandum to you, which meets with my entire approval. I would like to draw your attention to the procedure which has been followed by the RFC in former cases, and it seems to me that that is the procedure which should be followed now, and not try to put pressure on the Comptroller to do something that he should not do, just because the RFC does not want to do it."

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- Foley: That is right.
- H.M.Jr: I mean something along those lines, "And therefore I suggest, Mr. President, that the RFC backtrack and either"-- . Well, I don't know just whether they can buy back these bonds at cost, or something like that, and hold them. In other words, make a constructive suggestion to the President as to how they should be done, that would relieve the pressure. That is all he wants.
- Foley: That is right.
- H.M.Jr: Doesn't that sound like sense?
- Foley: That is right.
- Hanes: Except the part about taking them back. I do not think could be done.
- Foley: He will probably take them back anyway, Johnny.
- H.M.Jr: All I am suggesting is that we give the President an out, and the out is that this is a job that should be done by the RFC, not by the Comptroller; so that I can say to the President, in so much as it has come to the Treasury -- draw his attention to it, and suggest what you said, and say, "This is a job which should be done by the RFC, not by the Comptroller's office." If you will fix me up something that is agreeable to you gentlemen here, I will sign it and send it over. That takes you off the spot, and my memorandum will accompany this.
- Foley: Do you want me to write the letter?
- H.M.Jr: Yes.
- Foley: I will. You simply want me to sign it and give it to you.
- H.M.Jr: Sign it and give it to Hanes. Show it to Hanes and Delano, and if it looks all right, I will sign it and send it over to the White House.
- Foley: He waited until the Tri-Borough bridge was finished and the refunding had taken place.
- H.M.Jr: Well, the Southern Water District in California --

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Foley: That is another one, and San Francisco -- Oakland Bay bridge. He has assumed the risk.

H.M.Jr: Well, let us give him three or four reasons.

Foley: Surely.

H.M.Jr: It seems to me Hanes is right. I would not say what technical procedure they should follow, but simply say, "This is a job which the RFC has always done, and it seems to me that the RFC should again find a way to do this." It is just a nice little buck passing.

Delano: I think it would stultify our office to do that.

H.M.Jr: We can not do it, Delano. I will send a memorandum and a copy of the memorandum to Wagner, which is going to the Director of the Budget on these United States housing projects, where Wagner wants the banks to underwrite and be permitted to take more than ten per cent, and we say no.

Delano: The same thing --

H.M.Jr: We will try to protect your virtue, if you will let us. While you are here, Hanes has prepared for me -- I have not had a chance to look at it as yet -- the recent history on the Bank of America. That is what is before me, and I would like to have you tell me. After all, the President of the United States asked that we make a suggestion as to a letter to the President of the Bank of America. And now, this is the President of the United States, and he must not be overlooked, but nothing has happened.

Delano: Well, you will remember that I told him that orally.

H.M.Jr: And he asked you to put it in writing.

Delano: Which we said we would do.

H.M.Jr: Yes.

Delano: But we have had that lapse. In the meantime, we are examining the banks, and it will be out by the middle of June, anyway.

H.M. Jr: Well, I would like a suggestion from you, because I said I would let the thing drag two or three weeks, and it is nearer five or six weeks now.

Hanes: I do not know how long ago it was. It was the day that Jesse was over here for lunch. It must have been three or four weeks.

Delano: Yes; about three weeks.

Hanes: About three weeks.

H.M. Jr: At least, the time has passed, and I should hate like hell to give any suggestion to the President that nothing has happened. Will you think about it, and then some time in the next day or two, will you come back?

Delano: Yes.

H.M. Jr: And tell me what you think should be done.

Delano: I will talk it over with Mr. Hanes.

H.M. Jr: Well, talk it over, but let us keep it in the Treasury for the time being.

Delano: Yes.

H.M. Jr: Let us keep it in the Treasury. I mean it is just one of these things that are in the air; I don't know what the answers are, but I would like to hear from you on it, as two or three weeks have passed now.

Delano: Yes, they have. We will be prepared.

H.M. Jr: If you could, say, within a day or two.

Delano: Yes.

H.M. Jr: Have you anything else this morning?

Delano: There is something I would like to say in reference to this Turnpike project. I would not like to have the President get the impression that we here in the Treasury or the Comptroller's office are being unduly restricted on credit. I think that maybe Guffey might try to tell him that.

H.M. Jr: No; I think if Foley writes a good letter, that will take care of it, and there will be a letter from me to accompany it.

Delano: Very definitely.

H.M. Jr: That the avenue always has been the RFC.

Delano: But I would like to clear that question, that it is not a question of the restriction of credit. It is a question of a completely speculative risk.

H.M. Jr: Well, let Ed do the drafting, and send it down for your suggestions.

Delano: All right. I want to guard our relationship with the President on that.

H.M. Jr: Yes, you are right. If you fellows can fix it up this afternoon, I will sign it and send it out. I think it would be like asking for stabilization funds to buy bonds.

Delano: Certainly.

H.M. Jr: It is the same idea.

Delano: That is right.

H.M. Jr: O.K., then, I will hear from you within a day or two.

Delano: Yes.

(Meeting was concluded at 10:10 A.M.)



DEPARTMENT OF STATE
WASHINGTON

22

In reply refer to
FE

May 22, 1939

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses for his information copies of two memoranda of May 10, 1939, in regard to calls made on certain officers of the Department of State by Mr. T. Nisiyama, Japanese Financial Commissioner to the United States.

Enclosures:

Memorandum of conversation
of May 10, 1939, between
Mr. Hamilton and Mr. T.
Nisiyama;

Memorandum of conversation
of May 10, 1939, between
Mr. Hornbeck and Mr. T.
Nisiyama.

7/7/4

DEPARTMENT OF STATE
MEMORANDUM OF CONVERSATION
DIVISION OF FAR EASTERN AFFAIRS

Date: May 10, 1939.

Subject: Call of the Japanese Financial Commissioner at New York

Participants: Mr. Hisiyama, Japanese Financial Commissioner at
New York,

Mr. Hamilton

Mr. Bellentine

Mr. Hisiyama, Japanese Financial Commissioner at New York, called by appointment made by Mr. Suma of the Japanese Embassy. Mr. Hisiyama was accompanied by Mr. Ukwana

of the Japanese Government's Financial Commission at New York.

This was Mr. Hisiyama's first call on me, and during the first minutes of his call we exchanged conventional remarks during the course of which Mr. Hisiyama stated that he had been for several years a director of the Yokohama Specie Bank stationed in New York and that some three weeks ago the Japanese Government, desirous of increasing its financial representation in the United States, had asked him to accept the position of Financial Commissioner. He said that he had accepted the position.

After these remarks Mr. Hisiyama, somewhat to my surprise, brought up the question of exchange control in north China. He inquired whether the American Government had made representations to the Japanese Government on the subject. I replied in the affirmative. He then inquired whether the Japanese Government had made reply to these representations. I then said that our general representations had been included in a note of October 6; that the Japanese Government had made reply to that note; that thereafter this Government had sent a further comprehensive note of December 31; and that

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that that constituted the record of the exchange of communications.

Mr. Nisiyama said that he understood that American and British banks in north China were prepared to accept the notes of the Federated Reserve Bank set up by the Peiping regime but that they hesitated to do so because of advice given them by the American and British Governments not to cooperate with the Federated Reserve Bank. Mr. Nisiyama expressed the view that it would be advisable for American and British banks to accept the Federated Reserve Bank notes; that by so doing they could resume their normal operations and American and British trade would also be carried on in a normal way; and that there was no desire to discriminate against American and British trade or business. I commented that the position of this Government with regard to the exchange and trade restrictions which had been set up in north China was set forth clearly in this Government's notes to the Japanese Government of October 6 and December 31; that developments since the sending of those notes had not caused us to modify the views expressed therein but on the contrary had strengthened our belief in the soundness of the position which had been taken by this Government. Mr. Nisiyama again expressed the view that it was advisable that American and British banks cooperate with the Federated Reserve Bank and its currency, and he stated that there was no Chinese Government currency in the area. I commented that in as much as north China was a part of China I saw no reason why Chinese Government currency should not circulate and be available in that area. Mr. Nisiyama continued his argumentation, and I finally terminated this phase of the discussion by saying that in as much as this was Mr. Nisiyama's first call I

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did not wish to enter into a detailed discussion with him but would only refer him to what I had previously said.

Mr. Ballantine then joined us, and the remainder of the conversation was of a conventional character.

M.M.H.

DEPARTMENT OF STATE
MEMORANDUM OF CONVERSATION

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26

Date: May 10, 1939.

Subject: (Mr. Nishiyama having recently been appointed to his present position, this was his initial and technically his "courtesy" call.)

Participant: Mr. T. Nishiyama, Japanese Financial Commissioner to the United States, Financial Attaché to the Japanese Embassy.

Mr. Harukage Uruma, Japanese Financial Commission, 120 Broadway, New York, N. Y.

Mr. Hornbeck.

Mr. Nishiyama opened the conversation with a statement concerning his past banking experience and position, his appointment to his new position, and his entertainment of the hope that he might call frequently. He then said that his task as Japanese Financial Commissioner was at present a difficult one, owing to the fact that his country is having troubles with China, but that he was confident that the China incident would "soon be ended" and then he would be able to do something constructive. He said that the fighting in China is "about over", that Chiang Kai-shek will soon be "eliminated", and that Japan's present bombings of the Chinese are due to the fact that there is still "some resistance" and that this resistance must be "crushed". He said that he understood that American banks in China were declining to cooperate with the Japanese authorities in the financial measures which the latter are inaugurating; he thought this was a great mistake on the part of the American banks; he said that the American banks finance American business and the Japanese banks finance Japanese business and the Japanese have no intention to crowd out American business and could not do so if they wished to; he said he thought that we should advise the American banks to cooperate.

Stanley K. Hornbeck.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 22, 1939.

27
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TO Secretary Morgenthau

FROM Mr. Haas *JA*

Subject: Wheat market information reported by Federal Surplus Commodities Corporation.

		Bushels
May 15:	Export sales:	
	Australia to United Kingdom	425,000
	Australia to Shanghai	250,000

Practically no demand for North American wheat. Unfavorable crop news from Southwest continues.

May 16: Reported that as much as 1,500,000 bushels Canadian wheat and 1,250,000 bushels Argentine wheat sold to United Kingdom.

Showers forecast over a large part of winter and spring wheat territory.

May 17: "Export sales today were estimated at 200,000 bushels. Mills in the United Kingdom were reported to have bought 500,000 bushels of Australian wheat."

Northwestern Miller estimates orders booked by mills in spring wheat belt the past week at only 38 per cent of capacity versus 68 per cent a week ago.

May 18: No export sales data.

"It appears that the Kansas crop has been hit pretty hard, and some prominent and well posted grain people now estimate Kansas as low as 80,000,000 bushels. This would be just about half as much as harvested last year."

MAY 22 1939

My dear Mr. Cairns:

I hereby designate you to attend in my behalf a meeting of the National Munitions Control Board which will be held May 23, 1939.

You are hereby instructed to vote in my name and stand in favor of the proposed Regulations Governing the Exportation of Helium Gas which will be considered at that meeting.

Very truly yours,

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury.

Mr. Huntington Cairns,
Assistant General Counsel,
Treasury Department.

By hand

HFZ/avp
Typed: 5/20/39

MAY 22 1939

My dear Mr. Secretary:

Reference is made to your letter of May 20, 1939, relating to the meeting of the National Munitions Control Board and the Secretary of the Interior on May 23, 1939. I understand that the purpose of the meeting is to consider and vote upon the revised draft of the Regulations Governing the Exportation of Helium Gas.

After due consideration of that draft, I have instructed Mr. Huntington Cairns, Assistant General Counsel, Department of the Treasury, to attend the meeting and to cast my vote in favor of the proposed regulations.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of State.

By hand

RHD/avp
Typed: 5/20/39.



TREASURY DEPARTMENT
WASHINGTON

May 22, 1939

TO THE SECRETARY:

The annual saving in interest on the refunding of the Home Owners' Loan Corporation obligations as of May 15 in the amount of approximately \$325,000,000, amounts to approximately \$3,000,000, and the annual saving on the refunding of the \$905,000,000 Home Owners' Loan Corporation bonds announced today, assuming that all of the holders exchange for the new securities, will amount to approximately \$11,000,000, or a total annual saving of approximately \$14,000,000.

3 M

11 M

14 M

The administrative expenses of the Home Owners' Loan Corporation for the fiscal year 1938 amounted to \$29,507,000. The Budget estimate for 1939 is \$26,500,000 and for 1940 is \$24,500,000.

It is safe for you to say that the savings effected in the refunding of the two issues of the Home Owners' Loan Corporation will amount to more than half of their administrative expenses for this year.

f 26.5 M

sewb

May 22, 1939

(Dictated May 23, 1939)

Mr. Nash, Minister of Finance of New Zealand, was in here yesterday at four o'clock and I arranged for him to see George Harrison today.

I told him that Harrison informed me that the chances of his getting a loan in New York were not too good, but not insurmountable. I could not tell him all the things that Harrison had told me about Morgan-Stanley knowing about the loan and that evidently word had come from England to kill their chances of getting it here.

I did tell him, though, that I would be undiplomatic and advise him that the financial people in England had been talking New Zealand down and that George Harrison was a good friend of Montague Norman. He said, "I understand perfectly." He said, "I will be undiplomatic and say that I was advised to come to London first before I sounded the United States out, but I did not take their advice and what you tell me does not surprise me."

This is a good example of the way things used to work before '33, where London more or less dictated to New York through George Harrison.

When Nash was here Saturday, he asked me could he get a Government-to-Government loan and I told him I would be glad to sound out Congress for him if he wished me to.

There are several reasons why England most likely won't want to make New Zealand a loan:

(1) They spend most of their money that they borrow in England in the United States.

(2) Naturally England does not want to lend them Sterling and then have it come to America; in that way weaken their rate.

(3) The Present Government in New Zealand is

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almost, if not in fact, Socialistic.

The reason that they need their money is because they are doing so many Public Works. Whether they can afford it, I don't know. For example, they buy all the butter for export and give the farmers a fixed price and he admitted that in their campaign the opponents to the present party offered 5 cents a pound more. They offered 3, but that they won on that basis and I guess, as a result, last year they lost \$5,000,000 on their butter deal. And they just borrowed their money from their Federal Reserve. This is somewhat along the lines that they do in Mexico, where they have an Agricultural Bank set up under their Federal Reserve and this Agricultural Bank loans large sums of money on crops, particularly cotton, and they are stuck. The Agricultural Bank gets its money from the Federal Reserve.

These various kinds of deals are all right as long as they follow sound fiscal policy, the way we have in this country, but just as soon as they go too fast the countries like Mexico and New Zealand go bust.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 22, 1939

Secretary Morgenthau

FROM W. H. Hadley

Review of the Government MarketWeek ending May 20, 1939

The government security market during the first half of the week was very strong and moderately active, with buying by commercial savings banks and dealers. However, a good part of the activity was in switching operations. Toward the end of the week, following preliminary announcements on HOLC financing, the market became quiet and steady. Treasury bond prices showed net gains in the longer maturities of 12 to 16/32nds while in the intermediate and short maturities the gains were from 2 to 9/32nds. Prices continue at record high levels. Treasury note issues were strong in the long maturities with gains of 2 to 10/32nds. The shorter maturities were off 1 to 3/32nds. Guaranteed issues were up from 5 to 13/32nds for the week. Treasury bonds maturing over 12 years have shown a steady rise of 2-3/4 points in the last six weeks.

HOLC Financing

The offering this morning of 1-1/2% bonds in exchange for the 2-3/4% August 1 bonds of HOLC was well received as indicated by high premium quotations. Although the market indicated prior to offering that such an issue would be quoted on a maturity basis, not one dealer opened on this basis. All quotations were as of callable date. Opening at 101.13 bid,

-2-

prices moved up rapidly during the first hour to 101.24 and closed at 101.26.

Dealers' Portfolios

Dealers' portfolios showed a sharp rise this week, with a net gain of \$45 million. \$22 million of this gain was in Treasury bonds. This increase in holdings is the first substantial change in dealers' portfolios since March Treasury financing.

(in millions)

	Week ended <u>May 13</u>	Week ended <u>May 20</u>	<u>Net Change</u>
Treasury bonds	20.8	42.6	+ 21.8
Treasury notes (1 year)	21.7	27.7	+ 6.0
Treasury notes (1-5 yrs.)	27.3	28.7	+ 1.4
Treasury bills	0.1	0.1	-
H. O. L. C. bonds	25.6	32.0	+ 6.4
F. F. M. C. bonds	<u>1.2</u>	<u>10.5</u>	<u>+ 9.3</u>
	96.7	141.6	+ 44.9

Dealers' volume averaged about \$170 million daily during the past week, of which about \$110 million daily was in Treasury bonds and about \$25 million daily in HOLC issues.

New Security Issues

There were no corporate security offerings of any significance this week. Of a total of \$4.7 million new issues, \$2 million was for refunding.

Corporate Bond Market

Corporate bond market was relatively inactive and dull. High grade issues were off small fractions while second grade issues, as represented by Moody's "BAA" average, sustained losses of from 5/8 to 3/4 of a point in sympathy with the declining stock market. At the end of the week, however, the corporate bond market firmed in sympathy with a better tone to the

-3-

stock market.

Treasury Investment Accounts

There were no purchases or sales in the New York market for investment account during the week ending May 20. However, today, Monday, a total of \$20,272,000 2-3/4% HOLC bonds ("rights") were sold for Postal Savings at prices ranging from 101.24 to 101.29.

Federal Reserve System Account

Aside from replacement of \$42 million Treasury bills with a like par amount of other bills, including \$40,850,000 of last week's offering, the Federal Reserve made switches of \$3,250,000 from 2-3/4s of 1956-59 into 2-7/8s of 1955-60 and \$500,000 from 2s of 1947 into 2-1/2s of 1948. There was also a switch of \$2 million in Treasury bill issues.

May 22, 1939

36

yield
Estimate, in unadjusted
profit tax - \$17.5

4 o'clock grace
Tully

Mr. Tully phoned at 4 PM. May
22 and said that the President
wanted the above information for
his speech which he gave last
night before the Amer. Retail
Federation

75

17.5

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

~~CONFIDENTIAL~~

37

DATE May 22, 1939

TO Secretary Morgenthau
FROM Mr. Haas *EA*
Subject: The Business Situation,
Week ending May 20, 1939.

Conclusions

(1) Various signs are beginning to appear which suggest that a renewed upturn in business activity is not likely to be long delayed:

(a) A heavy volume of new steel orders has been placed by the automobile companies in the past week.

(b) Automobile production has increased contra-seasonally for two successive weeks, accompanied by a reported sales improvement.

(c) The settlement of the coal strike will result in increased coal production and improvement in various related lines.

(d) Rising commodity and security prices in this country and abroad are encouraging business confidence.

(2) Probably most important of the week's business developments has been the temporary break in steel prices, which has brought the automobile companies into the market for a heavy volume of steel orders, said to exceed that of last October. This may shortly be followed by a substantial rise in steel activity.

(3) With our new orders index close to the high of the year, according to data reported up to last week, any marked upturn in steel orders would raise the composite index to the highest level since the peak reached last fall. This would support a definitely higher level of industrial production.

Secretary Morgenthau - 2

The current situation

The underlying business trend is improving, and barring any new shock to business confidence, a rise in industrial production should not be long delayed. The FRB index for May, however, will be affected by the coal strike during the first part of the month; and an unusually early introduction of new automobile models will involve an earlier than usual curtailment of automobile production during the summer. Present indications point to a general improvement in business from current levels, probably becoming more pronounced during the fall months.

The recent break in steel prices (confined almost entirely to flat rolled products such as are used in automobile production), has had the anticipated effect of bringing a volume of steel orders from the automobile companies. Opinion in the trade differs as to whether the aggregate steel sales at reduced prices were as large as last October, but in the Chicago district (which includes Detroit) it is stated by the Iron Age that bookings were larger than last October, and that the automobile companies have covered their requirements for some time ahead, certainly through the third quarter and possibly beyond that.

Since the steel companies are attempting to force early delivery on the "bargain" orders, the result should be an early upturn in steel activity, perhaps similar to that in the last quarter of 1938. June 30 is reported as the most common deadline heard in the Chicago district for shipment of the low-priced tonnage, but other reports mention later dates.

The temporary price concessions were sufficiently wide as to reduce the Iron Age composite price for all types of finished steel to about 2.198 cents a pound, which compares with last October's low of 2.211 cents. Prices have been quickly restored to an average level of 2.236 cents, only slightly below their former level.

Decline in steel activity levelling out

The recent downward trend in steel production, which carried the rate of steel operations last week to 45.4 per cent of capacity, versus 47.0 the previous week, has been meeting increased resistance, most of the curtailment in the past two weeks having been due to a shortage of coal rather than a shortage of orders.

Secretary Morgenthau - 3

Aside from the heavy volume of buying last week from the automobile companies, a better demand for steel has lately been reported from farm machinery and road machinery builders, while structural steel orders continue satisfactory. The movement of steel out of warehouses this month is reported as equalling or exceeding that of April in most districts. The settlement of the strike will result in the reopening of some railroad shops, with larger orders of steel plates expected for repair work. These will help to supplement the orders from the automobile industry in turning steel activity upward.

The increase in steel orders has not yet been reflected in orders reported to us confidentially by the U. S. Steel Corporation, whose figures for the week ended May 11 show a decline in new orders to about 41 per cent of capacity, which compares with 49 per cent in the previous week. The growing uncertainty over steel prices at the time to which these orders apply probably contributed to a hesitation in steel buying.

Recent slackening chiefly in durable goods

The decline in industrial production since the end of last year, (as shown in Chart 1) has been most pronounced in steel and automobiles, while the production of leading non-durable goods has held relatively steady. As a consequence, the FRB adjusted index of durable goods production (as shown in the upper section of the chart) has declined 18 points from its late-1938 peak, while the non-durable goods index has declined 6 points.

The ratio between the two indexes has thus been placed in a position traditionally more favorable for a business upturn. The prospect for an upturn in steel activity has already been discussed. The position of the automobile industry likewise seems to be somewhat better than it appeared a few weeks ago. Retail automobile sales in the first 10 days of May, according to the Wall Street Journal, are indicated by preliminary data at about 6 per cent above the April rate. While our confidential reports on General Motors' sales for the first 10-day period of May show the same total as during the corresponding April period, it is reported that Ford sales in the first 10 days of May were the largest for any comparable period since September 1937.

Secretary Morgenthau - 4

Confirmation of an improving sales trend is seen in contra-seasonal upturns in automobile production during the past two weeks, since production at this time is doubtless being closely geared to the trend of retail sales. (See Chart 2.) The sharp step-up to 80,145 units last week from the previous 72,375 was unexpected in the trade, and raises the New York Times adjusted index of automobile production to 78.6, versus 68.3 the previous week and 65.0 the week before. Estimates of automobile production for June are consequently being revised upward.

Foreign situation encouraging

With confidence abroad apparently recovering strongly from the war scare of two months ago, and British rearmament activity taxing capacity in some industrial lines, the foreign situation is assuming greater importance as a support to American business.

Employment in Great Britain, according to the Financial Times of London, has already reached a level within close limits of practical full employment. According to April unemployment returns, the percentage of unemployment has been reduced to about 13 per cent, which compares with 10 to 12 per cent which the Times estimates as a normal margin for labor turnover and technological unemployment.

The Economist index of British business activity for April stood at 105.5, the highest since March 1938. The weekly adjusted index of the Financial Times (See Chart 3) shows a renewed upturn recently, following a previous leveling out. This has been accompanied by a rising trend of stock prices and by other evidences of improving business confidence. In both England and France last week, stock prices continued their upward movement. Commodity prices in the United States and England held steady during the week.

Some further heavy sales of cash wheat to the United Kingdom have been reported in the last few days, following a short period when few or no sales were made. Of a recent steel scrap order estimated as high as 400,000 tons, placed in this country by the International Scrap Convention of Europe, about 40 per cent is reported for Great Britain. Current demand for vessels for transporting steel scrap, grain, and petroleum has strengthened the ocean freight market. Some additional reduction have been made in war risk insurance rates.

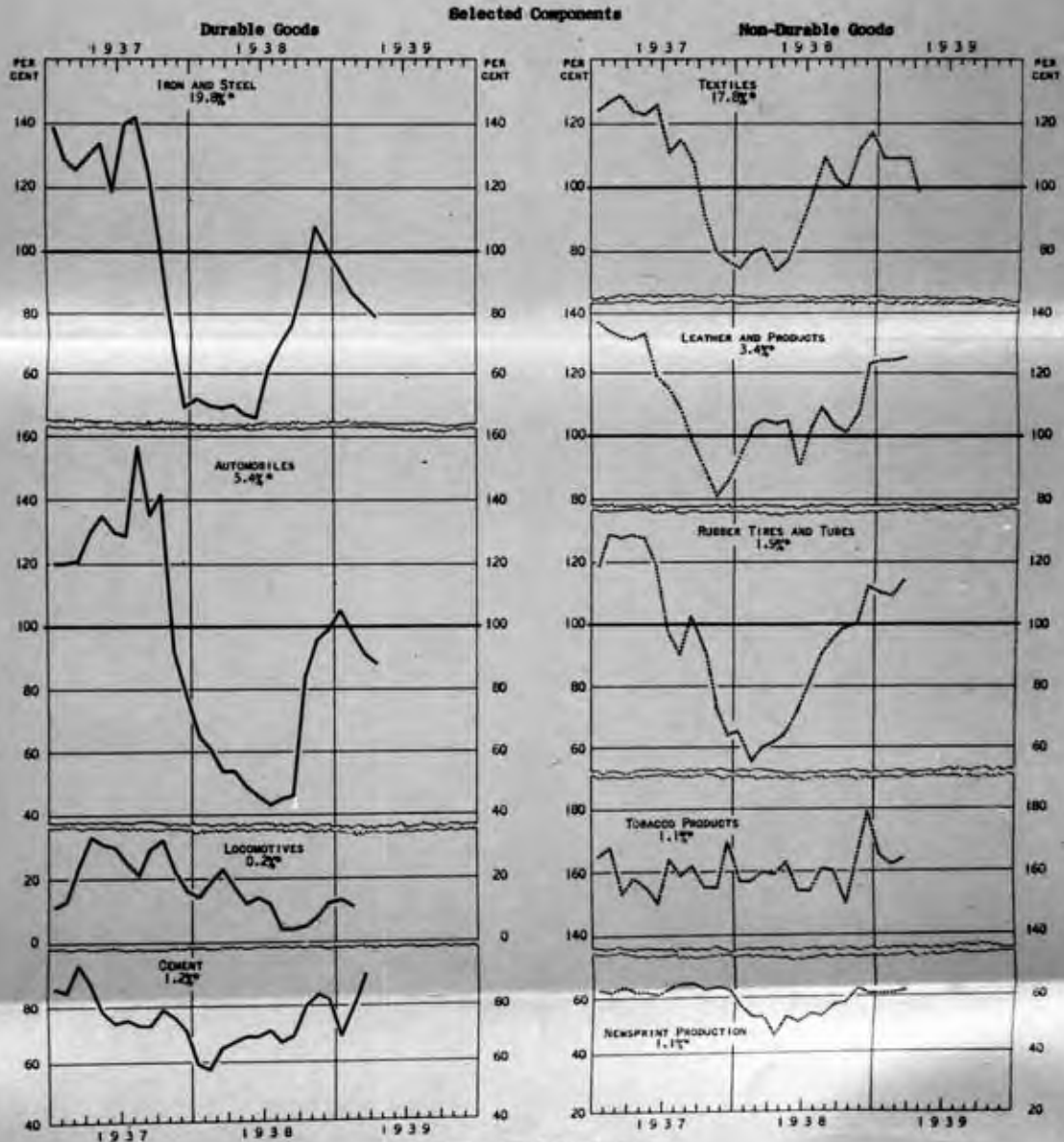
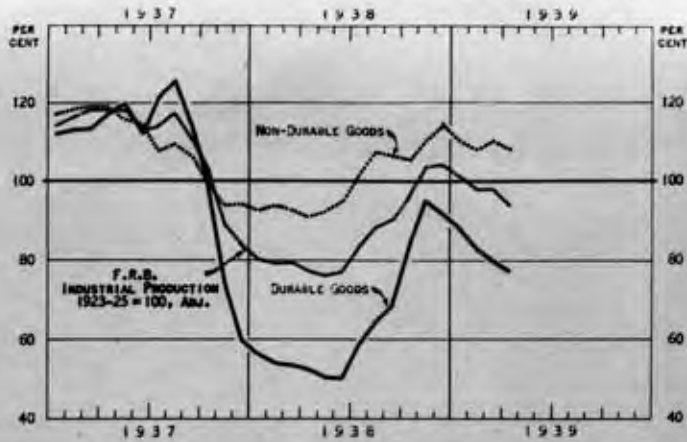
Current business news

Our weekly index of new orders, not yet reflecting last week's volume of buying of automobile steel, has recently held close to the high level of the year. (See Chart 4.) During the most recent week a rise in textile orders offset a downturn in steel orders, while the total for other components remained practically unchanged. Any substantial rise in steel orders would raise the weekly index to the highest level since the peak reached last fall.

The New York Times business index for the week ended May 13 dropped 1.0 point to 85.3, a new low for the year, with all components except automobile production moderately lower. For the following week, tentative figures show a sharp rise in the index of automobile production and a moderate decline in the steel index.

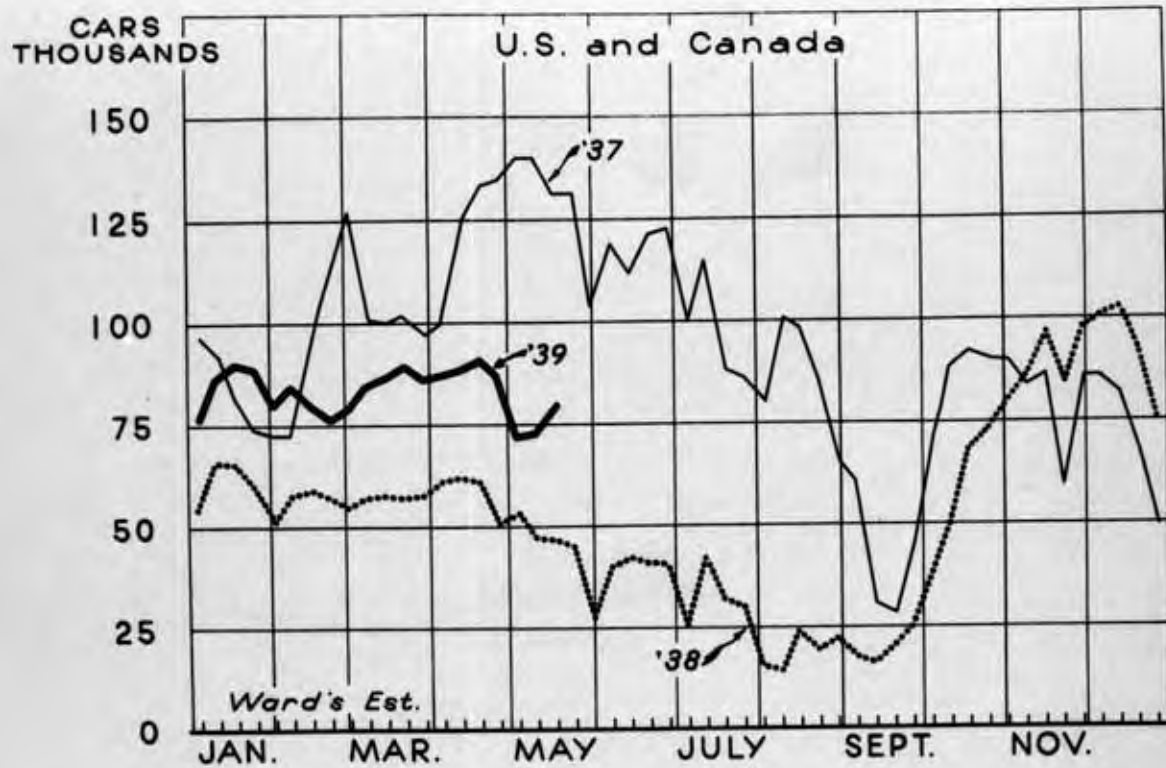
Department store sales for the week ended May 13 recorded a gain of 22 per cent over comparable figures for last year, in contrast to a loss of 3 per cent during the previous week. The improvement is partly or largely accounted for, however, by a shift of one week in the date for Mother's Day this year, and by the fact that sales were declining sharply during May last year.

INDEX OF INDUSTRIAL PRODUCTION AND SELECTED DURABLE AND NON-DURABLE GOODS COMPONENTS



* WEIGHT IN COMBINED F.R.B. INDEX
 NOTES: LATEST FIGURES ARE PRELIMINARY

AUTOMOBILE PRODUCTION



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

C-233

Chart 2

43

INDICES OF UNITED KINGDOM BUSINESS ACTIVITY, LONDON TIMES

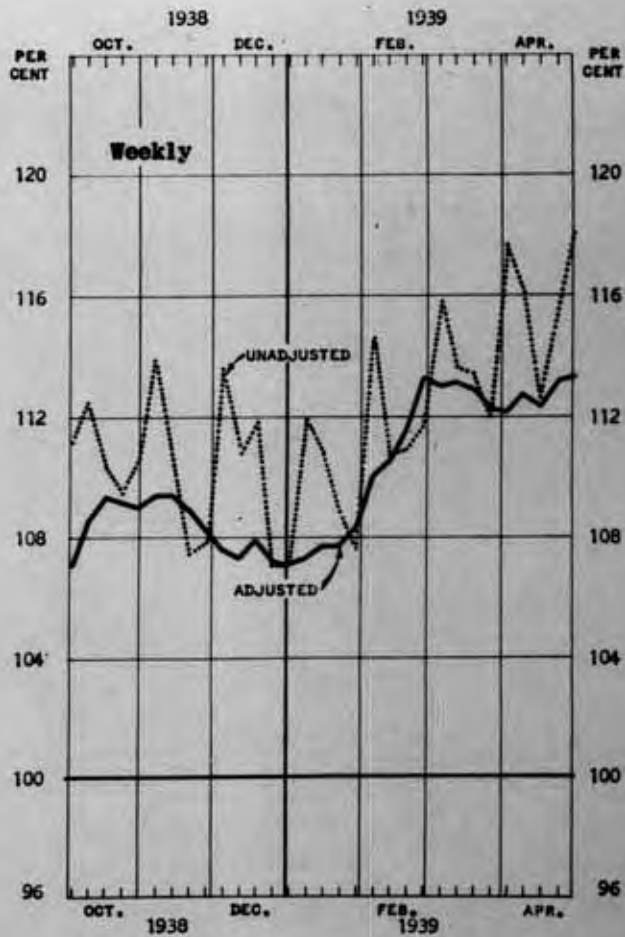


Chart 3

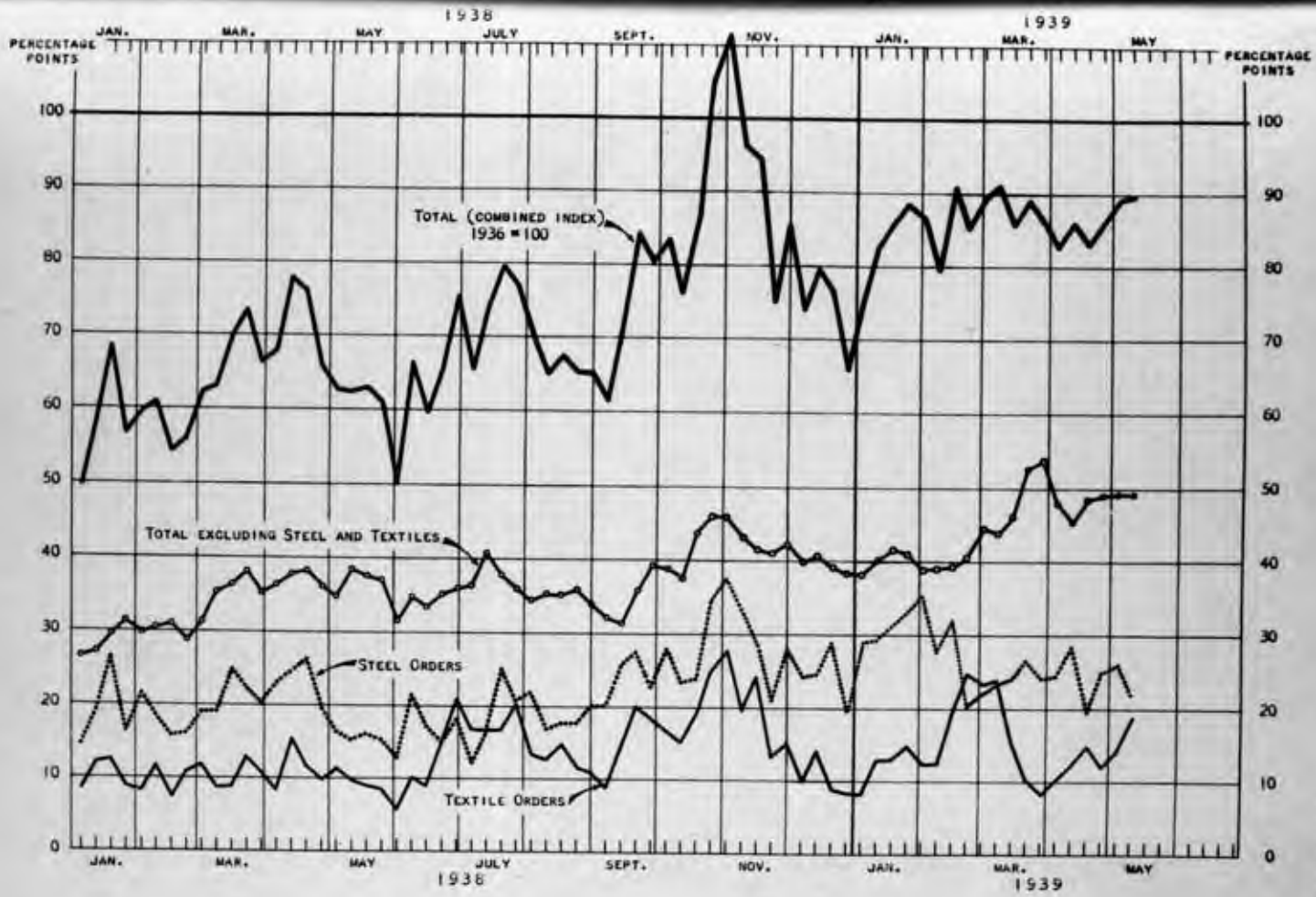


Chart 4
CONFIDENTIAL

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

1 - 85 - A

Regraded UnClassified

May 22, 1939
9:08 a.m.

HMJr: Hello.

Operator: Sproul. Go ahead.

HMJr: Hello.

Allan
Sproul: Good morning.

HMJr: How are you?

S: All right.

HMJr: How do things look today?

S: Well, the market fellows expressed a little disappointment that the offering wasn't richer but generally they figure the market will take it in it's stride. Some of them will move out of the hands of individuals and other holdings into the hands of banks for which the maturity is made to order.

The price -- the opening is around one hundred and one twelve to fifteen.

HMJr: Yeah. Well, that's about what we priced it at.

S: Yes, it is.

HMJr: Yeah.

S: So I think that so far it's been taken all right.

HMJr: Piser priced it at a hundred and two.

S: Well, I thought that was possible but quite optimistic.

HMJr: Yeah. Well, where are all these fellows that figured it to maturity?

S: Well, they still say that they'll figure it to maturity; that it's right up against the forty-fours and that at these prices it figures about one thirty-five short of maturity, but they don't have any concern this morning about its going all right.

HMJr: Do you think three days is enough?

- 2 -

S: Well, I should think with the number of pieces out and the number of small holders that if you could give them four days, say, it would probably be better.

HMJr: Well, supposing we wait until this afternoon, huh?

S: I think it would be a good idea to see how she takes and how it seems to be going.

HMJr: But that's plenty of premium.

S: I think so.

HMJr: Yeah.

S: It'll knock off the rights, which were a hundred and one twenty-two and twenty-three Saturday, but you can't price it on what the market's pricing rights on.

HMJr: No. No. Well, as soon as we get this out of the way, we've got to do our own on the fifth of June, don't we?

S: Yeah.

HMJr: What?

S: Yeah.

HMJr: So we'll have to talk about that next week, won't we?

S: Yeah, that's right.

HMJr: Well, we can do them one, two, three; get them out of the way and then rest for three months.

S: Yeah, it'll feel good to take a little rest.

HMJr: Are you feeling all right again?

S: Yes, I am.

HMJr: Good.

S: How are you?

HMJr: I'm much better.

S: Good.

- 3 -

HMJr: Awful hot here yesterday.
S: It was? It was pretty nice here.
HMJr: Yeah. Well, thank you.
S: All right.
HMJr: Good bye.

May 22, 1939
9:14 a.m.

HMJr: Hello.

Operator: Mr. Parker.

HMJr: Hello.

P. W.
Parker: Hello, -- hello.

HMJr: Mr. Parker.....

P: Good morning, Mr. Secretary.

HMJr: How are you?

P: Fine, sir. How are you?

HMJr: Fine. Mr. Parker, in confidence, I want to tell you what I'm trying to do for the Chinese Government.

P: Yeah.

HMJr: They want the very best motor truck transportation engineers that we can send. -- Hello?

P: Yes, sir.

HMJr: I went to the Army and I've been fussing around with them for a month.....

P: Yes.

HMJr:to see if I couldn't get some retired officer and now General Craig writes me there isn't anybody that wants to go. Now someplace somewhere in the United States we ought to be able to get an engineer who knows roads, who knows motor transportation, knows how to set up repair stations and do a job for these people. They are ready to pay for it and pay well.

P: Yes.

HMJr: And I want you to help me.

P: Well, I'll be very glad to do anything I can, sir.

HMJr: Well I wish you'd think about it. I don't know whether you people have anybody or if there's somebody who knows Chinese, but I want the man to be outstandingly good that they'll be pleased.

- P: Well, of course, the -- I don't believe that any organization, even including our own, and we like to think we're experienced in China, I don't believe anyone has got that kind of a man who has actually had experience in China.
- HMJr: Well.....
- P: Because there haven't been any roads -- there haven't been any operations of that sort.
- HMJr: Well.....
- P: We're just now developing our own -- our own fleet on a very small scale. We have -- it's just a matter of probably fifteen trucks only in -- in service now.
- HMJr: Well, here's the thing -- here's a direct request from General Chang Kai-Shek. There's a chance to put American engineers in there and keep them there if they make good.
- P: Yeah.
- HMJr: Now.....
- P: Have you -- what -- what's the position with the -- with the motor car company. Of course, this was discussed you know, Mr. Morgenthau, at the time you called me.....
- HMJr: I know.
- P:from there several months ago.....
- HMJr: I know.
- P:and during our negotiations and the confirmation of this contract.
- HMJr: Well.....
- P: And -- and in connection with the -- with the automobile people. They've -- they've sold, as you know, several batches of trucks.
- HMJr: They sold.....
- P: I -- I understood -- I understood that now -- in probably two or three months. But I understood that -- at that time that the -- I think the Chrysler people or General Motors, or both, at the time that first order went out, were -- were sending their own men out.

- 3 -

HMJr: Well.....

P: Have they.....

HMJr: I don't know, I'M going to.....

P:

HMJr: I'm going to call up Keller and ask him. But I -- I'd a little bit rather not get a Chrysler man or a General Motors man for fear that -- well, the man being human he might want to.....

P: (Chuckles) I understand.

HMJr:push his own merchandise. Now.....

P: You -- you let me.....

HMJr: Now listen, I don't.....

P: Then what do you suggest?

HMJr: Well.....

P: Do you want me to report back to you as soon as possible?

HMJr: Yes. Now, here's the story -- I don't know, for instance, the Greyhound Transportation Company, you see? Or some of these big transportation companies that have people. I don't know whether M.I.T. trains transportation engineers but I just hesitated to get -- you send a Chrysler man there; maybe General Motors have trouble. They say, "Well, we had sabotage," or vica versa.

P: I understand.

HMJr: Now, if we can get somebody.....

P: You want somebody to head this whole thing up.

HMJr: Yes.

P: That -- that might involve a corp of assitants?

HMJr: Yeah -- yeah. And they'll let me write the ticket and the salaries. I mean, they've -- they've left it entirely to me and I've been waiting for two months for the Army to come through and they haven't.

P: I see.

HMJr: So now I'm going to private industry.

P: I see. Well sir, you -- you let me have a few days on this and may I -- may I telephone you back? How do you wish me to consult you?

HMJr: 'Phone me.

P: Give you a 'phone call?

HMJr: You get -- don't you think I'm right as -- I mean, after all, if Chrysler or General Motors want to send their own men to look after their own trucks, that's their business.

P: Yeah.

HMJr: But to take over the entire transportation system and supervise it, and that's the opportunity....

P: Well, I think you -- you're very logical.

HMJr: I don't think it ought to be a man with -- connection with a particular manufacturer.

P: Yeah, I think that's.....

HMJr: And I -- I wanted to have somebody, say that -- the States' people could be proud of.

P: Yeah.

HMJr: And -- and will make us a lasting friendship there. Now, after all, there must -- you and -- your domestic companies here must have contacts with the big fleet managers

P: Oh yes.

HMJr:of trucks.

P: Yes.

HMJr: I understand there's a big transportation company that works out of Chicago.

P: Yes.

- 5 -

HMJr: And through the Standard Oil -- I mean.....

P: That's right.

HMJr: Do have the.....

P: I -- I can't tell you at the moment because most of my contacts are all foreign, but.....

HMJr: Right, but you -- you could ask whoever.....

P:and find out what the possibilities are.

HMJr: Yes, and who are the managers of big fleets of commercial trucks and would they lend us their general manager for a year, you see.

P: Yeah.

HMJr: Something like that.

P: The -- the proposal is for a year?

HMJr: Yes, for one year.

P: Yeah.

HMJr: Yeah.

P: All right, sir, Mr. Secretary, I'll -- I'll -- just as soon as I can develop anything on this I'll call you back.

HMJr: Right!

P: Will you be in Washington all this week?

HMJr: Use the number District 2626.

P: Just a minute. District 2626.

HMJr: That goes right to my own operator.

P: District 2626.

HMJr: Right.

P: All right, sir.

HMJr: Thank you.

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P: You can expect to hear from me just as soon as possible.

HMJr: Thank you.

P: Good bye, sir.

May 22, 1939
10:22 a.m.

HMJr: Hello.
George
Harrison: Hello, Henry.
HMJr: George.....
H: Yes, sir.
HMJr: This Mr. -- (pause)....
H: Hello.
HMJr: Mr. Nash, the finance Minister of New Zealand, was in Saturday, see?
H: Yeah.
HMJr: And he's going over to England to talk to them about borrowing fifty million dollars, but he's fearful that he may not be able to get it because he spends so much of it in this country.
H: Yeah.
HMJr: And he wants to know whether there'd be any likelihood of his getting it in New York.
H: Yes.
HMJr: So I said I'd call you up and ask you.
H: Yes.
HMJr: And I said, as far as the U. S. Government is concerned, why we certainly have no objection. We're glad to see it.
H: Uh-huh.
HMJr: Could you -- would you care to talk to a few people and see how they'd feel about it?
H: I'll be glad to. How long do they want it for?
HMJr: Let me see. Just let me see a minute -- I wrote it down. He wanted it for twenty years.
H: Yeah.

- 2 -

HMJr: And they want it -- to be able to pay off principal and interest semi-annually.

H: Yeah. He didn't say what he wants it for, did he?

HMJr: Yes, the it's for -- I'd say largely for public works and that sort of thing.

H: Yeah. Well, Henry, just give me a little while and I'll canvass around here discreetly.

HMJr: Well now when you say 'a little while' what do you mean?

H: Well, I can do it as promptly as you want, but I.....

HMJr: Well, here's the thing, he's sailing Wednesday.

H: Yeah.

HMJr: Now -- you could get -- would you want to give him the answer in New York yourself tomorrow when he's up there?

H: Well, supposing I canvass a little bit and call you back a little -- I'll try and call you later on this morning.

HMJr: Well, he's coming in to see me at four o'clock our time.

H: I'll call you back before four your time in any event.

HMJr: Good!

H: If I haven't got anything then, I'll let you know.

HMJr: Righto!

H: First rate.

HMJr: Thank you.

H: Good bye.

May 22, 1939
3:38 p.m.

HMJr: Hello.

Operator: Mr. Harrison. Go ahead.

HMJr: Hello.

George
Harrison: Hello, Henry.

HMJr: Yes, George.

H: Well, I've gone into this thing here as quickly as I could in a more or less superficial way. First of all, the market isn't very ripe for borrowing...

(conversation fades)

There is a Norwegian loan that's in the process of making up will probably go all right. They can be sold at a price. I've explored -- I had a fellow here at the bank explore the situation in New Zealand. It appears that their issues are selling in London today....

HMJr: Yeah.

H:on about a five per cent yield.

HMJr: Yeah.

H: Where a year and a half ago they were three ninety.

HMJr: I see.

H: They've gotten worse.

HMJr: Uh-huh.

H: Australian bonds sell about a quarter to a half better yield. I mean -- smaller yield than New Zealand does, showing that there's quite a bit of difference.

HMJr: Yes.

H: The reason apparently is that the Government out there has turned fairly liberal in the last year or so, and London papers have been riding them pretty heavily. They've been fairly critical of them.

HMJr: Um-hm.

- 2 -

- H: Saying that imports should be controlled, and that public works should be more conservative, and that they should do something about restricting export prices. The result, it is not a very -- not a top -- favorable picture, and I talked very privately off the record to Morgan Stanley people, who had already heard something about it anyway.
- HMJr: Yeah.
- H: And they say that it's not a very encouraging picture; they won't say it can't be done; they would be very glad if you or I wanted him -- wanted them to do it -- to see the Finance Minister any time he wanted to see them.
- HMJr: I see.
- H: To go over with them if he was interested, but they wanted to make it clear to me that as they see it superficially, they don't consider it very encouraging, especially in view of the attitude that London has taken about them.
- HMJr: Yeah -- I see.
- H: Now it's true that London will probably decline an issue quite apart from their position on the ground that they wouldn't want to offer to give them fifty millions of dollars to be spent here because that would be bad for their exchange.
- HMJr: That's right.
- H: However, how much that has to do with it and how much is their fundamental condition, I don't know. Their trade balance has gotten quite a bit worse in the last two years, and their own foreign assets -- that is the amount of balances that they hold abroad, they've gone down from forty-four million pounds in 1936, to thirty-four in 1937, to twenty-six million pounds in 1938 and they are down to nine million pounds now.
- HMJr: I see.
- H: They've gone off. So they're -- they're being hard-pressed.
- HMJr: Right.

- 3 -

H: The Central Bank loans have gone up very rapidly to finance all their Government projects.

HMJr: That's right.

H: So it isn't -- it isn't a clear-cut case by any means.

HMJr: No. Now, George, what time could you see him tomorrow?

H: I'll be in.....

HMJr:

H: I've got to go to a Bond Club luncheon at twelve-fifteen.

HMJr: Yeah.

H: But I'll see him anytime before that.

HMJr: Well, say -- is eleven o'clock.....

H: Eleven o'clock will be fine.

HMJr: Now, I don't know your "add" -- what do you give as an "add"? Just Federal Reserve of New York?

H: Federal Reserve, 33 Liberty Street.

HMJr: 33 Liberty.....

H: What's his name, Henry?

HMJr: Nash -- N-A-S-H.

H: All right.

HMJr: And he's coming in at four.

H: Yeah.

HMJr: And if you don't hear from me again, he'll be at your office at eleven o'clock tomorrow morning.

H: Eleven o'clock -- that's New York time.

HMJr: Right.

H: All right. First rate.

HMJr: Now.....

- 4 -

H: Well -- and then, have you got any lead you want to give me as to what.....

HMJr: No -- I -- I would talk just -- just the way you have. I mean, he's going over and he wants -- wanted to know what were the chances and how would the market feel here before he went and saw the people in London. And all I'm saying is -- I'll just repeat that it's not impossible but it wouldn't be the easiest thing in the world.

H: Yeah, all right. It's not impossible at some rates, but the rate would probably be one they won't want to pay.

HMJr: And naturally all I'm doing is just acting as ^{an} intermediary and I'm not -- I can't -- don't want to do anything more.

H: Yeah. Well, that's just exactly my position.

HMJr: And if you -- after all.....

H: And if he wants me to introduce him to Morgan Stanley, I'll be glad to do it, because I know now they'll see him.

HMJr: Fine!

H: They'll be glad to.

HMJr: Well, that's -- that's -- if he wants to meet anybody, I'll tell him that you'll be glad to arrange it.

H: That's right.

HMJr: Thank you, George.

H: First rate.

HMJr: Good bye.

H: Good bye.

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60A

MOUNT RUSHMORE NATIONAL MEMORIAL COMMISSION

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EXECUTIVE OFFICES

Mount Rushmore
Keystone, South Dakota

8

22 May, 1939.

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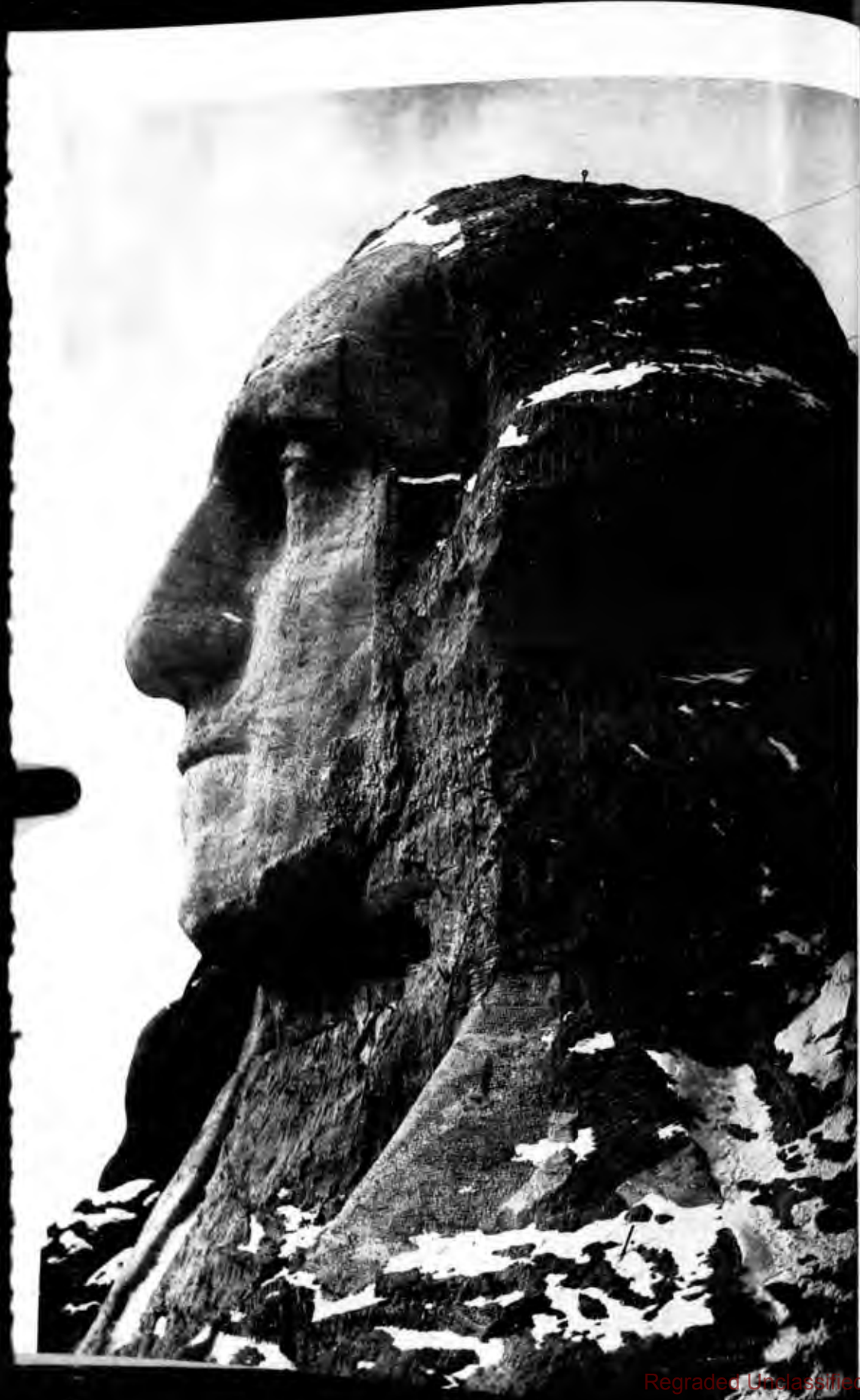
Gutzon Borglum, Chairman
Lorne J. Spooner, Secretary
Key Pittman
E. F. McDonald, Jr.
Herman Oliphant

My dear Mr. Secretary,

Before I go into the business of this note, I want to express my grief that will not be quieted in the loss of Herman Oliphant. He was one of my dearest friends, and I know from his loyalty to you that he must have been one of yours.

Herman visited me for two weeks at one time. He dug into my business here; the management of the work, the cost of it, its efficiency, etc., and you know he was himself a very practical and a very efficient man. He saw my troubles, interferences, delays: delays in getting tools, delays in getting funds that had been appropriated and were lying in the local bank, delays in getting proper assistance in the way of men. And then he found the cause of it. The cause was trailed down (it didn't require much trailing) to an inefficient sub-bureau that had become attached to the work. It was Herman and McReynolds, your assistant executive secretary, and, no doubt, your own fine direction and approval, that gave me the mechanism and the supervision of the Accounting Department of your Emergency State Accounts Office of South Dakota of the Treasury.

Herman was here at the reorganization meeting of the Commission when three-quarters of the Commission (Senators, etc.) attended. I didn't think much of it at the time, not realizing, but when we were through, he turned to me and he said, "Gutzon, did you notice the way those resolutions and the by-laws were formed? You may have to bend a little to regulations, but I think our Department, the United States Treasury with its Procurement, will protect and aid you through the Accounting Department in charge of your finances, providing for you supplies its vast machinery. You should have no trouble at all if you are beforehand in presenting these needs to the proper accountants."



Hon. Henry C. Morgenthau, Jr., Secretary of the Treasury: 2

I want to say to you, Mr. Morgenthau, that ever since that date, not a pebble has been rolled in my path to trip, delay, interfere, or divert the purposes of our work or our plans. I have had nothing but the kindest, most understanding help. I have built your department a suite of offices on the Mountain where they have their desks and files for records, and a safe. Everything is handled in a businesslike manner, and so punctilious and up-to-date that I can walk in there any time and ask for a chart, payrolls, materials on hand, monies spent, monies available, etc., and get a budget record at a moment's notice. I am begging you, as a friend, and for the memory of Herman Oliphant, if I may so put it, that there be no interference with this splendid monument which his reorganization gave; that this thing shall continue. Of course, your own work is woven right into this Memorial.

I have had a new set of photographs made, but there has been a little delay at my photographer's. You will, however, get three or four very fine pictures of the work as it is today as quickly as I can get them to you.

Sincerely yours,

Gutson Borglum

Gutson Borglum

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

May 22, 1939

To: The Secretary

From: Mr. Hanes

(1) I return herewith memorandum from Commissioner Helvering recommending the temporary designation of Mr. Harold Graves to perform the duties of Acting Commissioner in the absence of Guy Helvering. I approve this recommendation.

(2) Also attached hereto is report from Elmer Irey on Mr. John L. Sullivan of Manchester, New Hampshire, who is under consideration for appointment to the position of Assistant to the Commissioner of Internal Revenue. I approve this recommendation also.

This appointment must be made by the President, and confirmed by the Senate, hence, I think it should be started at the White House today.

I have met Mr. Sullivan twice and am very much impressed with him. I quote from Mr. Irey, who says, "this report indicates that Mr. Sullivan is a man of excellent character and outstanding ability and one who would be an asset to the Bureau if appointed."

I understand from Commissioner Helvering that Mr. Sullivan will require some time after his appointment to settle up his personal affairs and move his family to Washington, D. C.

JWH:jr

MEMORANDUM

May 22, 1939.

To: The Secretary
From: Mr. McReynolds

At 9:10 this morning, Congressman McCormack, of Massachusetts, called about a constituent. Before he left he asked me to say to you that he had polled the Democratic members of the Ways and Means Sub-Committee on Taxation and that they were unanimous in their decision not to be satisfied with a continuing resolution on existing taxes which expire this year. The Congressman stated that the Sub-committee intended within a few days to invite you to appear before them and testify on a tax program. He stated further that if for any reason you did not consider that you were at liberty to appear before them, the full Committee would make a formal request for you to appear and advise it as to what tax legislation should be enacted.

Mr
attention Mrs Klotz

May 22, 1939.

MEMORANDUM FOR:

Secretary Morgenthau

Attached hereto are revised pages 10 and 11 of the May 17 edition of the tax statement.

The new material begins with the last paragraph on page 10 and extends through the second paragraph on page 11.

The revision was jointly prepared by Mr. Gaston, Mr. Duffield, Mr. White and myself.

We hope this expresses the ideas you have in mind but if not, we shall be available this afternoon to make further revisions.

Roy Blough

Attachments - 2.

64 Replaced by
5/22

as to our future fiscal position would injure and not help business. We must take no step which the public may interpret as moving away from the objective of a balanced budget.

In discussing the elements or features of the tax system which you may wish to reexamine, I should like to classify them roughly into three groups.

The first group comprises features which have been characterized as substantial deterrents to business in that they impose tax burdens at points where they are especially likely to hinder business expansion and investment.

One such feature is the absence of provision in our income tax laws for carrying over net business losses to be deducted from business profits of future years. The profits or losses of each year are considered without reference to those of any other year. In consequence a business with alternating profit and loss now pays higher taxes over a period of years than does a business with stable profits although the average income of the two firms may be equal. New enterprises and the capital goods industries are especially subject to wide fluctuations in earnings.

A second example is the schedule of surtax rates in the top brackets of the individual income tax. Under the present law a taxpayer with \$500,000 of surtaxable net income would have left only 26¢ from an additional dollar

- 11 -

of income, 74¢ being taken in Federal income taxes. His share may be further reduced by State taxes. The rate may be so high as to have passed the point of maximum revenue return by discouraging investment in private enterprise and thus leading to hoarding or to the shifting of funds from taxable to tax-exempt securities.

It is important that we fully appreciate the effect of a large and growing volume of tax-exempt securities as a major deterrent to business and for this reason I re-introduce the subject. Tax exemption of securities operates as a magnet which pulls persons subject to high income taxes away from investments in private business. Lowering surtax rates in the high brackets will have only a minor effect in encouraging investment in venturesome enterprise unless at the same time you eliminate the opportunity of tax-exempt investment. If, however, tax exemption is removed from future issues of government securities, the surtax rates can then be reduced with reasonable expectation that investment in new and venturesome enterprise will be substantially promoted thereby.

There are a number of features in our tax system which have been described as major tax irritants although they are probably not important deterrents to business activity.

As an example of a tax which has been considered an irritant I would mention the undistributed profits tax.

May 22, 1939.

Dear Eleanor:

I am enclosing herewith a rough draft of my revised statement pertaining to two features - (1) Future Tax Exempt Securities and (2) Reducing Surtaxes in the Higher Brackets.

On your return to Washington on Wednesday I would appreciate hearing from you very much as to whether or not you think I have rewritten my statement along the lines we discussed over the telephone.

Affectionately,

Mrs. Eleanor Roosevelt,
20 East 11th Street,
New York, N. Y.

May 22, 1939.

Dear Eleanor:

I am enclosing herewith a rough draft of my revised statement pertaining to two features - (1) Future Tax Exempt Securities and (2) Reducing Surtaxes in the Higher Brackets.

On your return to Washington on Wednesday I would appreciate hearing from you very much as to whether or not you think I have rewritten my statement along the lines we discussed over the telephone.

Affectionately,

Mrs. Eleanor Roosevelt,
20 East 11th Street,
New York, N. Y.

May 22, 1939.

MEMORANDUM FOR:

Secretary Mergenthan

Attached hereto are revised pages 10 and 11 of the May 17 edition of the tax statement.

The new material begins with the last paragraph on page 10 and extends through the second paragraph on page 11.

The revision was jointly prepared by Mr. Gaston, Mr. Duffield, Mr. White and myself.

We hope this expresses the ideas you have in mind but if not, we shall be available this afternoon to make further revisions.

Attachments - 2.

MB:rah
5-22-39

- 10 -

as to our future fiscal position would injure and not help business. We must take no step which the public may interpret as moving away from the objective of a balanced budget.

In discussing the elements or features of the tax system which you may wish to reexamine, I should like to classify them roughly into three groups.

The first group comprises features which have been characterized as substantial deterrents to business in that they impose tax burdens at points where they are especially likely to hinder business expansion and investment.

One such feature is the absence of provision in our income tax laws for carrying over net business losses to be deducted from business profits of future years. The profits or losses of each year are considered without reference to those of any other year. In consequence a business with alternating profit and loss now pays higher taxes over a period of years than does a business with stable profits although the average income of the two firms may be equal. New enterprises and the capital goods industries are especially subject to wide fluctuations in earnings.

As a second example, I should also like to mention the questions of tax-exempt securities and surtax rates in the higher brackets. These two questions should be considered together. Tax exemption of securities is highly inequitable

- 11 -

and tends to nullify our progressive surtax rates. Most persons subject to the high surtaxes have sizable holdings of governmental securities which yield them an income free from Federal income taxation, while other persons entirely escape the high surtaxes in this manner. Tax exemption also operates as a magnet which pulls persons subject to high income taxes away from investments in private business. We should by all means pass legislation to make it impossible in the future to issue any more tax-exempt securities.

This having been accomplished first, it would then be fair and logical to reexamine the question of whether the present surtax rates on very large incomes may not be so high that they discourage the limited number of individuals subject to them from taking normal business risks.

There are a number of features in our tax system which have been described as major tax irritants although they are probably not important deterrents to business activity.

As an example of a tax which has been considered an irritant I would mention the undistributed profits tax.

RE TAX STATEMENT

May 22, 1939.
11:00 A. M.

Present: Mr. Gaston
Mr. White
Mr. Blough

H.M.Jr: Hello.

Blough: Copies are being made and will be in in a minute. This is the substitute for page 11, which Mr. Gaston mentioned this morning.

H.M.Jr: Yes. Where does it begin to change?

Blough: The change begins....

H.M.Jr: "....moderate reduction...."

Blough: The change begins with the second sentence - slight change.

H.M.Jr: "....moderate reduction"?

Blough: "His share in many States is further substantially reduced by the State taxes."

Then the next sentence is exactly the same.

H.M.Jr: I didn't see that. I'm sorry. I've got here "The rates may be so high...." - isn't that the same?

Blough: This is a slight change - just the wording on that.

H.M.Jr: I see.

Blough: Then it's the same down to here.

H.M.Jr: All right.

Blough: The real change begins with "moderate."

H.M.Jr: You haven't yet got it.

Blough: Well then, I guess I didn't get it from Mr. Gaston.

H.M.Jr: Wait a minute until Gene comes in.

- 2 -

Blough: I might say, everybody in New York jumped on that paragraph.

H.M.Jr: Well, they'll jump some more when they see....

Where the hell is Duffield?

(On phone) Where is Duffield? - Well then, never mind.

Well now, look, this is the thing that I want to change. This is the question of the surtaxes in the higher brackets. I want to say it something like this. Now....

(Mrs. Klotz comes in and talks to H.M.Jr. for brief period)

This is - look, this is the way I want to try it, something like this:

"Now let us take up the question of tax-exempts and the rates - the surtax...."- whatever we call them - "...the rates in the higher brackets" - whatever it is. "These two forms - these two questions have to be considered together." You see?

"First we have to pass legislation which will make it impossible in the future to issue any more totally tax-exempt securities. Once having accomplished this, it would then be fair and equitable to re-examine...." - I don't know - "...the question of whether the present rates on the very large incomes are not so high that they discourage the limited number of individuals from taking the normal business risks with their capital."

Now, that isn't at all - you see what we have....

White: Very good.

H.M.Jr: See?

Blough: Yes, it puts the emphasis in a different place.

- 3 -

H.M.Jr: Now, that's....

White: Can't be any objection to that.

H.M.Jr: Well, quite the contrary. I understand....

Blough: It's more logical than this.

H.M.Jr: I understand that if I do that, there is no disagreement between the President and myself.

White: I should think that's very good.

H.M.Jr: I mean on the whole thing. I understand....

White: It centers on that point?

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

Blough: Well, if that's all it centers on, I think you're....

H.M.Jr: Well, so I've been told. Now, I want to get that - this has to - I've got to have it tonight. Now, I don't - I can't explain why, I won't explain why, if you don't mind, but for a very definite reason I want this thought. Now, can't you fellows - I mean you've got the spirit.

Blough: Oh, this can be done in half an hour.

White: Did you examine the changes that the other men wanted?

H.M.Jr: No, we'll try to do it now, God damn it.

I'll look at them out of fairness, but I'm not - again, for reasons I can't explain, I don't want to change anything.

White: Well, I think that we felt that most of them did not merit - we wouldn't agree with most of the suggestions, so that there wouldn't be great difference of opinion.

H.M.Jr: Let me take a couple of minutes. But I can't - but I want to do this and I'm satisfied that

what I'm saying is the right thing. Aren't you, Herbert, on this thing?

Gaston: Yes.

Blough: I like this very much better. The reason they objected to it in New York was that it gave the impression that the surtax and the new tax exemption has such a causal relationship. Now you've taken that causal relationship away, and I think....

H.M.Jr: No, I've put it in. No, quite the contrary.

Blough: Well, but you haven't come out and said, "Now, if you'll take away tax exemption for the future, then the reduction in surtaxes will be effective." You are saying, "Then is the time to reexamine it," and I think it's quite correct.

White: Anyway, the way you just stated, I think, is very satisfactory.

H.M.Jr: Well, I don't know, I'm just doing it the way the thought was given to me.

White: I get his (Blough) thought too, and your statement gets around the difficulty that Roy has in mind.

H.M.Jr: Well, what I'm saying has never been said before as far as my statement is concerned. It's quite new.

Blough: That's right.

H.M.Jr: And also I think it gets around this idea of the President's that we should drop it one and a half percent for ten years, which was a silly suggestion. But do you get it?

White: Doesn't meet the Glass plan, but I should think it would be quite satisfactory.

H.M.Jr: No, and the Glass plan - the trouble with the Glass plan is that it hedges on - it gets into the field

- 5 -

of cancelling existing obligations.

- White: But the point is, you said, "We shall reexamine the surtax rates and see at that time," which might involve a reexamination of the whole question.
- H.M.Jr: Well - "But first let's get the legislation through."
- White: That's right.
- H.M.Jr: "Then, once getting that legislation through, we'll take a look at the surtaxes."
- Blough: That's good.
- H.M.Jr: And I said "of the limited number."
- White: "...of the limited number." I think that almost as you had it, with very little change, we could very easily work that particular portion out. If you don't intend to change any of the other....
- H.M.Jr: I'll take a look. I don't think I do.
- Blough: I can point out the more important ones if you want to save time.
- H.M.Jr: Yes, I'm desperate on time.
- White: You know about that 12:00 o'clock appointment you have.
- H.M.Jr: I'm all right on that.
- White: We were just going over that thing. There's nothing in that.
- H.M.Jr: There's nothing in that. They send that over, then they send me an invitation to be present.
- White: They sent this thing over Saturday afternoon without any information that there was any rush about it.
- H.M.Jr: They most likely didn't know the President was going to see these people.

- 6 -

- Blough: There are two or three places where "must" could be changed to "should," where it is a little strong and might be - where we say the revenue "must be maintained" and so on. Most of the statement talks in terms of "should" or "desirable."
- H.M.Jr: At this particular stage I don't want to change that.
- Blough: Even "musts."
- H.M.Jr: Yes, anything.
- Blough: Now, the other one was the question of whether the explanation of your not making recommendations should be left in the form in which it is now. You remember the paragraph where you quote the Budget Act of '21. Mr. Bailie would have eliminated it altogether. Mr. Greenbaum would have left it for a press conference and leave it out of the statement.
- H.M.Jr: It's not important.
- Blough: And I think Mr. Magill would not have quoted the language but he would have left the idea.
- Then there are a number of places where it is simply a question of the Presidential language - that you either have to get rid of that or you don't take the suggestion.
- And there are one or two minor changes, for instance, which I think you might very well make, back in that discussion of consolidated returns and inter-corporate dividends; there was the phrase "Because of differences of opinion over its equity" and I think that could very well come out. It was suggested that that wasn't the reason you were submitting it to them, that it wasn't because of differences of opinion over equity, and that that phrase or clause would....
- White: Why might this not be a way out, since you are in a hurry. Supposing we go over each one of those changes and accept only those that are unanimously

- 7 -

agreed upon, and we'll see that we make the very bare minimum - set them aside for your consideration; you could go over them in fifteen minutes late in the afternoon.

H.M.Jr: I have reasons, damn good reasons, why I want to make this change. I want that thing - I want it this afternoon.

White: That will be done.

H.M.Jr: And I'm under the impression that that's the only thing now. Therefore, the statement is no longer in my hands, it's out....

Blough: If you'd rather not make any word changes....

H.M.Jr: It's out of my hands, and if this one thing would satisfy the President, to hell with it. Right?

White: Yes.

H.M.Jr: Now, I don't know, I may be kidding myself, but I've got a pretty good idea that this one change may end the whole business. If it does, all the rest of the stuff - it's verbiage.

Blough: If that's the case, why not leave this verbiage until you find out?

H.M.Jr: That's right.

White: With one exception. I think if it is going to be reglanced at there is one portion which, if it is shortened, it might help; that's where you go into each of these suggested changes and describe them, instead of doing what Duffield and I feel should be done: lumping them all in one sentence. It shortens it, makes less important your other recommendations, and gets across. Let's try to get the unanimous decision on that. And you can make your decision one way or another in five minutes.

H.M.Jr: All right. But the thing I want is this thing.

- 8 -

Blough: We'll get this in an hour easily.

H.M.Jr: All right. But, gentlemen, after lunch can I have this?

Blough: Yes.

H.M.Jr: You like that?

White: Yes. I think that's a much better way of stating it than any we have had so far. Nobody could object to that. In fact, on the contrary.

H.M.Jr: All right.

Blough: I hope you can make a few verbiage changes later.

H.M.Jr: But I mean that if this thing, through some fortune, should be accepted, then the hell with verbiage.

JR

GRAY

London

Dated May 22, 1939

Rec'd 2:45 p.m.

79

Secretary of State,
Washington.

724, May 22, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

One. Questions were asked in the House of Commons today regarding the conversations with German representatives on Czech balances in London (see the first section of my 712, May 19, 4 p.m.). The financial Secretary of the Treasury replied that informal conversations were taking place with a view to discovering whether there existed a basis for more formal negotiations which might take place next month. Supplementary questions were put as to whether these conversations constituted in effect a de facto recognition of the annexation of Czechoslovakia by Germany to which the reply was in the negative.

Questions were also asked as to whether gold held in London in the name of the B.I.S. to the account of the Czech National Bank had been transferred to Germany and whether such balances came within the Czechoslovak (restriction on banking accounts, et cetera) Act of 1939.

The

-2- #724, May 22, 6 p.m., from London.

The Government's reply was that the assets held to the account of the B.I.S. could not fall within the meaning of Czech assets under the act and that the protocols under which the B.I.S. is operated made it impossible to include these assets in the blocked accounts. He further stated that the Chancellor of the Exchequer has no means of knowing whether the transfer of this gold by the B.I.S. to Germany has taken place.

Two. It is worth noting that on page 426 of this week's ECONOMIST a short article entitled "trade with aggressors" concludes as follows "control both (British) imports and exports will admittedly be imperative very soon; but it will be to serve and eke out the needs of our own economy, not to starve the requirements of others." This school of "control" thought to which Geoffrey Crowther now belongs has been growing of late; for the most part such drastic controls are not advocated as desirable but are regarded as inevitable consequences of a prolonging arms race. In this general connection reference is made to my 645, May 9, 6 p.m.

Three. Sterling was steady today on a quiet market around 4.68-5/32 weakening slightly at the close. The forward dollar was also steady the British fund not intervening. Of the 112 bars of gold dealt in 78 were

married

-3- #724, May 22, 6 p.m., from London.

married and the remainder pro-rated at 35% of requirements. The guilder weakened today from 8.70-3/4 to 72-3/4-7/8 but there was only a moderate amount of business.

KENNEDY

CSB

RECEIVED

MAY 23 1950

THE FOREIGN DEPARTMENT
U.S. DEPARTMENT OF STATE
WASHINGTON, D.C.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: May 22, 1939, 5 p.m.

NO.: 982

FOR THE TREASURY DEPARTMENT.

On the exchange and security markets here today conditions were generally quiet. A little more offering of the florin. Almost no change in the belga, with slight improvement in the Swiss franc. There was a drop of a few centimes in rentes, and from 1 to 2 percent in French variable revenue securities.

There is no indication that the slight relapse in the florin was caused by apprehension in French financial circles that the Cabinet change might lead to the adoption of a policy less conservative than the Government has heretofore followed. Colijn has taken the position of Minister of Finance, according to the PARIS MIDI, and has declared that there will be no change in the Government's financial policy. It is the understanding of this paper that De Wilde resigned because he felt the naval program proposed by the Minister of the Navy was exaggerated.

BULLITT.

EA:LWW

JR

GRAY

Berlin

Dated May 23, 1939

Rec'd 8:45 a.m.

Secretary of State,
Washington.

405, May 23, 10 a.m.

No. 31 FOR TREASURY FROM HEATH.

The quotations on the tax certificates with which under the "new financial plan" the Government is paying for 40% of its orders--20% in non interest bearing certificates due in six months (class one) and 20% in three year certificates redeemable at 112 at maturity (class two)--are the subject of interested comment in the press and banking circles. The class two certificate declined steadily during the past week from 99.1 to 97-3/4. The offer was larger than the demand.

On the other hand for the six months certificates of class one which carry the extensive tax reduction privileges described in the telegram No. 8 of April 1, the demand is greater than the supply which has resulted in an increase from the original "curb market" quotation of 100-1/8 to a high of 104.6 last week. So far only a small part of the certificates issued seem to have found their way to the "curb" market. The majority have been

held

-2- #405, May 23, 10 a.m., from Berlin.

held by the firms to which they were paid.

The Government is still giving close study to the problem of obtaining increased revenue from taxation.

(END SECTION ONE).

KIRK

CSB

PARAPHRASE OF SECTIONS TWO, THREE AND FOUR OF
TELEGRAM NO. 405 OF MAY 23, 1939, FROM THE
AMERICAN EMBASSY, BERLIN.

I have information that the German Institute for Business Research was ordered by the Government to prepare a study on the question. It is understood that the Institute reported that they could raise ordinary tax revenues from the 17.6 billion marks collected during the fiscal year recently ended to 25 billion marks without causing economic difficulties, and presumably without any dangerous public dissatisfaction developing. It is understood that the report recommended increases in both personal and corporation income taxes. In addition, they recommended that the tobacco tax be doubled, which would bring in 500 million marks additional, and that there be new and increased consumption taxes, a tax of one mark per bottle of wine being among the latter. It is also understood that the Institute reported that without endangering the stability of the finances of the Reich, the public debt could gradually be increased by 50 billion marks.

There have been increased restrictions on and shortages of foodstuffs, particularly meats. The cause seems to be diversion of considerable supplies for storage and to an increased consumptive demand as a result of the gradual

income

- 2 -

income inflation. In the case of restrictions on pork there is the additional reason that hog numbers declined throughout last year and it is too early for the recent increase in numbers and breeding operations to affect market supplies.

The Acting Agricultural Attaché has just prepared a report which shows that a larger than normal seasonal stock of meat is held by Germany. In this report is the forecast that the present food and feed supplies for Greater Germany are large enough to prevent any serious nutritional difficulties for the year 1939, and that for a considerable period of time adequate supplies seem assured. It is asserted in the report that food supplies and prospects are definitely more favorable than they were in the year 1914. For the first year or year and a half of a war, from a strictly supply and reserve standpoint, it is stated Germany would probably not experience any serious food difficulties, even if they maintain their present "normal" consumption basis. The report concludes by stating that barring unforeseen catastrophes, there would not be much chance of "starving out" Germany even if a blockade for three or four years were maintained.

The

- 3 -

The situation as analyzed in the foregoing report is based not only on the accumulated reserve stocks, the better organization and production of German agriculture, but also on the improved organization of distribution, which would contribute toward efficiently utilizing the food and feed supplies; there had been no real reserve stocks in 1914, and unequal and insufficient food distribution then caused great loss.

The forecasts made in this report are for diminished grain crops, but during the next two months the situation can change. Bad weather conditions for grain, on the other hand, usually bring in a better potato crop.

END OF MESSAGE.

KIRK.

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NOV 28 1918

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NOV 28 1918
U. S. DEPARTMENT OF AGRICULTURE
WASHINGTON, D. C.

EA:LWW

FEDERAL RESERVE BANK
OF NEW YORK

88 14(f)

OFFICE CORRESPONDENCE

DATE May 23, 1939.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knoke

BANK OF FRANCE.

Mr. Cariguel called at 11:32 a.m. Things were still going well for them; they were getting in something every day either in sterling or in dollars; today their gain had been \$2,500,000, as we would, in due course, observe from the payments we would receive for them. In that connection, he said, he wanted to make sure that we clearly understood his desire that we treat their balances with us as very strictly confidential. He was convinced that that was our policy anyhow but, nevertheless, he felt he should emphasize it again. I assured him that the confidential character of all central bank operations with us was clearly understood by everybody here.

I asked as to the general situation in Europe and Cariguel thought it was not very good. At least, he personally did not feel very confident for the reason that there were many wild people whose actions could never be predicted. Yesterday's ceremonies in Berlin had the significance, he thought, that the new arrangement gave Berlin a complete hold on Italy. This was not actually a change but from now on Berlin had this hold on Italy by virtue of a treaty. In France everybody was quiet and calm; the moral and financial recovery beginning last November had, he thought, come in the nick of time. They had had a very close shave last year.

RECEIVED

LWK:KW

FILED
MAY 23 1939
FEDERAL RESERVE BANK
OF NEW YORK

REB

PLAIN

London

Dated May 23, 1939

Rec'd 2:50 p. m.

 89

Secretary of State,
Washington.

729, May 23, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

1. Questions were again asked the Chancellor of the Exchequer in the House of Commons today regarding the B.I.S. Czech gold affair which Simon answered:

"As I understand it an asset, gold, was held by the Bank of England for the Bank for International Settlements at Basle. I should like to make it plain that the Treasury did hear indirectly that it was believed that the German Reichsbank were seeking to get from the Bank for International Settlements an amount of gold with which it had been entrusted by the Czech National Bank. That is quite outside the blocking of Czech assets. Consideration was given in the Treasury to the question whether his Majesty's Government could in any way intervene. We had no more desire to see a transfer than anybody else but the matter was quite outside the Czechoslovakia restriction on banking

accounts

REB

2-#729, From London, May 23, 6p.m.

accounts act and it was clear that no such intervention would be possible in view of the formal and explicit undertakings given in the protocols of 1930 and 1936 as to the immunity of the assets of the Bank for International Settlements from every form of interference or restriction. It is certainly not a fact that the Governor of the Bank of England reports to the British Government on a matter of this sort. It is a mistake to suppose that the Governor of the Bank of England serves on the Bank for International Settlements because he is a nominee of the British Government. That is not so at all. He is a nominee of one of the central banks just as other eminent bankers serve on the board. I have therefore had this information not from the Governor of the Bank but it came indirectly, I think, from a continental source. As soon as I heard of it I considered with my advisers whether there was any way in which we could put restraint on the matter. It was plain there was not. It is clear that the London bank has got to obey the mandate given to it by its customer the Bank at Basle."

2. Asked whether his statement (paragraph numbered 2 of my 712, May 19, 5 p. m.) on loans to Spain also applied

REB

3-#729, From London, May 23, 6p.m.

applied to credits under the export credit guarantees act the Chancellor of the Exchequer replied that he had pointed out that conditions were not such as made the raising of a loan in the London market a practical operation and although "export credits are a separate question I think the answer covers it". It should be noted that Simon's reply was made extemporaneously and there is no suraty as to whether or how long it will hold good.

3. The more optimistic mood of the city continues and the London stock exchange has been firm with government bonds leading the rise, war loan for example closing at 94-1/2.

The foreign exchange market remains inactive. 186 bars were sold at gold fixing of which 18 were married and the Bank of England gave its usual 50. Requirements were pro-rated at 83 percent.

KENNEDY

CSB

RECEIVED

MAY 23 1940

THE CHIEF CLERK
 AND THE CLERK
 OF THE HOUSE OF COMMONS

HRE

GRAY

PARIS

Dated May 23, 1939

Rec'd 4:28 p.m.

Secretary of State

Washington

996, May 23, 7 p.m. (SECTION ONE)

FOR THE TREASURY.

The recent incident reported from Danzig and the totalitarian military pact have apparently rendered the Paris exchange and security markets still more hesitant and cautious. Trading in exchange today was on a small scale. The fund obtained a fair amount of dollars through the Guaranty Trust. Repatriation of French capital continues and the fund is able to obtain moderate amounts of sterling and dollars almost daily. The belga was unchanged. The Swiss franc and the florin improved. Price changes in securities were almost insignificant.

BULLITT

EMB:JRL

RFP

GRAY

Paris

Dated May 23, 1939

Rec'd 4 p.m.

Secretary of State
Washington

996, May 23, 6 p.m. (SECTION TWO)

The French financial press shows no particular enthusiasm regarding the suggestions made in the LONDON FINANCIAL NEWS of yesterday that the tripartite monetary agreement should be modified and extended to cover systematic exchange of information about the assets held in each other's centres by the nationals of the participating countries, and an arrangement whereby the currencies of the tripartite agreement would enjoy the mutual support of the participating governments. The financial sheet information observes that such a reinforcement of the agreement would evidently tend to facilitate the defense of sterling and would substitute an "alliance" for the "monetary pact of non-aggression".

(END OF MESSAGE)

RECEIVED

BULLITT

EMB:JRL

MAY 23 1939

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

RE TAX STATEMENT

May 23, 1939.
3:00 P. M.

Present: Mr. Gaston
Mr. White
Mr. Duffield
Mrs. Klotz
Mr. Blough
Mr. McReynolds
Mr. Haas
Miss Humphries

H.M.Jr: Roy, what I want you to do is - if you'll sit and take this - what I'm going to do is to read a paragraph at a time, and then you tell me what there is in that that anybody wants changed. And this is the last time over, see?

Blough: If you'll give me a moment, I'll give Mrs. Klotz a copy.

H.M.Jr: She has one.

Blough: I mean of the statement itself.

H.M.Jr: Now, everybody here? I'll read about a page and then stop, you see? Certain people have seen this thing.

You couldn't give McReynolds and Haas a copy, who have not seen it, so they could follow it?

Blough: I have one more copy here.

H.M.Jr: Mrs. Klotz has heard it, so she knows.

Gaston: I could go to my office and pick up a copy.

H.M.Jr: No, this is all right. Let George and Mac sit together. This hasn't been gone over since yesterday.

"I appreciate this opportunity to appear before your Committee to discuss with you certain broad fiscal problems and certain specific tax questions.

"Tax proposals...."

- 2 -

Now, question number one: should I refer to the March 3rd letter? Come on, let's move. Should I say "In compliance with your request of March 3rd, I...."

Gaston: No, I think if you refer to any letter you should refer - if they send you a letter inviting you to come up tomorrow, you might refer to that, but I don't think it's necessary.

H.M.Jr: All right. It's going to be verbal.

"Tax proposals cannot be discussed comprehensively except in relationship to our whole national and fiscal position. We are now in the midst of a world situation which imposes on this Government a special responsibility. We must demonstrate that a democratic government has the power and the flexibility to survive a prolonged crisis and chaotic world conditions with the strength of its free institutions unimpaired. Preservation of our democratic form of government over a long period of years requires, in my opinion, a fiscal program which has a fourfold objective: (1) promotion of free enterprise and private investment; (2) attainment of full business recovery; (3) maintenance of our public finances in a sound and unassailable position, and (4) a just distribution of tax burdens and a more equitable distribution of national income."

Anything?

Blough: Yes. Mr. Bailie would change the word "just" to "wise."

H.M.Jr: What line, please?

Blough: Third line from the end of that paragraph. It begins "unassailable position, and (4) a just distribution...." He would change that to "wise" and would introduce in the next line after "and" - "burdens and consequently a more equitable distribution of national income." So it would read

- 3 -

"a wise distribution of tax burdens and consequently a more equitable distribution of national income."

H.M.Jr: Well, that's just - he wants the word "wise."

White: That changes the meaning of it very substantially.

H.M.Jr: It does? Why?

White: Because the distinction between the - what generally is meant by a just distribution of tax burdens relates to a question of a philosophy of having those pay the taxes who can best bear them, and it's a question of justice, of ethics. The question of "wise" is a new note introduced in tax philosophy that I think people might look askance at - something meant that is not obvious on the surface, looks a bit suspicious.

Gaston: Might be Machiavellian rather than just.

H.M.Jr: Getting rather deep, aren't they?

Klotz: (Laughs).

H.M.Jr: O. K.

Gaston: I like "just" better than "wise."

H.M.Jr: What about "and consequently a more equitable" - what about that? What about that? "....and consequently a more equitable distribution of national income." Will a just distribution of tax burdens consequently give us a more equitable

Duffield: Not necessarily.

Haas: Just and equitable mean the same thing. One applies to distribution of national income and the other to distribution of tax burdens.

White: Yes, and the other to burdens. No, I wouldn't say so necessarily. I can conceive of a conflict of interests there at times.

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The beauty of this is, Mr. Secretary, it's the customary way of stating a certain tax philosophy. Wouldn't you say that was true, Roy - "just distribution"?

Blough: "Just distribution of tax burdens" is.

White: And "a more equitable distribution of national income" is a phrase that goes together with that.

H.M.Jr: That is in my previous speech.

Blough: May I orally explain that Mr. Bailie felt that Mr. Hanes didn't like that as it stands at all. He felt he would like it better if the word "consequently" were in there. That was one of the considerations he had in mind.

White: Mr. Bailie wanted it because he thought Mr. Hanes would like it better, was that your thought?

Blough: There was a good deal of that in it.

H.M.Jr: What did you say, Mac?

McR: I like it much better the way it is.

Blough: So do I.

Gaston: So do I.

H.M.Jr: I like it better because Mac likes it because Bailie says that Hanes doesn't. (Jocularly)

Klotz: Don't take that.

H.M.Jr: Is that about right? We need a little fresh blood around here.

Haas: There's a question on number two. It says "attainment of full business recovery." Somebody may wonder what you mean by that. To some people it means full employment. You may want to use "full employment" rather than "full business recovery."

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- White: I'll tell you what we thought in that connection. That troubled us a little bit because some thought that where you get full employment is in totalitarian countries, which can get full employment merely by means of....
- H.M.Jr: And also, George, the very question "What is a full business recovery?" - the fact that it is vague is good, because I don't know what it is. So your raising the point makes it good. All right?
- Haas: O. K.
- Blough: Do we say no to Mr. Baillie's first suggestion?
- H.M.Jr: No. Does anybody want to raise anything in this? This is going to be, as far as I'm concerned, the last time over. All right on that paragraph? O. K. Don't say anything - quick, now - the bill is passed.
- "Successful operation of democracy demands that all four objectives be solidly linked together. When we consider any specific change in our fiscal program we must satisfy ourselves that the change makes for a better and not a worse distribution of tax burdens and of national income, that the change promotes and does not retard business recovery, and that the change makes easier and not more difficult progress towards the establishment of a balanced relationship between revenues and expenditures."
- Well, McReynolds and Haas - anybody want to raise anything here?
- "Full attainment of these objectives is difficult at best. It is made more difficult...."
- How do you like the way it starts, Mac?
- McR: I like it.
- H.M.Jr: George?
- Haas: I like it very much.

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H.M.Jr: "Full attainment of these objectives is difficult at best. It is made more difficult by a new and ominous development in world affairs - the armament race now gripping the important nations of the world. Great Britain in the present fiscal year is spending \$3,000,000,000 on military expenditures, or almost 50 percent of its national budget; France is devoting over 40 percent of its national governmental expenditures to the same purpose; Italy, 50 percent; Germany, probably 60 percent; Japan, over 70 percent. These huge expenditures are being financed largely by borrowing. The race is becoming more intense and there is no end in sight."

Now I'm going to raise a funny point. Does that definitely fit in with the whole thing?

White: I think so. I think it does for this reason. It makes your fiscal problems more acute, it makes the necessity for examining the picture as a whole greater. It paves the way - thereby paves the way for your recommendation of having one committee examine both. We're getting into more troublous times.

H.M.Jr: You think it sticks out like a sore thumb, Herbert?

Gaston: I don't think it sticks out like a sore thumb. No, I think it's a factor to be taken into consideration in the whole fiscal picture of this Government, as of others.

H.M.Jr: I've been dying to say it.

McR: I think it's definitely a part of it.

Blough: I'd like to report on that, while I didn't want to put it in here except in one small place, that Mr. Bailie and Mr. Shoup both felt that the foreign problem was a little over-emphasized, that there was sort of a let-down later on after stressing it so heavily at the beginning.

H.M.Jr: Well....

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Duffield: That suggestion raised in my mind the thought that when we wrote this the international situation was much more ominous than it now appears to be, and I don't know whether our tone reflected that background more than might be....

White: You mean than it appears to be today. This speech isn't going to be given for two days.

McR: It may be worse by then.

White: I should say it's still more ominous because of the quiet, just like before March 15th. Remember how quiet it was then?

Gaston: Hitler's always been obliging up to date.

White: He's still healthy.

H.M.Jr: Now, the gentleman that was in two minutes ago said, "How do you feel? We've had one quiet week."

I said, "After we've had three, come around and see me." On the international situation.

I don't think - what my object is - I don't think that people realize what it means to a country - this terrific deficit financing for armaments.

White: Just think what it means to England to abandon her policy and undertake that magnitude of armament expenditure.

Blough: I'd like to report that Mr. Viner and Shoup don't like "gripping" in the fourth line.

H.M.Jr: Where?

Blough: Fourth line of the paragraph - page 2 - "the armament race now gripping the important nations of the world." They objected that a race doesn't grip people.

H.M.Jr: What would they say?

Blough: "Absorbing" or something like that.

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But Mr. White - Harry thinks that races do grip people.

Duffield: I agree with White.

White: Duffield and I object to squeezing all the color out of it.

H.M.Jr: How about "the white race"?

(Hearty laughter)

Klotz: You're getting good.

White: But Herbert thinks it violates good writing.

Gaston: I'm not very strong for it, but I couldn't think of an alternative that wouldn't be flat and colorless. You could say "the armament struggle" or "armament contest." That might be a little less mixed.

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

White: I think it describes exactly what is happening today.

H.M.Jr: It stays in.

White: We won't over-sell it.

H.M.Jr: Anything else you got? The New York boys are doing swell so far - zero, zero.

White: Only the second inning.

H.M.Jr: "For us these developments present the danger that they may involve us in increased cost for national defense here and that they may result in monetary instability abroad, disruption of our foreign commerce, and perhaps...." - now, this thing has bothered me: "and perhaps other unsettlements." Qu'est que c'est que ca? "....and perhaps other unsettlements." I don't know what it means.

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White: It could come out.

H.M.Jr: I mean it looks to me like some veiled threat there.

White: Yes. I don't know when it crept in. Maybe it was there all the time.

H.M.Jr: "Crippled," did he say?

Blough: Well, earlier it was even more ominous and this was an attempt to make it a little less ominous.

Gaston: It implies if we get into war ourselves.

H.M.Jr: That's what it means. "...disruption of our foreign commerce, the consequences of which we cannot fully predict."

White: Put the word "and" before "disruption."

H.M.Jr: But I want to leave out "perhaps other unsettlements."

Blough: You mean "abroad and disruption of our foreign commerce."

H.M.Jr: How does it read now?

Blough: "...monetary instability abroad and disruption of our foreign commerce."

MoR: Put an "and" before "disruption."

H.M.Jr: Aren't you going to leave "consequences of which...."?

Blough: We have.

H.M.Jr: I see.

White: I think you can leave out the word "foreign" before "commerce," too, which would be very true. That would include both foreign and domestic.

H.M.Jr: "...and disruption of our commerce"?

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White: Yes.

H.M.Jr: That would be both. Leave out the word "foreign"?

Gaston: Yes.

H.M.Jr: "In this connection, it is interesting to note that in our budget for this fiscal year expenditures for past wars and national defense are almost one-fourth of total expenditures."

What's the - I don't remember the name of your....

Blough: Miss Humphries.

Klotz: Humphries.

H.M.Jr: She might as well do this.

(On phone) Ask Miss Humphries to come in, please.

There's a chance of Mr. Doughton coming down tonight and I want to show him this. Do what you did before. As we clear a page, give it to Miss Humphries. You've got it, haven't you?

Blough: Yes, sir.

H.M.Jr: We're on page 3.

"No proper solution of any major problem facing this Government today can be achieved without full consideration of the impact on our country of the present international crisis. The unmistakable implication of the international situation is that we should give serious attention to our future fiscal position and redouble our efforts to attain full recovery. High national income and a sound fiscal position are essential to adequate national defense."

Now that sentence I like very much. Could we highlight that? That couldn't be a separate paragraph? Let it just stand out as a short snappy sentence - "High national income and a sound fiscal position are essential to adequate national defense."

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- White: It kind of belongs in that paragraph.
- Gaston: It isn't logically separate.
- H.M.Jr: All right.
- "It is against this background that we reexamine our fiscal program."
- Any question on that paragraph?
- Klotz: On that page, first sentence.
- Blough: Mr. Bailie wants that first sentence on page 3 left out.
- H.M.Jr: "No proper solution...."?
- Blough: He feels that you overdo the foreign and that if you leave that sentence out there it will help. Mr. Greenbaum, on the other hand, wants it in. So they disagreed on that.
- H.M.Jr: Well, here's the thing. The only reasonable explanation - the only explanation anybody attempts to give for the present depression we are in is the impact of the foreign situation on our own, and if for no other reason I think it's a good alibi.
- White: That's better.
- H.M.Jr: See?
- White: Good alibi.
- (Kieley hands H.M.Jr. a message on another subject, which H.M.Jr. briefly discusses)
- H.M.Jr: Now, where were we?
- Blough: First paragraph on page 3.
- H.M.Jr: Take that sentence out?
- Blough: Well, that's what - I'm just reporting, as you asked, Mr. Bailie's feelings.

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Haas: The whole paragraph?

Blough: No, just the first sentence.

H.M.Jr: I like it, don't you, Herbert - that first sentence?

"No proper solution of any major problem facing this Government today can be achieved without full consideration of the impact on our country of the present international crisis."

Gaston: I think I like the sentence.

Haas: That's your transition.

H.M.Jr: Mac?

McR: O. K. I wouldn't think of leaving it out.

H.M.Jr: Anything else in that paragraph? As George says, that's the transition.

"A fundamental objective of sound finance clearly is a balanced budget. There is, of course, no good reason why taxes must exactly balance expenditures in each specific year any more than each month, each week, or each day. There are periods during which sound fiscal policy calls for an excess of outgo over income, and others when it calls for an excess of income over outgo. In a depression it is inevitable that there will be deficits. Revenues decline at the same time that the Federal Government is called upon to assume inescapable social and economic burdens. If, however, deficits are too long continued, the depressive effects of uncertainty tend to make recovery more difficult."

I like that sentence.

White: Don't you think that might be a paragraph beginning with "If"? In your reading I think it would be better.

H.M.Jr: If it could be, it would be good. What?

White: I think so.

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Blough: Sure.

H.M.Jr: "If, however,...." - starting with that.

Gaston: Yes.

H.M.Jr: "If, however, deficits are too long continued, the depressive effects of uncertainty tend to make recovery more difficult. The sequel to deficits in emergencies should be surpluses during years of prosperity. That was and is one of the broad purposes of seeking to raise the national income to a high level, thus assuring revenue great enough not only to end the deficits which began in 1931, but also to reduce the public debt."

Blough: Quite a little bit of suggesting in there, mostly by Mr. Baillie. He doesn't like the one "There are periods during which sound fiscal policy calls for an excess of outgo over income, and others when it calls for an excess of income over outgo," because he fears that you thereby give your approval to deficit financing. But Mr. Greenbaum does not agree with Mr. Baillie.

H.M.Jr: Well, I agree with Mr. Greenbaum.

Gaston: What are you doing if you're not doing that?

Haas: That's unrealistic.

Blough: You want me to report these even though they seem silly to me, don't you?

H.M.Jr: Listen, please - and don't let anybody - I mean it maybe unpleasant, but go right ahead. It's not you; you're reporting what they want.

Blough: That's the idea.

H.M.Jr: We'll have Mrs. Klotz do it next.

Blough: As she likes.

Now, next to the last sentence on the page: "The sequel to deficits in emergencies should be surpluses

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during years of prosperity." Mr. Bailie feels that you may not be able to wait until years of prosperity and that it would be better if it read "The sequel to deficits in emergencies must be surpluses if the national credit is to remain unimpaired."

H.M.Jr: Well, this is the part of the stuff - how much of this is actually the President's own writing, I don't know, but I have no doubt - I mean this is the pattern which we've lived up to. It's like: which comes first, the chicken or the egg? We've done this now so long.... No.

Blough: Now, more important, he particularly dislikes the next sentence: "That was and is one of the broad purposes of seeking to raise the national income to a high level, thus assuring revenue...." and so on. I told him where that sentence came from and he still didn't like it, and he felt that it negated the rest of it, that thus far the idea has been, let's try to get a national income through some fiscal policy, and here we're going to get the fiscal policy through an increase in the national income; that it becomes inconsistent. Now, Mr. Greenbaum agreed with that, but he felt that since the President had written that sentence in, that that was that.

H.M.Jr: That bothers me so little compared to some of the other bothers. Does it bother you, George?

Haas: No.

H.M.Jr: What?

Haas: No.

H.M.Jr: Mac?

McR: No.

Gaston: I don't think it's inconsistent at all. If your fiscal policy contributes - you've got to have this 80 billion dollar income anyway - if your fiscal

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policy contributes to that, that's one way of getting it.

Blough: But it's sort of like: we need the fiscal policy to get the national income, and we need the national income to get the fiscal policy.

H.M.Jr: True.

Blough: So that - which step do you take first?

White: No, a lot of factors in economics are interdependent.

The reason Jake Viner objected to that strenuously, and of course I think we all did, was that it assumes that the broad purpose of getting a high national income was just to balance the budget. But he couldn't rephrase it any other way. His objection was on other grounds, but....

H.M.Jr: "That was and is one of the broad purposes...."

Duffield: Says it's one of the purposes. That doesn't seem to me....

H.M.Jr: "....one of the broad purposes...."

Duffield: Yes.

Blough: He said that was a very incidental part of it.

H.M.Jr: Well, here when you go on - I mean the President said last night - he said he isn't going to cut any expenditures. I say the only hope of balancing the budget, except to whistle in the dark, is to get the thing up, get enough revenue so we can. That's the only thing I can hang on to.

White: One could make sense out of it if you say you want to balance the budget and you don't want to curtail expenditures. In order to do it you've got to have a high national income. The important thing is that you don't want to curtail expenditures. Therefore you can make this one of the broad purposes. It could be defended.

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H.M.Jr: Well, you're repeating what I just said, word for word.

White: I very frequently do that.

H.M.Jr: I mean you're a little bit more grammatical but....

Klotz: Or dramatic?

White: Not "grammatic" but "dramatic."

H.M.Jr: Don't you think he's that way - he'd make another Roosevelt? Herbert and I know that, don't we, Herbert? Not that he's a Roosevelt; but we've seen that happen so often.

All right, now we go on to the next. I think that - I can be that much....

Blough: Before going on, Mr. Bailie would like to get back in the sentence that used to say "We cannot face an endless succession of governmental deficits and survive as a democratic people." Mr. Greenbaum agreed to that, but he feared the revision might not be in harmony with the President's.

H.M.Jr: Well, the President cut that out. He said to me, "Do you mean to say that if we have a deficit of \$44,000,000,000 democracy is going to die? You're crazy."

Blough: He said "endless succession."

H.M.Jr: No.

Blough: He cut it out, no question about that.

H.M.Jr: I want to take everything they said, chew it over once more. But I want to be able to show this to the President, if necessary, in his own writing, and say, "This first half, Mr. President, is as you corrected it word for word."

"In carrying out our fiscal policy it would be helpful to have machinery which would more fully

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coordinate our efforts. It is not the prerogative of any administrative department to make suggestions to the legislative branch of the government for the conduct of its work, but I am sure you would wish me to be frank in suggesting ways of surmounting difficulties which I believe now attend the joint efforts of the Ways and Means and Finance Committees and the Treasury Department."

Didn't have anything there, did they?

Blough: No, except that "I am sure you would wish me to be frank...." - purely a matter of taste.

H.M.Jr: Am I not right that that's the President's own words?

Blough: I think you're right.

Haas: There is this question in connection with that. In the statute I'm pretty sure it requires....

H.M.Jr: You're quite right, George. We come to that.

"If, for instance, the Ways and Means and Appropriations Committees of this House and the Finance and Appropriations Committees of the Senate could meet each session as one joint committee on fiscal policy, to consider the over-all aspects of the expenditure and revenue programs, simplification and greater effectiveness would result. The Budget Act of 1921 set up a procedure for the orderly formulation by the Executive of fiscal proposals and for their submission to the Congress as a unified budget. No comparable procedure has been set up in Congress for considering revenues and expenditures together as two inter-related aspects of a single problem. I hope this committee will agree with me that some such innovation would improve the efficiency of the Government."

Gee whiz, it's a long paragraph. "By providing for a preliminary legislative consideration of the over-all picture of appropriation and revenue measures it would give Congress a broad perspective of the state of the Government's finances and permit a better ordered coordination between the executive and the legislative branches in this field. This joint

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committee would in effect be a lens through which all appropriation and revenue measures could be viewed in relationship to both what the nation needs and the nation can afford."

Isn't that a nice idea?

McR: Isn't that a little too logical to propose to Congress?

H.M.Jr: Yes, but they've never done it.

McR: I know they've never done it. It's been talked about, intended that it should be done. I think it's O. K.

H.M.Jr: Well, it's most of it the President's language here, and Bob Doughton loves it.

McR: I don't see why he shouldn't.

H.M.Jr: It's one of those things on which everybody might say, "Well, why did it take Morgenthau to suggest it?" But the fact is it's never been suggested before.

Gaston: That one thing gives the speech substance, if there were nothing else in it.

H.M.Jr: Right.

White: You could shorten the paragraph, if you like, Mr. Secretary, by paragraphing beginning with "The Budget...." - with the sixth line beginning a paragraph.

H.M.Jr: Say "The Budget Act of 1921...."

White: That's the only place you might paragraph it. Even then - that's the only place.

H.M.Jr: Well, it isn't important.

White: You don't gain much.

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H.M.Jr: Did New York have anything on that?

Blough: (Nods no).

H.M.Jr: Wonderful. Anybody else?

Blough: Well, I think in the last line of the paragraph "....to both what the nation needs and what the nation can afford" is grammatically better.

H.M.Jr: "....both what the nation needs and...."

Blough: "....and what the nation can afford." It now reads "....both what the nation needs and the nation can afford."

H.M.Jr: Want to put in another "what"?

Gaston: How is the rest of the sentence?

Blough: Just a matter of structure.

Gaston: Well, the only thing I'd suggest - "....in relationship both to what the nation needs and to what the nation can afford." "....to what" and "to what." Don't stick your unsupported "what" in.

Blough: So it would read "....viewed in relationship both to what the nation needs and to what the nation can afford."

H.M.Jr: "....both what the nation needs...."

Gaston: "....both to what...."

H.M.Jr: "....both to what...."

Blough: "....the nation needs and to what the nation can afford."

H.M.Jr: Thank you. "....to what the nation needs and to what the nation can afford."

Anything else?

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"In my opinion the fundamental fiscal question raised by the pending Department of Agriculture appropriation bill is precisely the type of question with which this joint committee should concern itself." This may have to be out out. It's gone to committee, I see. Haven't voted it yet. "This bill proposes to increase budgeted expenditures for farm parity payments by \$372,000,000 but no provision has been made for compensating increase in revenue indicated although we already face a deficit of \$3,426,000,000 in the coming fiscal year. The bill, upon the merits of which I am not commenting, is typical of scores of others which seem to me to present questions appropriate for consideration by a joint committee which looks at each proposed expenditure and each proposed revenue measure as a part of an integrated budget policy."

Blough: They liked this.

H.M.Jr: They did?

Blough: Yes. The word "indicated," however, was left in by mistake.

White: I wonder if you might consider deleting the portion beginning with the word "indicated" to the period. "This bill proposes to increase budgeted expenditures for farm parity payments by \$372,000,000 but no provision has been made for compensating increase in revenue." Period.

H.M.Jr: I don't get the point.

White: Well, it just a little less flags the deficit, that's all.

H.M.Jr: No.

White: O. K.

Blough: The word "indicated" should come out.

H.M.Jr: Where is that word "indicated"?

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Blough: "....increase in revenue indicated...."

H.M.Jr: "....increase in revenue...."

Blough: That was a hang-over from the previous draft.

H.M.Jr: Leave off the word "indicated"?

Gaston: Yes.

H.M.Jr: No - "already face a deficit...." - no, I'm going to put in the words about three billion four.

Hello, Miss Humphries.

Humphries: Yes, sir?

H.M.Jr: I say, how do you do?

Humphries: How do you do.

H.M.Jr: Good afternoon.

"The bill, upon the merits of which I am not commenting...." - I think that's all right.

"This committee could have continuous life for the purpose of actively studying fiscal problems between as well as during sessions of Congress. The Treasury Department would, of course, cooperate in this work to the full extent that the committee desired."

Blough: Two suggestions have been made there. One, that the first paragraph - that paragraph really belongs on the previous page, before the paragraph "In my opinion the fundamental fiscal question...." Just a matter of rearrangement.

H.M.Jr: You mean slide it in front of "In my opinion...."?

Blough: Yes.

H.M.Jr: What do you think, Herbert?

White: I think it's better.

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- Gaston: Let me just get a look at that.
- Haas: It's too abstract to put in there here; you give an illustration and put it in.
- McR: It would be all right to have it after the other paragraph, but you need that paragraph on page 5 just where it is. It needs to immediately follow your suggestion.
- Duffield: It's an example of the preceding....
- Gaston: I don't think so.
- H.M.Jr: You don't think so.
- Gaston: No. No. No, I don't think so, because then that breaks the continuity of thought.
- H.M.Jr: All right, then, Herbert?
- Gaston: I think it's all right the way it is.
- Blough: The other suggestion is that the word "could," which you read as "should," should be "should."
- H.M.Jr: "This committee should...."
- Blough: Top of page 6.
- H.M.Jr: Hurray, they got one suggestion.
- What else?
- Blough: That's all.
- H.M.Jr: "Thus far I have dealt with the financial problems of the Federal Government alone. We must remember, however, that even if we had in operation the best conceivable Federal fiscal plan, we still would have touched less than half of the tax problem which confronts the nation. Almost 60 percent of the total tax revenues of the country are collected by state and local governments."

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Haas: There's....

H.M.Jr: Yes, George.

Haas:a sentence there - "We must remember, however,..." - I wonder if you have to be sort of apologetic; or you might change the sentence "We must remember, however, that even with the best conceivable Federal fiscal plan in operation...." - leave out that "even if we have."

White: That's an improvement.

H.M.Jr: "We must remember, however...."

McR: He doesn't want to admit that you haven't got it.

Haas: This other way - with my suggestion, either way it's neutral.

H.M.Jr: "....that if we had in operation...." Leave out "even if."

Blough: "You must remember, however, that with the best conceivable Federal fiscal plan in operation, we still would have touched less than half...."

H.M.Jr: I think that's an improvement. What?

Blough: I like it.

H.M.Jr: Herbert?

Gaston: Yes, that's all right.

H.M.Jr: Strike one - one run for George, I mean.

Blough: While we're on that sentence - in the preceding sentence the question was raised whether "dealt with" gave the impression you had finished it off, whether "Thus far I have been talking about" might be better. You say it a couple minutes later, is the only difficulty.

H.M.Jr: "Thus far I have discussed...."

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Gaston: "....I have been considering...."

Duffield: "....discussed...."

H.M.Jr: "Thus far I have discussed...."

McR: "....dealt with" is much better.

Blough: You don't think it gives the impression he's finished it?

McR: No, that's what he's leading up to. I wouldn't change it.

H.M.Jr: All right, Herbert?

Gaston: All right, I'm satisfied.

Duffield: (Nods approval).

H.M.Jr: (To Mrs. Klotz) If you've got anything you want to speak of....

Klotz: Uh-huh.

Blough: At about this place Mr. Bailie would feel happier if you'd get back in the sentence about scanning each expenditure with the greatest care.

H.M.Jr: Where would that go?

Blough: It would have gone just before this paragraph, perhaps in the last paragraph yet. Should have brought it up sooner.

McR: You're on page 5?

Blough: Right at the top of 6, probably, or in that general area. We had a sentence in in an earlier draft that each expenditure should be scanned with the greatest care and that this committee would do the scanning. But I think that was cut out.

Duffield: It was changed to "both what the nation can afford and what the nation needs." That's what it was.

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- Gaston: "...scanning with care" is kind of an insult to Mr. Taylor, to his committee.
- H.M.Jr: Well, also to the President, because you're going on the assumption that when he does his budget he doesn't scan each one. I don't think....
- Blough: I agree with you.
- H.M.Jr: I know what he's trying to get, but I mean....
- "In the last five years we have given serious study to the problems created by Federal-State tax conflicts. The same problems had been recognized by our predecessors." You couldn't say "The same problems had been recognized by the previous Administration"? I don't like that "our predecessors."
- "The same problems had been recognized by the previous Administration." Anybody?
- White: I think it's better.
- H.M.Jr: What?
- White: I think it's an improvement.
- H.M.Jr: I don't like "our predecessors."
- Gaston: The only value of that is that it includes Congress as well as the Administration.
- Klotz: That's true.
- H.M.Jr: Herbert's right. Leave it the way it is. Herbert's right.
- "It is my belief that we should take steps without delay to make these studies effective."
- Blough: Mr. Magill would add after the next to the last sentence, which winds up "...various aspects of international fiscal policy,"....
- McR: Should be "intergovernment."

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Gaston: It is "intergovernmental."

Blough: Yes, "intergovernmental" - "...and propose a plan for the solution of the problems involved."

H.M.Jr: Where is that?

Blough: So the sentence would read "I suggest that Congress create a small temporary national commission to report to Congress as soon as feasible on the various aspects of intergovernmental fiscal policy and propose a plan for the solution of the problems involved." That is, he thinks it's time to do more than just report.

H.M.Jr: Well, would you leave out the next sentence?

Blough: No, no, he would just insert it.

H.M.Jr: All right. What would you put in there, again?

Blough: "...and propose a plan for the solution of the problems involved."

H.M.Jr: I think that's good.

Duffield: I do too.

H.M.Jr: That's good. One for Magill.
How do you like it, George?

Haas: I like it.

H.M.Jr: I mean the whole business.

Haas: So far I like it very much.

McR: "...solution of the problems involved."

Blough: That's all on page 6.

H.M.Jr: Page 7.
Got plenty of help back there, Miss Humphries?

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Humphries: Yes, sir.

H.M.Jr: All ready?

White: Do you think it is "intergovernmental"? It makes it different.

Blough: It's "intergovernmental." That term has been used for ten years.

H.M.Jr: Then it becomes common law.

Blough: I mean in this connection.

H.M.Jr: You know, there is something interesting about this meeting, there's something unique about it. There's not a lawyer present.

Blough: We can send out and get one.

H.M.Jr: Except Mac.

White: What's Mac?

H.M.Jr: Well, he's a Justice.

White: I beg your pardon.

H.M.Jr: "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 this fiscal situation are increasingly unsatisfactory to both the State Government and the Federal Government, and more and more burdensome to many taxpayers."

Do you want to say anything about municipal governments - "...to both municipal, State and Federal Governments." It's as bad for the municipalities as anybody. Have we mentioned municipals before?

Haas: You say "local."

McR: You say "local."

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H.M.Jr: Could you put in the word "municipal"?

Haas: Should be in, because it is important.

Gaston: Of course, the municipalities are charter corporations of the States, they are responsibilities of the States.

H.M.Jr: But we've got a direct sales tax in New York City, and a budget of over \$700,000,000. No?

McR: It belongs there, or else you should not refer to it.

H.M.Jr: What's the matter with it?

Gaston: Here's a negotiation that has to be between sovereignties, between the United States and individual States; and municipalities only come into it as creatures of the State.

H.M.Jr: O. K.

Haas: Of course, on that there is a plan which may be made - may not be a negotiation at all, so it may include local....

H.M.Jr: Well, I was just thinking of my friend Fiorello - he says, "Why do you leave me out?"

Haas: I'd put it in.

H.M.Jr: All right?

Gaston: Can't do a bit of harm.

H.M.Jr: All right. Put in "municipalities," will you please? I mean the City of New York, with \$700,000,000 - twice the budget of the State of New York.

Blough: Where are we going to put it in?

White: Just out the word "both" out.

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- Blough: It will read "...are increasingly unsatisfactory to the State and municipal governments and to the Federal Government, and more and more burdensome to many taxpayers." Mr. Bailie would like to cut out "many" and I think that's probably right.
- H.M.Jr: Why?
- Blough: More and more burdensome to taxpayers in general.
- H.M.Jr: Want to leave out the word "many," Herbert?
- Gaston: Yes, I think so.
- McR: I'd leave it out. I think it weakens it to leave it in there.
- H.M.Jr: It weakens it?
- McR: Yes.
- H.M.Jr: Out she goes.
- "The findings of such a commission should assist us in achieving a more orderly relationship between the Federal, State and local fiscal systems."
- White: Would you want to substitute for "findings" "The work of such a commission"?
- Duffield: No.
- White: No?
- Klotz: This says the words "and recommendations" should be inserted after "the findings."
- Gaston: Findings are recommendations.
- White: Not necessarily. They might be.
- Blough: His idea was that findings are usually findings of fact and recommendations are....
- H.M.Jr: He wants to strengthen it, to get it down. I think he's right. We've been making a survey. What he

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wants is something concrete in recommendations.
What?

Blough: Yes, that was his idea.

H.M.Jr: I think he's right. All right, let's take that.
O. K., Herbert?

Gaston: Yes.

H.M.Jr: You can say "The recommendations of such a commission should assist us...."

Blough: Leave "The findings" out and just make it "recommendations."

Haas: I have one thought in connection with that, but I haven't got a good suggestion to meet my thought. As I view this problem as between State and Federal and local taxes, there's a good deal more than just overlapping taxes, if this commission just takes up that angle of it. It's a question of, here you've got a whole tax burden and the burden comes from three different sources, and who does it hit? You may not have an overlapping tax. In one place you may have tobacco taxes.

H.M.Jr: You're right. We take care of that in the last page.

Haas: Oh.

H.M.Jr: No, you needn't excuse yourself because it was only put in by Jake Viner. You're quite right. Remember it, make a note, and I think you'll find it in the last page. We talk about it there. What we say is that over a long term there should be less on corporations, less on the consumers, and more on personal income tax and more on gifts and estates - I mean that's the trend.

Haas: Does that include local too, the whole combination? That's the point.

White: George has a thought that is not included in this overlapping taxes. I don't know how you could characterize it.

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- Duffield: Overlapping taxes in this paragraph I regard as an example of what has gone before. When we propose the task for this committee we don't limit it to overlapping taxes, we say the whole problem of intergovernmental....
- Haas: If that's clear, then my point is taken care of.
- Blough: I'm inclined to think George has a real point there. A lot of things really enter in. There is this problem of deficit spending by the Federal Government in connection with such spending - deficits or surpluses of the States and localities. There is a question of debt - Federal, State and local debt, and the possibility that the Federal Government might do something to help local governments and State Governments market their debt. All of those things would be material for this commission. It seemed too long to put them all in the paragraph and we lopped off most of them and left just a couple.
- White: Would the word "competing" help any at all? "Overlapping and competing taxes" doesn't cover it completely, but it includes another category.
- Blough: Yes, it would help.
- H.M.Jr: What line is that?
- White: Top of page 7.
- Blough: "Overlapping and competing taxes."
- H.M.Jr: What do you think?
- Blough: I think that's good.
- Gaston: Yes, I think that broadens it a little bit. It should be broadened.
- Blough: We might put in a short catch-all sentence of some kind that....
- H.M.Jr: You can't put it - what we're doing now is the last time over, gents. I think "overlapping and competing" - put that in - "overlapping and competing." All right? George, that helps it.

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Haas: Yes, that helps it a lot.

H.M.Jr: "Thus far I have talked about two fiscal matters of great importance. Let me turn now to more specific questions of taxation."

Blough: Well, it's a paragraph, so perhaps I had better mention the feeling of one of the men that you ought to mention what those two fiscal matters were, in sort of a summarization.

White: It's too short, but....

H.M.Jr: I think it is. No, if I'm going to do anything I'll try to cut it down.

Blough: He would suggest otherwise you might want to leave out that sentence entirely.

Duffield: It's a transition.

Blough: Personally I like it just as it is.

H.M.Jr: No. Don't you think it's all right, Mac?

McR: Where is that?

H.M.Jr: "Thus far I have talked about two fiscal matters of great importance." Then I say "Let me turn now to more specific questions of taxation."

McR: Gee, you've been talking about....

H.M.Jr: What?

McR: You've been talking about taxation for the last couple of pages.

Blough: "....more specific questions of Federal taxation."

H.M.Jr: "Federal."

McR: O. K.

H.M.Jr: He took the lips out of my words.

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McR: Now I'm satisfied.

H.M.Jr: All right.

"I desire first to reiterate two tax recommendations which the President has already made and two suggestions which the Treasury previously presented:

"One. In his budget message of January 3, 1939, the President recommended that Congress extend the miscellaneous internal revenue taxes which under existing law will expire next June and July...." Why June and July?

Blough: There are varying dates for the taxes.

H.M.Jr: "...and to maintain the current rates of those taxes which otherwise would be reduced in June.

"Two. In his message of January 19, 1939, the President recommended legislation making all government salaries hereafter earned and all interest on government securities hereafter issued subject to Federal and State income tax laws. That part of this recommendation dealing with government salaries, I am pleased to note, has already been incorporated into law.

"Three. In my statement of March 24, 1939, I presented for your consideration four alternative rate plans for old-age insurance contributions during the next three years."

Did he leave in the words "four alternative"?

Blough: He put a ring around it.

H.M.Jr: Who?

Blough: I told him he wasn't there, it was four alternatives.

White: Would you consider including for purposes of education - making "all Federal and government salariessubject to State taxes"? There are about 95 percent of the people in the United States who don't believe Federal employees pay taxes. It isn't important, but just give them a line....

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- Blough: While you've stopped, may I mention on that particular paragraph that Mr. Bailie was afraid that it wasn't clear that you didn't want exemption to apply to Federal securities unless it also applied to State and local securities. I'm wondering if anybody else feels that it isn't clear.
- H.M.Jr: Where is that?
- Blough: First sentence on the page - "...the President recommended legislation making all government salaries hereafter earned and all interest on government securities hereafter issued subject to Federal and State income tax laws." Now, is there any question there but what you'd have to have State and local securities subject to Federal income tax laws before you make Federal securities subject to them? I didn't notice it before.
- H.M.Jr: Come on, let's talk up.
- Duffield: I think it's all right the way it is. I don't see any confusion.
- H.M.Jr: Does anybody?
- Haas: You could say "interest...." - put the "all" in a different place, say "interest earned on all government securities," which would....
- Duffield: That's right.
- Blough: Yes.
- H.M.Jr: How is that, George?
- Haas: Change the position of the word "all."
- McR: Change the word "all" - make it "interest on all government securities," instead of "all interest on government securities."
- H.M.Jr: Well, is the State a government?
- Haas: Yes.

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H.M.Jr: "...interest on all government securities."
Blough: I think that helps.
H.M.Jr: Anything else?
Blough: Yes, back just before one, where it says "I desire first to reiterate two tax recommendations which the President has already made and two suggestions which the Treasury has previously presented" - keep the structure.
MoR: The word "has."
Blough: That's all, except that Bailie wouldn't put these in at all.
H.M.Jr: I remember the President particularly wanted that.
Blough: Of course. He ordered them in.
Duffield: If we don't put them in here, we've got to put in some place or other this reiteration on excise taxes.
Blough: Mr. Greenbaum thoroughly disagreed with him on that.
Gaston: As a mere formality they ought to go in.
McR: Pro forma part of it. It just can't possibly hurt anything.
H.M.Jr: Anything else on that?
Blough: No.
H.M.Jr: Didn't they say something about the oil wells?
Blough: Yes. You haven't read that yet. Mr. Bailie didn't like the oil wells in.
H.M.Jr: How much did that thing run to?
Blough: How much is that? Well, it depends on how you define your law. It may run as high as 50, 60 million dollars.

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- H.M.Jr: Of course, it does kind of stick out like a sore thumb.
- Blough: It's the only specific item there.
- White: I hope you don't lose your courage on it.
- H.M.Jr: Well, that isn't it. That's not it. I mean I can talk about community property. Why not community property? There are eight States.
- Haas: This applies especially to Texas, Senator Connally, so on.
- Blough: I frankly think that it could come out, and I can't see any particular reason for putting it in, myself.
- McR: I can't see any reason - why not change the wording to "natural resources" - "depletion of natural resources." That makes it - that's the general term. Why designate oil and gas? It's any natural resources.
- White: Doesn't hit them in the eye so much.
- H.M.Jr: What did they say?
- McR: Take out "oil and gas" and just say "depletion of natural resources." That's mines and anything that's in the ground.
- H.M.Jr: No, I mean here suddenly I'm bringing in one thing. Now, since I've been here, I've recommended dozens of things. This community property tax is a very important thing.
- Blough: The only reason this is in here is because in the very first draft Magill had it in his list.
- H.M.Jr: Well, I think I was a little smart alecky and put it in for that. I did it.
- McR: Your question of depletion is confined to the natural resources field.

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- Blough: And the problem is confined to particular items within the natural resources field.
- Duffield: I would suggest either taking it out or going back to that list of 1937 suggestions and adding to this those specific recommendations which at that time were put over for later action. That would include community property, depletion, and I think one or two others.
- White: Why not do that?
- Duffield: Either that one should come out or the rest of them should go in.
- Gaston: Could lop them all under number four.
- H.M.Jr: Now you're talking.
- Gaston: "The suggestions presented in 1937 have not been acted on and I renew them. They are oil depletion, community property...." and whatever it is.
- H.M.Jr: Now you're talking.
- White: I think that's very good, because that gives what follows a little less importance.
- McR: You're taking some substance out of it.
- H.M.Jr: Now you're talking. I'll tell you what we will do. It's the funniest thing - he just blossoms once in a while - one of those things that go just like that. How long would it take you men to fix that up?
- Blough: Half hour.
- H.M.Jr: Well then, let's go on. But I think that would satisfy me. The other thing - you just kind of put a knife in and give it a little twist at Texas. It's so very obvious. But the community property has eight States involved and all the rest. And that goes, Harry, with my thing that I said this morning - that Congress and the President and myself have avoided doing the difficult things.

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- White: I think that's a very good suggestion.
- Gaston: This sticks out - no question - sticks out like sort of a complex of yours.
- H.M.Jr: I'm allergic to oil wells.
- They got anything else on that page?
- Blough: Oh yes, on the last paragraph.
- McR: Last paragraph.
- H.M.Jr: "A comprehensive revision of the tax structure as a whole at this session of Congress scarcely seems feasible, especially in the absence of an adequate study of overlapping taxes. That fact, however, should not, in my opinion, restrain your committee from giving serious attention at this time to removing from the tax laws any manifest inequities or other defects. In November 1937, I said that 'We want to adjust inequality and remedy defects in the tax laws.'"
- And you've left off the most important thing of all - that I said, "And I stand ready to say so publicly." I don't know why you left that off.
- Blough: We took it right out of the thing - you were saying it publicly.
- H.M.Jr: No, something or other - "....stand ready to say it publicly" or something.
- Blough: Oh, that's another section.
- Haas: Somebody showed you some defects or something.
- H.M.Jr: No, you....
- Blough: I know what you have in mind.
- White: I'd like to see the word "any" out in the third line from the bottom.
- Blough: Well, may I....

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White: The way it is now, it seems as though they ought to consider every inequity and every defect. That isn't what you have in mind. At least, if you leave out the word "any," it leaves it....

Gaston: I don't think that it does, Harry. When you say "remove manifest inequities," you are asserting that there are many egregious and unfair inequities. When you say "any manifest inequities," that means that if there are any such things in the tax laws we ought to get them out.

White: "...that may exist." Would you want to add that - "any manifest inequities that may exist"? It seems like quite a broad program as it is now, which you aren't really recommending.

Gaston: I'd rather leave it the way it is; "...any manifest" means any that stick out, that are apparent, are obtrusive inequities.

H.M.Jr: I find I'm going downhill so fast. Would it be unfair to ask any of you to work tonight? Get a little rest now. Who has an appointment for tonight?

White: I have.

H.M.Jr: What?

White: I have.

Gaston: I have not.

H.M.Jr: Well, frankly, I know when I've finished.

White: They have all my ideas on it.

H.M.Jr: What was that?

White: We've talked these other things - I say they know what I think about them.

H.M.Jr: Well then, if you people don't mind, I think I'll adjourn until - is 8:15 a good time?

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Blough: Suits me.

H.M.Jr: If we concentrate an hour, I think we can do it.

Blough: I think so. Only one or two pages where the going is really tough.

H.M.Jr: I find myself extremely tired. Is that hard on anybody?

Duffield: 8:15.

H.M.Jr: Yes.

Duffield: Uh-uh.

McR: Where, at your house?

H.M.Jr: Yes. Is 8:30 better for anybody?

White: I could come for an hour if I am of any use.

H.M.Jr: What's that?

White: I could come for an hour if I'm of any use - from 8:30 to 9:30 I'd be glad to be available, or 8:15 to 9:15.

H.M.Jr: Well, let's say 8:15 - and then an hour more of this when my mind clears. We'll start on this again at 8:15.

GROUP MEETING

May 23, 1939.
9:30 A. M.

- PRESENT:
- Mr. Hanes
 - Mr. Haas
 - Mr. Bell
 - Mr. McReynolds
 - Mr. Lochhead
 - Mr. Graves
 - Mr. Duffield
 - Mr. Gaston
 - Mr. White
 - Mr. Foley
 - Mrs. Klotz

H.C. Jr: Incidentally, Guy Helvering says that he is coming in at a quarter to twelve on his own situation, Mac.

McReynolds: Yes.

H.C. Jr: Have you anything?

McReynolds: No.

H.C. Jr: Dan?

Bell: I called up Mr. Eccles and he said he would call the open market meeting for eleven A.M. on the 31st. We have quite a problem, Mr. Secretary, in dismissing about a hundred and fifty to a hundred and seventy five employees, in the Accounts and Deposits Emergency Organization. That is about twenty-five per cent of the total number, and I believe that we are going to be charged with favoritism and everything else if we allow the chiefs of sections to choose those people. A great many have been put on by Congressmen and Senators, and they have been calling up. We have a few cases where Senator Harrison, Jere Cooper and people on the appropriations committees have called up and asked us to put people on. Now, some of those people are good people, and I think if we let anyone go at the present time in which Senator Harrison or Cooper is interested, he is going to take it as a personal affront.

H.M. Jr: Now, Dan, why do you have to lay them off?

Bell: We are going to have at least two million dollars less money beginning on July 1st, and by the time the Committee gets through with it, we may have three or four million dollars less money.

H.M. Jr: Is there less work to do?

Bell: Well, your relief load has been cut about one-third on the basis of a billion and a half. Furthermore, you have the WPA and another agency, and it may be that we will get directions from Congress to liquidate the whole organization. I don't know yet.

H.M. Jr: Who will do the accounting work for them?

Bell: They do it themselves.

H.M. Jr: Would they need these people?

Bell: Well, they claim not. They figure that with five hundred people in addition to what they have, they can do this accounting job.

H.M. Jr: Who are "they"?

Bell: WPA.

H.M. Jr: Who?

Bell: Well, *Cong. Kill* ~~Gerkin~~.

H.M. Jr: We have been through that once before.

Bell: Yes, I know that, but it is on us again, and there is no doubt that with the reduction in appropriation they recommended, we will have to reduce the force in Washington about a hundred and fifty people. I think perhaps we should appoint a committee --

H.M. Jr: What sort of a committee?

Bell: I thought maybe an internal committee -- somebody like Charlie Schoeneman and Frank Birgfeld and somebody like that. They could sit down and see the principles that are involved, their numerical status, and the character of the work they are performing.

H.M.Jr: I do not think much of that sort of a committee.

Bell: Well, that is only a suggestion.

H.M.Jr: I would like you to talk it over with Mac and Harold Graves, and see if you, acting as a committee, could make a report to me tomorrow.

Bell: All right.

H.M.Jr: How is that?

Bell: All right.

H.M.Jr: What?

Bell: Fine.

H.M.Jr: Let the three of you think it over and come back tomorrow morning. How is that?

Bell: Fine.

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

Bell: That is all.

H.M.Jr: I got it over in my press conference, that there are so many phases of the Home Owners Loan, so if they do not come back --

Bell: Yes, I saw that. It is very good.

H.M.Jr: Wall Street did not get what they expected, but it is very good. It is going all right.

Bell: They had \$126,000,000 yesterday, which is a big day for the first day.

H.M.Jr: And all the newspapers gave an extra good play about the thing being out, you see.

Bell: Yes; I thought that was good.

H.M.Jr: And they also said if there was a hundred million outstanding, it would be reasonable. I think that is all right.

Bell: Fine.

H.M.Jr: We got a good press. Did you have something to do with that?

Gaston: Nothing.

H.M.Jr: An honest man.

Bell: He dropped his eyes.

H.M.Jr: I also saw what I said yesterday about Allen --

Gaston: Drew Pearson said it is all right; -- thank you for telling him, that he still loves you.

H.M.Jr: Oh, you called him?

Gaston: Yes.

H.M.Jr: He said he still loves me?

Gaston: Yes.

H.M.Jr: The kiss of death. (Laughter)

Gaston: He said he did not write it. He said Bob did. He guessed right on the other one. Bob wrote the other one.

H.M.Jr: Bob wrote both.

Gaston: The other item, the other day.

H.M.Jr: I told the President last night at dinner what I said at the press conference. He acted as though he had not read the story at all, and then he said, "I can tell you where that story came from." I said, "Fine." He said, "I will tell you when I see you". I said, "Fine". When I first told him about this thing, he had not read the column at all, but he knew where it came from. (Laughter)

Gaston: From the context of the items on the front page it seems as though they had never heard the phrase: "It is a difference of opinion that makes horse races." They didn't get it at all, apparently.

H.M.Jr: Why drag poor Eccles into it?

Gaston: He said Eccles was a horse race. I noticed that the audience last night consisted of "twelve thousand retailers and Henry Morgenthau, Jr."

H.M.Jr: Eugene Myers look at me and said "What are you

doing here? You are not a retailer; you are a wholesaler." I repeated the story to the President, and the President said, "You see, that is where the story came from".

I suppose when Eugene Myer was talking about the wholesale business, he meant the Government debt. I suppose that is what he meant. Anyway, the only thing that I was worried about was about my name being mentioned, you see.

Graves: Yesterday afternoon Mr. Irely and Mr. Wenchel and others in the Bureau went over the report on this California moving picture case. We went over the report to be sent over to the Department of Justice, but the report has to be revised, and I think it will probably take three or four days before it will be ready to submit.

H.M.Jr: Well, Foley called me last night to tell me that the Attorney General was very much disturbed, and I told Foley to get word to the Attorney General, that I had not made up my mind as to whether there was a case, and that until I had made up my mind he would just have to sit there and wait, but that if he wanted to discuss it when I was at home, he could call me; but I took full responsibility for not sending it over, because I did not know that there was a case.

McReynolds: Until you do, the responsibility is yours.

H.M.Jr: And until I knew that there was a case, he would just have to wait; so I told him I would take the full responsibility. But he did not call me. I think we will have to let it go through in the regular way. How do we know that it is a criminal case?

Lochhead: The foreign exchange market was very quiet, but it seemed to be a trifle more optimistic.

H.M.Jr: All right.

White: We still have

Do you want to continue that?

H.M.Jr: Why not run it up until the end of the fiscal year, June 30? Keep it through June.

White: Through June 30?

H.M.Jr: Yes; up to the 1st of July.

White: I have something here that I wanted to see you about, after the meeting.

H.M.Jr: George?

Haas: Nothing this morning.

H.M.Jr: Do not let your optimism run away with you now.

Haas: There are some factors that really are encouraging.

H.M.Jr: I see Steel was up yesterday.

Haas: I think that was a surprise in the market, because the market rose afterwards.

H.M.Jr: It would be very interesting to watch.

White: If it goes up, you will have one situation and if it goes down you will have another.

H.M.Jr: Dan?

Bell: Nothing further.

Foley: We won the multiple currency case in the Supreme Court yesterday, five to four. That is the case that the Court set down for re-argument. We did not file a brief the first time, and we got word from the Court that they wanted a brief and the second time the decision followed our brief. The Woodward case was also decided in our favor, that judges appointed subsequent to 1932 had to pay a tax on their salaries. That was seven to one. The other was five to four. Stone, in a dissenting opinion, said that we were rewriting the gold resolution, holding that it was clearly the intention of Congress to treat the currency clauses exactly the same way as all other gold contract clauses were treated.

The minutes of that meeting with Tannenberg will not be ready until tomorrow.

H.M.Jr: Annenberg?

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- Foley: Tannenberg. So that I think Thursday morning will be the earliest that we will be able to get you that letter for Secretary Hull.
- H.M.Jr: Mac, will you remind me to write Elmer Irey a letter, congratulating him on the magnificent job they did on the Kansas City case?
- McReynolds: Yes.
- Gaston: You should write it to Guy Helvering because the case was turned up by the Revenue agents, and not by Irey's men originally. Well, write it to the proper party.
- McReynolds: Yes; we will make that up.
- H.M.Jr: If you can have one for Guy at a quarter to twelve, I think it would be nice.
- McReynolds: Yes; he deserves one too.
- H.M.Jr: And for any of the revenue agents that had a part in it.
- McReynolds: Yes; I think that should be done.
- Foley: As to the Director of the Budget, I have a memorandum on that.
- H.M.Jr: That is only going up to a certain date.
- Foley: They are recommending that, and it is not consistent with the present program. Pepper says he had an agreement with you.
- H.M.Jr: I will recommend it.
- Foley: You will recommend it.
- H.M.Jr: Yes. The President had no program; but just tell him I recommend it. The Budget did not ask me about the Florida ship canal.
- Foley: They could not understand why we changed our attitude. This is just a memorandum. (Handing a document to the Secretary.)
- H.M.Jr: Is this the Florida ship canal?

- Foley: Yes; that is it.
- H.M.Jr: That has to be passed on by the Department of Interior. It is the historical site provision. The Department of the Interior has to say that: "This is a historical site", you see.
- McReynolds: And Dan says that the Department of Interior will say that anything is a historical site, so they can get it.
- Bell: Sure -- any corner.
- H.M.Jr: This is political, but I would rather a darned sight do this than give an Interior park.
- McReynolds: A hundred times over.
- H.M.Jr: If anybody wants to lock horns with me on that, that is O.K. Do I hear anybody?
- Gibbons: Incidentally, the Senator's candidate to succeed the present Collector of Customs for the Florida District has been eliminated, due to physical defects. He has one foot in the grave and the other one on a banana peel.
- H.M.Jr: Orange peel. (Laughter)
- Gibbons: I wrote the Senator a letter telling him about his physical condition.
- H.M.Jr: I will just read this aloud:
- "I have read the enclosed memorandum addressed to you by the Comptroller of the Currency on the Pennsylvania Turnpike Revenue Bonds and fully agree with the Comptroller's position.
- "This position was taken solely to protect bank depositors and not to keep national banks from investing idle funds in employment-producing construction enterprises. As pointed out in the memorandum, the Turnpike Bonds will be "risk" bonds until the Turnpike has been completed and has demonstrated that it will be self-liquidating."
- He can not go back and say that we were agreeable to those recent ventures.

Foley: I do not think so. That is what that sentence is supposed to have meant.

H.M.Jr: (Reading further)

"Up to that time, whatever risk there is should properly be carried by the Reconstruction Finance Corporation. There seems to be no reason why it is necessary for the Reconstruction Finance Corporation to distribute the bonds which it takes up before the project is completed. As a matter of fact, the past experience of the Reconstruction Finance Corporation in financing large construction projects whose bonds are payable only from revenues, such as the projects of the Triborough Bridge Authority, the New York State Bridge Authority, the California Toll Bridge Authority and the Jones Beach State Parkway Authority, shows that it has been very profitable for the Corporation to hold such bonds and not dispose of them until the projects have been completed, their earning capacity proven and the marketability of their bonds established. As a matter of fact, the Reconstruction Finance Corporation has on hand at the present time approximately \$30,000,000 of obligations of the New York City Tunnel Authority of the same type as the Turnpike Bonds."

Are they?

Foley: Yes. That is the tunnel under the East River that is under construction at the present time, solely out of revenues.

H.M.Jr: (Reading further)

"Although the Reconstruction Finance Corporation through the Public Works Administration has a commitment to purchase approximately \$46,000,000 of bonds of the New York City Tunnel Authority, no attempt has been made to dispose of any of these obligations pending the completion of the tunnel under the East River in anticipation of whose earnings the bonds are being issued. After self-liquidating projects have demonstrated their earning power national banks can very well invest in bonds issued for the construction of such projects and this investment may be accomplished without placing unnecessary risks on bank depositors."

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"If the underwriting group which has purchased the \$10,000,000 of Turnpike Bonds taken up by the Reconstruction Finance Corporation is having some difficulty in distributing the bonds to the investing public and that is the reason why assistance is being sought from the national banks at this time, it is suggested that the Reconstruction Finance Corporation should consider making some arrangement to relive the underwriting group of its commitment."

I like it all down to the last.

Foley: Well, take that off. You said you wanted some constructive suggestions.

H.M.Jr: Well, I do not like that last.

Foley: All right.

H.M.Jr: I like it down to the last.

Foley: I think that is, perhaps, telling Jesse how to run his business.

H.M.Jr: Well, I do not think I would bother with that. Hanes has not signed this. My suggestion is --

Foley: Take off the last paragraph.

H.M.Jr: Leave the last paragraph off. Let Hanes take it and look at it, and you can get it to me as soon as possible; but I do not like that last paragraph, John.

Hanes: I want to read it.

H.M.Jr: I want you to see it. I do not like that last paragraph. Is there something else?

Foley: Sam Klaus is here. Would you like to talk to him a little bit about the situation in Chicago?

H.M.Jr: If I get a chance.

Foley: That is all I have.

Gaston: Mr. Hale, of the General Accounting Office, was up on the Hill yesterday. (inaudible) They are going

to talk to the Chairman of the Committee.

- H.M.Jr: Are Bell's men all right or aren't they?
- Gaston: The Procurement Division people say (inaudible)
- H.M.Jr: What committee is hearing this?
- Bell: This is the subcommittee of the Appropriation Committee which is investigating the WPA under the resolution.
- H.M.Jr: They are not criticizing our accounts on that.
- Bell: No, I think it is Procurement Division they are criticizing. They did make one statement that they have no authority to pay the vouchers.
- Gaston: I think somebody should go up there. Criticism was not by Hale but by Representatives Woodrum and Ludlow.
- Bell: If we can get a copy of the transcript I think it would help us. I do not know whether we can or not.
- H.M.Jr: Will you see that this is handled promptly, Mac?
- McReynolds: Of course, you get a lot of controversy with the General Accounting Office, but I do not think that should be done.
- H.M.Jr: You and Bell handle it for me, will you?
- McReynolds: Yes; have it corrected. It is susceptible of complete correction, and I think it important that it should be done.
- H.M.Jr: All right.
- Gaston: We have three different agencies that are supposed to be supervising the financing of this thing.
- H.M.Jr: Anyway, between McReynolds, Gaston and Bell, you people ought to be able to handle it.

(Meeting concluded at 9:55 o'clock A. M.)

TREASURY DEPARTMENT

145

INTER OFFICE COMMUNICATION

DATE

1/23/39

TO Mr. White

FROM Mr. Gass

Subject: Mr. Owen D. Young's Testimony before the Temporary National Economic Committee

Mr. Owen D. Young, Chairman of the Board of the General Electric Company, gave testimony which may be divided into three parts: (1) a moral homily on the vision and courage of the men who have directed the General Electric Company, (2) a statement of the sources of funds and scale of operations of the G.E.C., and (3) an expression of his views on taxation, deficit finance, credit policy and business confidence.

We omit any review of the merits of the men who have directed the G.E.C.

The G.E.C. and the electrical industry:

The G.E.C. had, on December 31, 1938, total resources of \$323 million. Of this total, only \$92 million has been obtained by the sale of securities for cash. An additional \$38 million represents the issuance of a stock in exchange for property. The remaining \$192 million of capital has been derived from undistributed profits.

The company has no debts, and Mr. Young was quite positive in his assurance that it would never need to look to outside sources for funds. Of its total assets, \$155 million are held as working capital, \$141 million represents investments in other companies, \$24 million is the reserve, and \$10 million consists of miscellaneous assets. The value of its plant is only \$40 million.

The books of the company do not show any net expenditure for the expansion of its plant and equipment during the last twenty years. Indeed the company has not spent nearly as much as its depreciation allowances on plant and equipment. In 1920 its plant was carried on the books at \$56 million. Today it is valued at only \$40 million.

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Over the 48 years of its life, the company has paid \$703 million in cash dividends. It has also paid two great stock dividends. These were the Electric Bond and Share Co., which was distributed as a dividend on December 30, 1924, and the Radio Corporation of America, which (following a Federal court order) was distributed as a dividend in 1933.

During the last two decades, the company has maintained a fairly constant share of the output of the electrical industry, about one-fourth or one-fifth of the total. The value of its sales was \$70 million in 1910, \$275 million in 1920, \$415 million in 1929, \$350 million in 1937, and \$260 million in 1938. In 1938 the company employed 60 to 70 thousand persons, not counting the employees of its subsidiaries.

Mr. Young expressed the opinion that the electrical industry is definitely one which can look forward to further expansion.

Taxes, credit and public policy:

With regard to the regulation of public utilities, Mr. Young praised the work of State and local regulatory commissions. By implication, he rejected the idea that Federal regulation of utilities is necessary,

On taxes, he said: "I think I am in very complete accord with the recommendations of the preliminary report of the Brookings Institution on tax modifications." He expressed especially strong objections to the undistributed profits and capital gains taxes. The G.E.C., he said, had been built up out of undistributed profits. Now-a-days it did not matter in the least to the G.E.C. whether there was an undistributed profits tax or not. The G.E.C. intends to distribute all of its profits in any case. But small companies, which need to build up their capital out of earnings, are injured. They are rendered incapable of competing with the G.E.C. For their sake, said Mr. Young, the tax should be repealed.

He objected even more strongly to the capital gains tax, saying that it discouraged the taking of risks. He did not modify this opinion when reminded, by Mr. O'Connell, that the capital gains tax had not prevented the taking of risks in the 1920's. "I am strongly inclined to think," he concluded, "that the capital gains tax is a wholly undesirable item in a program of national taxation."

He recommended that incomes invested in housing be exempt from taxation.

He opposed the idea that banks could profitably extend loans to business for fixed capital.

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With regard to deficit financing he said:

"I am in favor of temporary deficit financing, provided that it is supplemented by an affirmatively stimulating and helpful attitude toward the railroads, toward the utilities, toward the construction industry, and provided further that there be such revision of tax laws and suspension of threats and restraints as will really enable the stimulant of deficit financing to work."

Mr. Young affirmed many times that it is necessary to restore confidence. He did not, at any point, indicate in what it was necessary to restore confidence, but he meant quite evidently that business men would have to be reassured on two points: (1) that they would be allowed to administer the economy without any substantial government "interference," and (2) that no government measure would result in a substantial curtailment of their incomes.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE May 23, 1939

TO Mr. White

FROM Mr. Gass

Subject: Mr. J. W. Barriger's Testimony on Railway Capital and Financing before the Temporary National Economic Committee

Sources of Funds:

Mr. Barriger showed clearly that, during the period 1921-1937, the American railroads derived their funds for replacements and expansion principally from internal sources. Over this whole period, the capital funds available to the railroads totalled \$10,313,000,000. Of this total, 71.8 percent (or \$7,406,000,000) came from income, 9.4 percent (or \$970,000,000) came from decreases in working capital, and only 18.8 percent (or \$1,938,000,000) from securities flotations.

Of the internal sources of funds, depreciation and retirement allowances were the most important, totalling \$3,603,000,000. The other big items were undistributed earnings, which contributed \$1,948,000,000 and non-operating income which supplied \$1,735,000,000.

The capital funds procured by securities flotations were divided very unequally between stocks and funded debt. Only \$362,000,000 were derived from sales of stocks, while \$1,575,000,000 came from sales of bonds, receivers' certificates, etc.

Even the figure of 18.8 percent perhaps attributes a misleadingly large share of gross railway capital funds to security flotations. Railway accounting practice assigns practically all expenditures on roadways and structures and the larger part of expenditures on equipment to current maintenance costs. During the period 1921-1937, the railways of the United States spent \$10,831,000,000 on current maintenance of roadways and structures, charging only \$124,000,000 to the depreciation (or capital) account. They spent \$13,875,000,000 on current maintenance of equipment, charging only \$3,161,000,000 to depreciation on this item.

The condition of the railways:

Both maintenance and depreciation expenditures are variable. Maintenance expenditures are made out of current income. When revenues do not seem to the management to justify heavy maintenance expenditures, these expenditures may be postponed from year to year in a manner which

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greatly impairs the efficiency and safety of the railway. In every year of the 1930's railway expenditures on maintenance have been less than in the lowest year of the 1920's. For the eight years 1930-1937 railway expenditures on maintenance averaged only about one billion dollars a year, or about nine hundred million dollars a year less than the average annual expenditure on maintenance in the preceding eight years. This is a fact of the greatest economic importance. The low level of maintenance outlays undoubtedly reflects the small volume of traffic, but these low outlays are in turn a depressant to the general level of economic activity.

Depreciation allowances are calculated by the railways on a "straight line" basis. In other words, every item is depreciated a fixed percentage every year. But depreciation allowances may or may not be spent on replacements. In the 1930's, depreciation allowances were often used to pay bond interest, while the railways consumed their physical capital. Railway capital expenditures on road and equipment averaged less than \$340 million a year in the eight years 1930-1937, compared to an average of over \$825 million in the eight preceding years. In 1932, 1933, 1934 and 1935 railway capital expenditures on roadway and equipment did not equal the accounting depreciation charges.

Mr. Barriger presented a comprehensive factual analysis, which revealed clearly the weak position of the railroads. He made no recommendations with regard to policy.

RE TAX STATEMENT
(Meeting held at 2211 - 30th St.)

May 23, 1939.
8:15 P. M.

Present: Mr. Gaston
Mr. White
Mr. Blough
Mr. Duffield
Mr. Haas
Mr. McReynolds

H.M.Jr: Do you suppose on this paragraph four I could say - you don't want to make it that I said this in '37, do you?

Duffield: Some of it was '37 and some '38.

Blough: Some of it's '37 and some '38.

H.M.Jr: All right. Can I say this: "For the record"? Or do you think this is better this way?

Blough: Well, let's see, you say "The Treasury Department from time to time has suggested several changes in the tax laws...."

(McReynolds comes in)

H.M.Jr: Hello, Mac. Haven't missed a trick. Take off your coat.

Just reading this. They say "The Treasury Department from time to time has suggested several changes...."

Gaston: I think that isn't plain enough, because that might be just from time to time in conversation; but we have....

Haas: "...heretofore suggested to this Committee...."

H.M.Jr: Well, why not say "during your hearings in 1937 and 1938"?

Duffield: That's a good idea.

H.M.Jr: What?

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Duffield: That's a good idea.

H.M.Jr: What?

Gaston: Yes.

Duffield: "...during hearings before this Committee in 1937 and 1938."

H.M.Jr: Hello, Harry.

Huh?

Duffield: I think that's a good idea - "...during hearings before this Committee during 1937 and 1938...."

H.M.Jr: "...representatives of the Treasury Department brought to your attention...." Huh?

Duffield: Yes.

H.M.Jr: "...several changes...." And the rest would be all right, huh?

Blough: I think so.

H.M.Jr: How would it read now?

Blough: "During hearings before this Committee during 1937 and 1938 representatives of the Treasury Department suggested several changes in the...."

H.M.Jr: I didn't say "suggested" - "brought to your attention."

Blough: "...brought to your attention several changes in the tax laws upon which Congress has not yet acted."

Duffield: That's right. Change the second "during" to "in."

H.M.Jr: And then this was my thought - I haven't been able to sleep, I've been thinking - in order that they won't think that I expect it now - don't take this - I mean I'm just going to say "And merely for the record I would like to again bring these suggestions to your attention."

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Duffield: Yes.

H.M.Jr: Just think that over a minute. See what I mean? I mean I don't expect them to do anything about it. I mean I don't want them to say - I'm doing it merely for the record. What?

White: I don't like that.

Gaston: I think that throws your suggestions down too hard. They are not very emphatic in this way.

White: You may say it merely for the record, but I think to make that statement, to spell out that you're saying it merely for the record, has a peculiar tinge.

Gaston: I think it would be better not to use it.

H.M.Jr: Well, do I expect them to make these changes this year?

Gaston: No, you're repeating recommendations. All these are recommendations that are being repeated. One, two, three and four are recommendations previously made. You're not very insistent about any of them.

White: Would you say that you want to repeat the recommendations at every appropriate occasion?

H.M.Jr: I start here by saying "I desire first to reiterate two tax recommendations which the President has already made and two suggestions which the Treasury has previously presented."

Blough: Have to be "several" or "various."

Duffield: "...various suggestions" - yes.

H.M.Jr: "...desire to reiterate two tax recommendations which the President has already made and several suggestions which the Treasury has previously presented." That's all right.

Duffield: Yes.

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- H.M.Jr: You want to change that one word?
- Duffield: We did change it, didn't we, Roy?
- Blough: From "two" to "various."
- H.M.Jr: All right. Then this thing - four - how would it read now?
- Blough: Well now, we've revised it. Do you think this won't fit now? "During hearings before this Committee in 1937 and 1938 representatives of the Treasury Department brought to your attention several changes in the tax laws upon which Congress has not yet acted." Is that going to be duplication?
- Duffield: No, because in each one of these things - you say "In my statement of March 24, I said so and so...."
- H.M.Jr: No, you have a time factor. So how would it be?
- Blough: "During hearings before this Committee in 1937 and 1938 representatives of the Treasury Department brought to your attention several changes in the tax laws upon which Congress has not yet acted."
- H.M.Jr: That's all right.
- "Of these the principal ones are curtailment of the depletion deductions now allowed to certain natural resources industries...." - do you want to cut it down to that?
- Blough: Well, this afternoon we were talking in terms of cutting that down, but....
- H.M.Jr: No, no.
- Blough: But if you're going to put these other ones in, perhaps we should just say it as we did before - "oil and gas wells and certain mines."
- H.M.Jr: Yes.
- Haas: Mr. Secretary, if you want to soften that a bit you could leave out "upon which Congress has not yet acted."

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McR: No, that's the point.

H.M.Jr: No.

Now, just a second - go back to the previous language.

Blough: Yes. "Of these the principal ones are curtailment of excessive deductions...."

H.M.Jr: "...for depletion of oil and gas wells and certain mines." Just put that in.

Blough: "...curtailment of excessive deductions for depletion"

This reads now "Of these the principal ones are curtailment of the deductions for depletion now allowed to oil and gas wells in certain mines." That doesn't sound right. "...elimination of the preferred income tax status enjoyed by residents of community property States and integration of the estate and gift taxes."

You don't allow deductions to oil and gas wells.

McR: We allow deductions for depletion of oil and gas wells.

H.M.Jr: May I make a suggestion, that under four you have a, b, c, d, so they stand out, see?

Blough: All right. "Of these the principal ones are (a) curtailment...." - now, what was that, Mac?
"...curtailment of the deductions now allowed for depletion of oil and gas wells and certain mines"?

McR: "...curtailment of excessive deductions now allowed for depletion of oil and gas wells and certain mines."

Blough: "Of these the principal ones are (a) curtailment of excessive deductions now allowed for depletion of oil and gas wells and certain mines, elimination of the preferred income tax status...."

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McR: That would be (b).

Blough: "....(b) elimination of the preferred income tax status enjoyed by residents of community property States, and (c)...."

H.M.Jr: Wait a minute, I'd like to get in the fact that it's eight States.

Duffield: "....of the eight community property States...."

Blough: "....of the eight community property States, and (c) integration of the estate and gift taxes."

H.M.Jr: Now, that word "integration" doesn't satisfy me.

Blough: "Coordination"?

H.M.Jr: What is integration? I don't know.

Blough: Well, any linking together is an integration. It's a rather general, vague word. It means they function together.

H.M.Jr: Is "coordination"....

Blough: "Coordination" is perhaps a little closer. I don't know whether it is closer than "integration."

White: "Interlocking," possibly?

Blough: Consolidation is not what you're recommending. I think that's....

Gaston: I think precisely it is integration, not consolidation. It is making the gift taxes complementary to the estate taxes.

H.M.Jr: O. K. If Bob McHugh is in there, do you want to start him on it?

Blough: It's only a half page. I suggest we get through half a page and then start him.

H.M.Jr: Then we go on.

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"A comprehensive revision of the tax structure as a whole at this session of Congress scarcely seems feasible...." That's all right.

Blough: May I call attention to the fact that that is Jake Viner's revision of the language over which we had so much difficulty at one of the sessions.

Duffield: I have the previous language here.

Gaston: And Eddie Greenbaum has another suggestion. How does this read now?

Blough: This reads "A comprehensive revision of the tax structure as a whole at this session of Congress scarcely seems feasible, especially in the absence of an adequate study of overlapping taxes."

Gaston: Well, Eddie softens it to - he says "Even though a comprehensive revision of the tax structure as a whole may not be feasible at this session of Congress, that, in my opinion, should not restrain your Committee...." That is, he strengthens it.

H.M.Jr: Yes, I think that's an improvement.

Blough: I like it much better.

Gaston: I like it better.

H.M.Jr: I think that's an improvement. This kind of throws it down.

Gaston: Yes, this throws it down. Of course, this is more what the President wanted. He wanted to throw down a comprehensive revision.

H.M.Jr: No, I like what Eddie says.

McR: I like that last one.

Gaston: It's a simpler, more....

H.M.Jr: How does he put it - "Even though...."?

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Gaston: "Even though a comprehensive revision of the tax structure as a whole may not be feasible at this session of Congress, that, in my opinion, should not restrain your Committee" and so on.

Blough: "...that fact, in my opinion...."

H.M.Jr: Do it once more.

Gaston: "Even though a comprehensive revision of the tax structure as a whole may not be feasible at this session of Congress, that, in my opinion, should not restrain" and so on.

H.M.Jr: Not restrain what?

Blough: You jump into the next sentence. "...your Committee from giving serious attention at this time to removing from the tax laws any manifest inequities or other defects."

H.M.Jr: I think this shows that I'm moving - Harry, get this - towards a program now at this session for other things. I think that's an improvement.

Gaston: I think it is, too.

McR: I like it much better.

Gaston: Opens the door much wider.

White: I wonder whether, in view of the fact that you're making it a little stronger that way - whether you might want to change the words "may not be feasible" to "is not feasible," because it really isn't a really comprehensive - and then that would - don't you want to make it that way?

H.M.Jr: Well, that weakens it, doesn't it?

Gaston: Yes.

White: I mean you're strengthening it in one place and you....

H.M.Jr: No.

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- White: You want to strengthen it definitely.
- Gaston: It's hardly consistent with "even though."
- H.M.Jr: Anybody else make another suggestion?
- Duffield: It's a long way from the President's original language. That's my only observation.
- H.M.Jr: You mean this one.
- White: That's the one that we had "It is physically impossible...."
- H.M.Jr: Well, a lot of water has gone over the dam and....
- White: Of course, a comprehensive revision of the tax structure is a big order.
- H.M.Jr: Well, what are we going to say now - "even though"?
- Gaston: "Even though a comprehensive revision of the tax structure as a whole...." - can we correct that language there - "....may not be feasible at this session of Congress, that" - or "that fact, in my opinion...."
- Blough: I suggest "that fact."
- Gaston: Yes, I think so.
- H.M.Jr: Yes. Now this is "....from giving serious attention at this time to removing from the tax laws any manifest inequities or other defects."
- Gaston: Yes.
- White: Why the "as a whole" in there? Is that necessary?
- Blough: "Comprehensive" - "as a whole." I think it's two ideas. One is comprehensive revision, the other is the whole tax structure.
- Haas: Balance the consumption taxes against the others, and all that.

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- Gaston: Not only the overlapping taxes idea, but the Federal-State structure....
- Blough: See if I have it. "Even though a comprehensive revision of the tax structure as a whole may not be feasible at this session of Congress, that fact, in my opinion, should not restrain your Committee from giving serious attention at this time to removing from the tax laws any manifest inequities or other defects."
- H.M.Jr: That's the whole statement.
- Gaston: Yes, yes.
- H.M.Jr: That's the guts of the whole statement. Huh?
- Blough: I very much prefer this language.
- H.M.Jr: I mean if I'm going to get up and say, "Well now, gentlemen, I'm going to make these suggestions, but it's absolutely...."
- Gaston: "But you can't do it."
- H.M.Jr: "But you can't do it."
- Gaston: Yes, that's what bothered me.
- H.M.Jr: Is that what the President wrote in originally?
- Blough: Well, he had incomprehensible language. Do you have it, Gene? See, that's the "physically impossible" thing.
- H.M.Jr: I remember that.
- Duffield: "It seems physically impossible at this session of Congress to rewrite the tax laws before the special study committee has conferred with States and municipalities and brought in a report."
- H.M.Jr: Now read it, if you don't mind, once more the way it is now.

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- Blough: "Even though a comprehensive revision of the tax structure as a whole may not be feasible at this session of Congress, that fact, in my opinion, should not restrain your Committee from giving serious attention at this time to removing from the tax laws any manifest inequities or other defects." That's the end that somebody suggested.
- H.M.Jr: Why - I don't see what "as a whole" adds.
- Gaston: I don't think it adds a lot. "Comprehensive revision of the tax structure" tells the story.
- H.M.Jr: "Comprehensive" - "as a whole" - I mean they're the two same words, aren't they? I mean the same thing.
- White: Well, "as a whole" makes it even a broader, bigger program. That's why I'd like to see it out.
- H.M.Jr: Well....
- White: I mean for this statement. The statement is strong as it is.
- H.M.Jr: "Comprehensive" is the big word - "...revision of the tax structure at this session...." I'd leave out "as a whole."
- White: Then would you want to change "may not be" to "is not"?
- Duffield: "....may not be feasible...."
- White: "....may not be feasible" to "is not feasible."
- H.M.Jr: No, no. Now, do you mind, once more?
- Blough: "Even though a comprehensive revision of the tax structure may not be feasible at this session of Congress, that fact, in my opinion, should not restrain your Committee from giving serious attention at this time to removing from the tax laws any manifest inequities or other defects."

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- H.M.Jr: Now this thing "In November I said...."
- Blough: May I, before we leave that - I think someone suggested adding the word "any manifest inequities or other defects that may exist," putting in the idea that there may be some there but those are the ones we are looking for.
- H.M.Jr: Oh no, you're putting - I mean you throw in so many counter-balances that by the time you get through you just wash it out.
- Blough: O. K.
- Gaston: The words "any manifest inequities...."
- H.M.Jr: Who suggested that?
- White: I guess I did.
- H.M.Jr: Yes, well....
- Gaston: Seems to say "let's go through this sack of potatoes and throw out any bad ones. There may not be any bad ones. That doesn't say there is."
- H.M.Jr: I don't want to find myself - I want them to do something, God damn it.
- Now, I know that I suggested this sentence "In November I said that 'we want to adjust inequalities and remedy defects in the tax laws.'" When I look at it now, I think, well, my God, November is a long time between drinks.
- White: My vote is for it out.
- H.M.Jr: To leave it out?
- Blough: All the fellows in New York wanted it out.
- H.M.Jr: Did they? Well, I think so too, because it's a long time between November and May - "Do you love me in November as you did in May?"

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Blough: November a year ago.

McR: That's the second November back.

H.M.Jr: I think I'd leave it out. Now, does that sentence say something the way we've got it?

Blough: Let me read it again.

"Even though a comprehensive revision of the tax structure may not be feasible at this session of Congress, that fact, in my opinion, should not restrain your Committee from giving serious attention at this time to removing from the tax laws any manifest inequities or other defects."

Gaston: Of course, that isn't paraphrasing what the President said, it's replying to what the President said.

H.M.Jr: That's all right. He's testified twice now before the Ways and Means Committee at his press conference.

White: Could you find a qualifying word for "manifest inequities," because after all that means all the inequities and all the defects. There are a lot of them.

Gaston: It's obvious - "manifest" means obvious, unquestionable, plain.

White: That is, a comprehensive revision....

Blough: "Serious"? "Manifest" doesn't mean "serious," but what you have in mind....

H.M.Jr: Don't water this down any more, Harry.

White: No, but what you say in the second part - you say at first that a comprehensive revision may not be feasible, yet you say they ought to remove any manifest inequities. It's the same thing.

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- Gaston: No, inequities that stick up, that are....
- H.M.Jr: They're manifest.
- Gaston:plainly evident.
- White: "Manifest" is something that can be discerned. Oh well....
- MoR: A comprehensive revision might involve, and probably would, a change in the whole philosophy of your tax structure, and that isn't necessary in order to correct manifest inequities.
- Gaston: There may be a thousand defects, but there are half a dozen that are manifest, that anybody can see.
- H.M.Jr: Are we through with page 8?
- Blough: Yes.
- Duffield: The first sentence on 9 should come out now, Roy.
- H.M.Jr: Yes, because that refers back to my November statement.
- Blough: Yes.
- Haas: Is that paragraph right - I mean about that law?
- H.M.Jr: Well, I'm going to come to that in a minute.
- Blough: Mr. Bailie urged leaving it out. Mr. Greenbaum suggested that you save it for use in a press conference or something like that.
- H.M.Jr: I very carefully go over this other thing, then I begin to qualify it and I'm apologizing for being up there.
- Blough: As Mr. Bailie says, you have no apologies to make for this statement. It doesn't need to be alibied.
- Gaston: And you don't need to redefine your position before this Committee.

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White: Jake Viner didn't like it either.

H.M.Jr: Didn't he? How did Harry White feel about it?

White: I feel it should be out.

H.M.Jr: Mac?

McR: I don't think it is necessary.

H.M.Jr: I think I'd cut it - the whole paragraph.

Duffield: We've got to save that sentence "Therefore, I should like to bring to your attention certain features of the tax system which may warrant reexamination."

H.M.Jr: No, we've just said it in the previous paragraph. You told them that you want to take a look at those which are manifestly,...

Duffield: Oh, all right.

Gaston: How does it connect - read the next.

Blough: "Before specifying the tax provisions which I believe deserve your special attention at this time...."

Gaston: That's all right.

Duffield: That's all right. I'm sorry.

Gaston: That hooks all right.

H.M.Jr: All right?

"Before specifying the tax provisions which I believe deserve your special attention at this time, I wish to emphasize the importance of maintaining the present revenue in any tax revision which may be made."

Now, do I have to say that damn thing again?

Blough: You haven't said it yet.

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H.M.Jr: Oh, haven't I? Is this the first time?

Blough: This is the first time you say anything about maintaining revenue. You say it six times here.

H.M.Jr: I mean I'm a little - starting in the middle, I didn't know what I had said.

"Before specifying the tax provisions which I believe deserve your special attention at this time, I wish to emphasize the importance of maintaining the present revenue in any tax revision which may be made. We must not forget that one of the important objectives of our fiscal program is to approach a balance between revenues and expenditures."

I said that before.

McR: Yes, you did.

Blough: Yes, you have.

H.M.Jr: Well, I'm perfectly willing to say it again.

Gaston: That's all right.

H.M.Jr: "For this reason any tax reductions must be offset by tax increases elsewhere. In my opinion we should under no circumstances weaken the revenue-producing capacity of our tax structure at this time."

Now, where I differ from the President is, he says it's got to come tax for tax.

Gaston: That is, if you reduce corporate taxes you increase corporate taxes.

H.M.Jr: I won't say that.

"In my opinion we should under no circumstances weaken the revenue-producing capacity of our tax structure at this time. I regard this as an essential requirement to which any program of tax revision that may be undertaken at this session must conform."

My God!

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"If tax revision were confined to tax reductions the resulting uncertainty as to our future fiscal position would injure and not help business. We must take no step which the public may interpret as moving away from the objective of a balanced budget."

Now, you do say it six times. Isn't that too much?

Gaston: Earle Bailie suggested there that instead of saying "must" you say "should."

Blough: That's the last line.

H.M.Jr: "...that we must not...."

Gaston: He said he felt that the earlier comments were made mildly and that here there is a sudden shift in the words "must conform." He suggested similar changes in the same paragraph at the top of page 10. I think there's a good deal of force to that position, that you start laying down the law here, whereas....

H.M.Jr: You know why. This is where the President said to pour it on.

Gaston: Yes.

H.M.Jr: Let's take a look at this a minute, see if we can't cut this paragraph in half. That might take some of the force out of it.

Gaston: Yes. That paragraph was deliberately padded, you know.

H.M.Jr: Now look, gentlemen, if you read down to the sentence which begins "In my opinion...." - supposing we just for a minute stop there, you see. "For this reason any tax reductions must be offset by tax increases elsewhere." Supposing we left the rest off.

Gaston: I don't think it would hurt the thing at all.

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White: I'd like to see it in, because it's about the only place where you bring out that - for the purpose of the last sentence - "We must take no step which the public may interpret as moving away from the objective of a balanced budget." And if you have that sentence in, it needs one or two of the other previous sentences.

Blough: I would suggest leaving out two sentences.

H.M.Jr: "In my opinion...." and "I regard this...."

Blough: Yes.

H.M.Jr: I think those can both be left out.

Blough: Then it would read: "For this reason any tax reductions must be offset by tax increases elsewhere. If tax revision were confined to tax reductions the resulting uncertainty as to our future fiscal position would injure and not help business."

H.M.Jr: I think that's all right. Mac?

McR: I've got no objections. It reads all right.

H.M.Jr: Harry?

White: That's all right.

H.M.Jr: Those two sentences out.

Gaston: What would you think, in that last sentence, in the second line of page 10, of saying "We should take no step which the public may interpret...."?

H.M.Jr: O. K.

Gaston: "We should take no step...."

H.M.Jr: All right. We've shortened it. Are we all right down to "In discussing the elements...."?

Blough: Yes.

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- H.M.Jr: Now let me just stop here a minute. Where we say - in the thing that Harry said he likes - "We should take no step which the public may interpret as moving away from the objective of a balanced budget" - is that in tune with what the President said last night?
- Blough: He certainly said we shouldn't....
- White: Should take no step in revising taxes - I mean so far as tax changes are concerned.
- H.M.Jr: But what he said last night was that we'd get a balanced budget when we get an 80 billion dollar national income.
- White: But you wouldn't deliberately undertake a tax program.... I see your point.
- H.M.Jr: I'm just raising it. I'm not saying it. I think that my philosophy all through is quite different from what he expressed last night.
- Duffield: Not on the tax side, I should say, but on the other.
- Blough: Your philosophy is to maintain revenues.
- H.M.Jr: Yes.
- Blough: You put it on both sides.
- H.M.Jr: It's all right.
- McR: I listened to the President's statement very carefully last night. I wouldn't consider that this negatived his statement. It is merely - it bridges over his statement and makes it appear less objectionable to the fellows.
- H.M.Jr: Weren't you surprised, Mac, when he said that the cost per unit of government was no greater in the departments?
- McR: Yes.
- H.M.Jr: They called him on that today.

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Haas: Function for function.

White: Maybe he meant per capita employee.

H.M.Jr: "In discussing the elements or features of the tax system which you may wish to reexamine, I should like to classify them roughly into three groups."

I keep making so damned many introductions. When am I going to get into this?

Duffield: There are several parts to it and each part has its introduction.

H.M.Jr: All right.

"The first group comprises features which have been characterized as substantial deterrents to business in that they impose tax burdens at points where they are especially likely to hinder business expansion and investments."

Blough: Let's see, somebody didn't like that.

Gaston: They said that was obscure. Bailie and Greenbaum both felt that the language there should be improved.

H.M.Jr: Did they say how?

Gaston: No, they didn't.

Blough: No, and I'm sorry to say that we haven't worked out....

H.M.Jr: Well, I think a little obscurity here is good.

White: Check.

H.M.Jr: What, Harry? Haven't lost my sense of humor yet, have I?

White: No.

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H.M.Jr: "The first group comprises features which have been characterized as substantial deterrents to business in that they impose tax burdens at points where they are especially likely to hinder business expansion and investments."

White: That was said stronger before, and that was watered down somewhat this way. And we tried it and came back....

Blough: Should be "includes" instead of "comprises."

H.M.Jr: I'm not crazy about it. We can't rewrite it tonight, so we'll go on.

"One such feature is the absence...."

Just - I want to go back again to that. Do you want to say "substantial deterrents to business"?

Duffield: I wondered about that word. It sounds strong.

White: Particularly since you discuss it below.

H.M.Jr: Can't you say just "deterrents to business," leave out the word "substantial"? Anybody object to leaving out the word "substantial"?

White: Leaving out the word "substantial" might make it even stronger - leaving it out. It characterizes deterrents.... Do you think that's true?

Duffield: I think it's better with it out, whether it's stronger....

H.M.Jr: Mac, "substantial" in or out?

McR: If deterrents are what you are talking about and the question of "substantial" is a question of degree, why put it in?

H.M.Jr: Why qualify it?

McR: Why qualify it?

H.M.Jr: Herbert, are you willing to leave "substantial" out?

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Gaston: Yes, I'm perfectly willing.

H.M.Jr: Out she goes - "...characterized as deterrents to business in that they impose tax burdens..." I like it better.

"One such feature is the absence of provision in our income tax laws for carrying over net business losses to be deducted from business profits of future years. The profits or losses of each year are considered without reference to those of any other year. In consequence a business with alternating profit and loss now pays higher taxes over a period of years than does a business with stable profits although the average income of the two firms may be equal. New enterprises and the capital goods industries are especially subject to wide fluctuations in earnings."

Now, does anybody want to say anything on that?

Duffield: There is no con in that, if we were to - I mean even implied.

H.M.Jr: But that's all right.

Duffield: But that's all right.

H.M.Jr: I'm not attempting to give any.

McR: Well, that feature is one of the things - any new business that starts and loses a lot of money for two years and then makes a lot the third year, and they don't get any offset the third year for what they lost in the first two - it's a very substantial thing. It's something that hits you from a lot of different angles. I think it's a very important point.

Blough: When this was mentioned - this lack of cons was mentioned to Viner, he said. "Well, I don't see any cons that ought to be in here." I mean that was his impression.

Gaston: If you care to go back to the introductory paragraph before, what would you think if you'd cut out a

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couple lines there and make it read "The first group includes features which have been characterized as hindering business expansion and investments"?

White: Yes, I like that better.

Gaston: I think that tells it all - or "features which have been said to hinder business expansion and investments."

White: Still better.

Blough: On the old sheet - I see now how Bailie suggested changing it. See if it fits. "The first group includes features characterized as likely to hinder business expansion and investments."

Gaston: He just cuts out a line and a half.

H.M.Jr: Write it out, Herbert; let's take a look at it.

McR: I like Bailie's way. I don't like this "said to do so and so."

H.M.Jr: No, that's more qualifying.

Gaston: This is just done by cutting out eighteen words. "The first group includes features which have been characterized as likely to hinder business expansion and investments." Got a lot of extra words you don't need.

H.M.Jr: "....includes features...."

Gaston: "....which have been characterized as" - then jump down to the last line - "likely to hinder business expansion and investments."

H.M.Jr: I think that's all to the good.

McR: I think so.

H.M.Jr: Guess we needed a blue pencil.

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"The first group includes features which have been characterized as likely to hinder business expansion and investments."

Gaston: Of course, they haven't been characterized - if you're referring to the National Association of Manufacturers and the Chamber of Commerce and a great many others, they haven't been characterized as likely to hinder, they've been characterized as hindering.

H.M.Jr: No, I'd leave it - I'd leave in the word "likely." No, I don't want to make a fight out of it. No - "as likely" - that isn't too much.

Gaston: Would you say "as tending to hinder"?

H.M.Jr: No, no, that's all right. "The first group includes features which have been characterized as likely...." Is that the way you've got it?

Gaston: Yes - "....likely to hinder...."

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

McR: I'd rather see "likely" out.

Gaston: "....tending to hinder" or "operating to hinder."

McR: I'd rather see "likely" out. You say it's been characterized as hindering.

Gaston: People say that they are hindering.

McR: They are characterized as hindering. Why not say "characterized as hindrances to business expansion"?

White: I think this is one place where you can well be cagey.

McR: O. K., let's go ahead.

Blough: Of course, it's weaker now than when we said before "which have been characterized as deterrents." Now we're saying they are "characterized as likely to be deterrents."

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White: But if you take the whole statement, it has sufficient strength.

Gaston: Nobody knows they do, anyway.

H.M.Jr: How is it now, Herbert?

Gaston: "The first group includes features which have been characterized as likely to hinder business expansion and investment."

H.M.Jr: Are you satisfied with that, Gene?

Duffield: Oh yes.

H.M.Jr: George?

Haas: Yes. I don't like the first sentence in the next paragraph. It's too involved.

H.M.Jr: Well, we can't completely rewrite this speech. At least, I can't.

"One such feature is the absence...." - no, I'm not going to go over this thing here.

"One such feature is the absence...."

Haas: It's a backhand way of saying it.

H.M.Jr: Well, this particular one, when we get down to that - that's been gone over.... Is there anything that Magill....

Blough: Nobody said anything about it.

H.M.Jr: I think we'll leave it, George.

Blough: Unless there is something from Bailie. I don't have it.

H.M.Jr: This is the thing - didn't Magill dwell on this?

Gaston: Shoup says he feels a sense of incompleteness because the discussion of the loss carry-over does not work up to any conclusion. He applies the same criticism

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to the other tax section. First we start with pros and cons, then we start with the pros, and now he wants to turn the pro into a pro argument.

H.M.Jr: No.

Gaston: A conclusion.

Blough: The only technical objection to that paragraph was that Bailie said there are too many "features" in this statement.

H.M.Jr: Well, I can't help it. I mean we'll leave this thing now. I mean it's impossible to suit everybody and when we get into the actual description of the taxes... Can you see anything the matter with that, Mac? You've seen this for the first time. What?

McR: No, it's all right.

H.M.Jr: I mean there are words in that you don't like, but as to the whole.... What, George?

Haas: I think it's all right. The only thing I had in mind - I'd jump right into it. I'd say "One of the features is the lack of a loss carry-over provision." Just say it, then describe it afterwards in the speech. It's much better to say it and be short.

H.M.Jr: What would you leave out?

Haas: I'd jump right into it quickly, like you would in a conversation, say, "One of these...." - you can call it "One such feature is the lack of a loss carry-over provision in our income tax laws." Period.

H.M.Jr: I think we'd better leave it the way it is, if you don't mind.

McR: I don't think it's important. It's merely a choice of method of presentation, that's all. Doesn't say anything different.

H.M.Jr: "As a second example, I should also like to mention the questions of tax-exempt securities and surtax rates in the higher brackets. These two questions

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should be considered together. Tax exemption of securities is highly inequitable and tends to nullify our progressive surtax rates. Most persons subject to the high surtaxes have sizeable holdings of governmental securities which yield them an income free from Federal income taxation,...." - Now here is a thing which I didn't understand: "while other persons entirely escape the high surtaxes in this manner." Why must you add that?

- Blough: Doesn't have to be added. There are a lot of people who aren't in the higher brackets who would be in the higher brackets....
- H.M.Jr: It confuses me. We're just talking about the higher brackets. This thing confuses me. We're talking simply about the higher brackets.
- Blough: Well, there are two sorts of situations. One is where a fellow is in the higher brackets, the other is where he isn't in the higher brackets.
- H.M.Jr: "The two questions must be considered together." The two questions are the fellows in the high brackets and the fellows....
- Duffield: And the tax-exempts.
- Blough: I guess in this connection it had better come out.
- H.M.Jr: It just confused me.
- Gaston: But there is that class of persons.
- H.M.Jr: But we're not talking about them.
- Gaston: They just don't have any surtaxes at all because all their income is tax-exempt.
- H.M.Jr: Oh, I see.
- White: That is, or would be....
- Gaston: They are not in the high surtax brackets. They may have \$200,000 a year income and they don't even have for purposes of taxation - they don't even have a normal tax, they have nothing.

Haas: Conceivably that could be.

Gaston: People who go scot-free.

H.M.Jr: I see what he means now.

Well, could you put it like this: "While other persons entirely escape the high surtaxes...." - I mean this would be a new sentence - "While other persons entirely escape the surtax through investing all of their money in tax-exempts."

White: Not all, but a large portion.

Blough: "...through having only tax-exempt investments."

H.M.Jr: You say "entirely escape."

White: Well, but they may have some - they can escape surtaxes and still have some income from other sources.

H.M.Jr: If we can just add something to explain that sentence

McR: It says "...while other persons entirely escape the high surtaxes in this manner."

H.M.Jr: Do you think it's clear, Mac?

McR: It seems to me entirely clear.

H.M.Jr: All right, leave her in, don't change it.

"Tax exemption also operates as a magnet which pulls persons subject to high income taxes away from investment in private business. We should by all means pass legislation to make it impossible in the future to issue any more tax-exempt securities."

Gaston: I don't like that expression "legislation to make it impossible in the future to issue any more totally tax-exempt securities."

Blough: I'm sorry - this is new - you don't have that sheet.

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- Duffield: We took "totally" out.
- Gaston: Yes, because most of our securities are not totally tax-exempt.
- H.M.Jr: You don't want to say in front of this sentence "Tax exemption also operates...." that "Another reason for abolishing tax-exempt securities...." Do you think that's necessary or not? I guess not. It's all right. I have a reason - I'd rather not change this for a certain reason, if we don't have to. I guess I'm raising all the points. Supposing we leave this just as it is. I have a certain reason for wanting to do that. This particular paragraph has gone out of my hands as it was written last night. I think it's a good paragraph.
- McR: I do too. I think it's strong. It's a good statement.
- H.M.Jr: What?
- McR: I say it's strong, a good statement.
- Blough: It's almost word for word the Secretary's language - ought to be good.
- McR: If the boss wasn't as tired as he is tonight, he wouldn't have such a hard time keeping up with what he said before.
- H.M.Jr: That's a good one, Mac. Strike! That's a good one. On the strength of that, we'll give Mac a drink.
- Gaston: I'll admit I'm not happy over this sentence "....while other persons entirely escape the high surtaxes in this manner."
- McR: What's the matter with it?
- Gaston: Well, to the average person reading it over - you don't understand the distinction between the two classes of people. They not only escape high surtaxes but they almost wholly escape taxation.

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- White: Well, you could spell it out a little more - "while other persons escape almost all taxes by investing the bulk of their funds in tax-exempts." That would be....
- McR: You complicate it and understand it less the more words you put in.
- H.M.Jr: I think this is all right. I think that's awfully good. I think the way we handled the tax-exempts and higher surtaxes - don't you like that?
- Haas: I like that. I'm not saying a word. I like it.
- McR: I think it's a good strong statement.
- H.M.Jr: The reason we don't have any suggestions from New York is because they haven't seen it.
- Blough: Well, they didn't like the other one.
- H.M.Jr: Well, I know that Greenbaum would like this.
- Now, here is where I need some help, you see, this "There are a number of features in our tax system which have been described as major tax irritants...." God damn it, you fellows have got to think of something better than that.
- Blough: Do you (Gaston) have Greenbaum's....
- White: Certainly the "major" ought to come out.
- Blough: There's a copy here with Greenbaum's revision on it. George, you may have it. It's the old page 11.
- Haas: I'll look and see.
- McR: I've got an old 11. Maybe this is it.
- Blough: Do you have at the bottom of that page some revision?
- White: Yes.
- H.M.Jr: How many times have we revised this now?

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- Blough: There have been eight major rewrites and I think about twenty-some drafts.
- Now here, do you like this better: "There is a second group of taxes; this is a group which includes certain features in our tax system which have been described as tax irritants; although they are not deterrents to business activity, they should be re-examined."
- H.M.Jr: Now the word "irritant"....
- Haas: Like ants in the pants.
- White: It's an unfortunate word. Every tax is an irritant.
- H.M.Jr: Yes, that's the trouble. That word has bothered me every time I've read it.
- White: "Tax inequity"?
- Gaston: No, that isn't the thought we want there. There are things that there has been a lot of noise about and they are not really of much importance, but they are important only because there has been a lot of noise about it.
- McR: "Nuisance value" - like Senator Pepper of Florida: certain nuisance value.
- White: "Tax sores"? It's an unpleasant word.
- Blough: "Tax irritants" - that's not good.
- H.M.Jr: Well, what did the President say in describing the undistributed profits tax last night? Maybe we can crib something out of that.
- White: I have it right here, Mr. Secretary - the President's speech.
- H.M.Jr: How did - look it up - how did he get into that? We might even say "as the President said...." How does he do it? He certainly pays his respects to it.
- White: He has it about half way through.

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- McR: Well, he refers specifically to the undistributed profits.
- H.M.Jr: No, but he had an introduction on that.
- Blough: Who wrote it for him, do you know?
- H.M.Jr: I don't know.
- White: This is the paragraph which contains it: "That means that if we reduce the so-called deterrent taxes on business corporations, we must find substitute taxes to lay on business corporations. That language is as plain as an old shoe. Let me give you an example of what I call making a mountain out of a molehill. There is a hullabaloo for the repeal of the undistributed earnings tax. You would think that this was the principal deterrent to business today. Yet it is the simple fact that out of one billion, a hundred million dollars, less than twenty...."
- McR: In other words, he states the reason why it isn't worth keeping instead of giving the reason why it isn't worth taking out.
- H.M.Jr: Why not use the word - again say "major tax...." - I mean say "tax deterrents." Why not stick to that word? I don't like the word "irritant."
- Gaston: If we class the word "deterrents"....
- White: I'd rather use the bad word "irritant" than call that a deterrent.
- Gaston: "...which have been described as magnified mole-hills"?
- Blough: What do we mean?
- H.M.Jr: I've got an idea. If you're going to call them major tax irritants, put it in quotes.
- Haas: What if you call these....
- H.M.Jr: Put it in quotes - that somebody else says it, I'm not saying it. I'm not saying it. What do you think of that?

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- Duffield: You don't suppose they'll try to hunt down the quotation, do you?
- H.M.Jr: We never reveal the source.
- Haas: What do you think of this, Mr. Secretary? Call them "psychological deterrents." This other is a deterrent in substance. This is psychological.
- H.M.Jr: That isn't bad. That isn't bad. "...described as a psychological deterrent"?
- McR: Yes, put "psychological" in there; then you want to follow it with "deterrent." You're following out the same idea.
- H.M.Jr: Well, what's the matter with saying "as a major tax irritant" - end of quote?
- Blough: I think either of them will work all right. The "psychological deterrent" would have this advantage, that you don't try to divide all Gaul into three parts quite so obviously as before. And it is hard to draw the line. Take your capital stock and excess-profits tax. At what point does an irritant become a deterrent?
- H.M.Jr: Well, you see, what I don't want to call this thing - don't want them to say, "Well, even Morgenthau says that the undistributed profits tax is a tax irritant." See? That's why I suggest putting it in quotes. Is anything wrong with that, Herbert? "...which has been called 'a major tax irritant'" - end of quote.
- Haas: You're right there.
- H.M.Jr: It's been called that and plenty of other things.
- Haas: You can find plenty of quotes.
- H.M.Jr: What's the matter with that - "...which has been called '....'"?
- Gaston: That's all right, yes.

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- McR: I have no objection to that.
- Gaston: Of course, "described as" is practically putting it in quotes.
- White: Or instead of "called," if you want to use quotes you can say "referred to as...." I'd like to see quotes on it.
- H.M.Jr: "....referred to as...." That's all right.
- Blough: The "major" out?
- H.M.Jr: Yes, leave that out. They say, "Who called it that?" And I'll say, "Blough did."
- Blough: That's right.
- H.M.Jr: Well, that makes me a lot happier. "There are a number of features in our tax system which have been referred to as - quote...."
- Gaston: "....as - quote - tax irritants...."
- Blough: Would you like something of the Greenbaum line? He says "There is a second group of taxes; this is a group which includes certain features in our tax system which have been referred to as 'tax irritants'"
....
- Duffield: I don't like that. That seems to draw a line between the groups too sharply.
- Blough: Uh-huh. Well, I think he intended it to.
- McR: I think it's all right as it is. Get more words in it and....
- Blough: "There are a number of features in our tax system which have been referred to as 'tax irritants.'"
- Gaston: And then in the next paragraph....
- Blough: You're going to continue to say "....although they are probably not important deterrents to business activity." Now, Mr. Greenbaum says, "By all means

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get the idea over that the undistributed profits tax is not a deterrent." And he would rather not have "probably" in there, I think, just "although they are not important deterrents to business activity." That's one man's opinion.

White: Two.

Blough: Two men's opinions.

H.M.Jr: Well, why say anything? "There are a number of features....which have been referred to as major tax irritants."

Blough: Period.

Duffield: It takes them out of the class of deterrents. I'd like to see that qualification in there, myself.

H.M.Jr: I just say it and then give an example.

Blough: Or you could say "as distinguished from deterrents."

H.M.Jr: No, no. I just say "referred to as 'major tax irritants.'"

Gaston: How would you like "....'major tax irritants' rather than deterrents"?

Duffield: They have been referred to....

White: I think the Secretary's suggestion is the best because you previously said there are three classes and you referred to the first class as deterrents. Now you're merely saying there are a number which are described as tax irritants.

Blough: The perhaps we should say "In a second class are a number of features in our tax system which have been referred to as tax irritants."

H.M.Jr: I wouldn't say "second class." I'd say "second group."

Blough: "In the second group...."

H.M.Jr: I think it's all right. O. K.?

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McR: Yes, you're entirely right.

H.M.Jr: All right?

Blough: "In the second group are a number of features...." - I don't like that - or "In the second group there are a number of features...."

White: "In the second group...."

Blough: "...there are a number of tax features...."

Gaston: "In the second group are features in our tax system..."

Blough: That's good.

Gaston: Roy, how about in that next paragraph, instead of saying "has been considered," say "has been called an irritant"?

Blough: This is the way he would suggest it: "In a second group are features in our tax system which have been referred to as 'tax irritants.' As an example of a tax which has been called an irritant, I would mention the undistributed profits tax."

Gaston: Well now, look - "As an example I would mention the undistributed profits."

H.M.Jr: Right. Now we're getting this.

Blough: And we don't need an extra paragraph there.

White: That's right.

H.M.Jr: Now how is it?

Blough: "In a second group are features in our tax system which have been referred to as 'tax irritants.' As an example I would mention the undistributed profits tax."

McR: Good.

H.M.Jr: Now, is that all right? That finishes that page. Do it once more, please.

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- Blough: "In a second group are features of our tax system which have been referred to as 'tax irritants.' As an example I would mention the undistributed profits tax."
- H.M.Jr: That's all right. I think that's much better.
- Blough: And then "In its present form, this tax is unimportant" instead of "it" perhaps.
- H.M.Jr: What would you say?
- Blough: On page 12....
- McR: Instead of saying "it" say "this tax."
- H.M.Jr: I'm going to read this carefully.
- White: As it is now, it is almost identical with the President's. Just paraphrased in a different way. The thought is identical.
- H.M.Jr: I like it.

(H.M.Jr. goes out and returns in short while)

"In its present form, this tax is quite unimportant and does not accomplish the objective of the original proposal. The tax produces little revenue and has little effect on business. It has acquired prominence as a psychological irritant, largely because of the widespread and emotional criticism which has been directed against it."

Well, you used the words "psychological irritant" here.

Haas: Uh-huh.

H.M.Jr: "The end which the law sought to obtain was to prevent the retention and accumulation of earnings by corporations from being used to avoid the personal income tax. This is still an important, and to my mind, a sound objective. The law in its present form does attain it. Since the income tax on corporations, of

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which the undistributed profits tax is a minor segment, expires by its own terms at the end of this year, your Committee must deal with this problem."

Has anybody - "must" or "should"?

McR: I don't think you should "must" them.

H.M.Jr: No - "should."

McR: That's better.

White: Or avoid that by saying "The problem must be dealt with" because it comes to an end, you see.

Blough: It doesn't "must" them. It has to be dealt with.

H.M.Jr: Well....

Blough: They can do it the first of next year.

H.M.Jr: Now, right there, you don't want to say anything, do we, that Congress passed Section 102 in 1938 and that we haven't had a chance to see yet whether it will work or not?

Blough: No.

Duffield: Leave that for them to explain later on.

Gaston: If this is that paragraph on page 12 there that "your Committee must deal with this problem," that is - the Committee must deal with it as a mere statement of fact.

Blough: But it isn't correct.

H.M.Jr: They don't have to deal with the thing at all. They can let the thing die.

Blough: Let the tax die. Even if they didn't want to do that, they could pass it at the next session.

Gaston: Yes, they don't have to deal with it at this session, that's perfectly true.

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- H.M.Jr: Don't have to. I've been so careful not to order the Committee that they must do something. I'd much prefer to say "should."
- Blough: There is one sentence in there that nobody liked very well and that's the one beginning "The end which the law sought to attain was to prevent the retention and accumulation of earnings by corporations from being used to avoid the personal income tax." Now, I think we had it better before.
- H.M.Jr: I'm not going to change it.
- Blough: The implication is that the end sought to attain was to prevent the accumulation of earnings, whereas the end that was sought to attain was to prevent the avoidance of the tax. That may be a small....
- McR: This doesn't say "to prevent the accumulation of earnings." It says "the retention and accumulation of earnings by corporations from being used to avoid the personal income tax."
- H.M.Jr: Well, it's awfully hard when you're going to get into technicalities....
- McR: Take the sentence as a whole and it says what you mean.
- White: That sentence should be left as it is. It's about the tenth reshaping and I think this is about the best form it's been in.
- H.M.Jr: With one exception. I'm going to say change the word "must" to "should."
- White: Yes.
- H.M.Jr: Now I'll read it again.
- "Another example of a tax irritant...." - that's all right.
- White: You're reading the next paragraph. I don't think you need "tax irritant." "Another example is found"

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H.M.Jr: "Another example...." - leave out the words - "Another example is found...."

Blough: There's one word up here in the previous paragraph - I'm sorry - "quite unimportant." "Quite" means absolutely. I think the word "quite" could come out and it could be "In its present form, this tax is unimportant...."

H.M.Jr: Leave the word "quite" out?

Duffield: Uh-huh.

H.M.Jr: Come on. All right? I mean I'm beginning to run down.

Who suggested that?

Blough: Shoup.

H.M.Jr: All right.

"Another example is found in the capital stock tax and the related excess-profits tax, enacted in 1932. Under the present law the capital stock tax is based upon a declared capital stock value which the taxpayer may revise every three years. The declared value may be any figure that the taxpayer desires to submit regardless of the actual value of the stock. The excess-profits tax applies to profits in excess of ten percent of such a declared value. The taxes are thus not really taxes on the value of capital stock or on excessive profits. Their major defect is that they operate very erratically. The tax liability they impose depends on the taxpayer's ability to forecast profits for the next three years as well as upon the amount of profits actually realized during each of the three years. Forecasts of earnings are particularly difficult to make in the case of new businesses and those with unstable incomes such as the capital goods industries, with the result that taxes imposed on such businesses are at times inordinately high."

I think that's all right.

Blough: Nobody has raised a point about that in New York.

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H.M.Jr: That's good.

Blough: I don't like to come back to that previous paragraph....

H.M.Jr: I'm not going to go back to it. What's the matter with it?

Blough: That sentence we were arguing about - Magill felt pretty strongly that the sentence doesn't say what the undistributed profits tax was for; gives the impression that the only thing the law was attempting to avoid was the use of corporations to avoid a personal income tax, whereas of course it was also intended to prevent the incidental avoidance of personal income tax whether you used the corporation or not.

H.M.Jr: I think he's getting to split hairs. What?

McR: That's super-refinement.

H.M.Jr: He's splitting hairs, isn't he, Mac?

McR: I think so.

H.M.Jr: I don't even know what he's talking about.

"There is a third category of tax problems now being widely discussed which raises questions of tax equity. The Treasury has already worked on these problems and, if your Committee desires, our staff could continue these studies in collaboration with the Committee, possibly with a view to action at a later session." That's all right, isn't it? Anybody raising objections to that?

Blough: Not in New York.

H.M.Jr: "An example is the double taxation of corporate dividends paid to individuals." This is Herbert's favorite. I think this is the only one you liked, isn't it, Herbert?

Gaston: Well now, not the only one. I think it's the most important one.

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- H.M.Jr: "Under the present law corporations pay the normal corporate tax on their earnings. When these earnings are distributed to the individual stockholder they are subject to both the individual normal tax and to the surtax. Eliminating the normal tax on dividends received by individual stockholders would be a partial step toward equalizing taxes paid on dividend income as compared to taxes paid on interest and on income earned through unincorporated business."
- All right?
- White: Gene and I would like to see that out.
- McR: A point raised while you were out which the boys sold me on completely, and that is to take the first two lines of each of those paragraphs....
- White: So it would read as follows: "An example is the double taxation of corporate dividends paid to individuals. Another example is the limitations now placed on the deduction of corporation capital losses. Another tax provision and a third which I think merits your consideration because...." and so on. So you shorten that by three paragraphs.
- Gaston: I object to that as to this paragraph, because in this whole statement you are dealing with just two important reforms in the tax structure. One is the loss carry-over and the other is the credit against dividends.
- H.M.Jr: You're taking Herbert's only favorite away from him.
- Gaston: Just two things in this whole statement that mean anything as far as taxpayer relief is concerned, and this is one of them.
- McR: Well, let's consider Herbert's point and leave this whole paragraph in with respect to this and shorten it with just a statement on the others.
- Duffield: If it's that important, that ought not to be down here in these things which are put over for study. These are things on which we say "Let's study them." It seems to me not sense or good manners to suggest we have already got the answer on some things that we have to study.

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- Blough: It doesn't say that.
- Duffield: We use words in there which plainly connote approval.
- Blough: We might eliminate the last sentence if you want to and cut out the approval. But you almost have to have the first three sentences to indicate what you're talking about.
- H.M.Jr: I don't see why right here - you certainly want to abbreviate this stuff.
- Duffield: There is another reason, Mr. Secretary. Except for this first tax suggestion, the double taxation of dividends, I think very definitely the next two are open to adverse arguments which aren't expressed here and which to express would take a good deal of time.
- Blough: Let me reduce that more or less to the absurd. As to the consolidated returns, we give no arguments and nobody suggests cutting anything out.
- H.M.Jr: I'm going to suggest cutting it out entirely - and intercorporate dividends. I'm not going to say either.
- Blough: As to the capital loss carry-over - six lines involving....
- H.M.Jr: Always keep coming back - I always keep saying I'm not going to say it.
- Gaston: That's your answer. Cut out the intercorporate dividends paragraph and you've accomplished your shortening.
- Duffield: I remember once we kicked and screamed about the capital loss carry-over for corporations as being open to manipulation. And nothing is said in here except to indicate that it's a good thing. There is nothing said....
- Blough: Well, cut out the last sentence of the double taxation of corporate dividends and cut out the last sentence of the corporate capital losses, and you've described both of the situations and have given no arguments in favor of either.

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- White: That's better.
- H.M.Jr: Now wait a minute. On the double taxation you're going to give the argument.
- Blough: I would go down to the sentence which ends "...the individual normal tax and to the surtax" and eliminate the sentence beginning "Eliminating the normal tax on dividends received by individual stockholders would be a partial step" and so on.
- H.M.Jr: Now wait a minute, let's get this thing. Starting at "An example...." and ending at "...to the surtax." Is that the idea?
- Blough: Leave that much in.
- H.M.Jr: In other words, when you start on the "Eliminating the normal...." you begin to argue about it.
- Blough: Yes.
- H.M.Jr: Herbert, does that make you....
- McR: He wants to argue.
- Duffield: I agree that it is important, but I don't think it ought to be there, if it's important; it ought to be higher up.
- McR: That's one of the items, so far as revenue producing is concerned, you'd have more difficulty with than the others.
- Blough: Just 105 million or such a matter.
- White: I think that's a good compromise, to leave that last sentence out. It's a long sentence.
- H.M.Jr: Herbert?
- Gaston: Yes, that's all right.
- H.M.Jr: All right. Then we eliminate "Eliminating the normal tax...." What?

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Then you come down, you say "Another example in the same class is the limitation now placed on the deduction of corporation capital losses." Period.

White: I think it's so short - I don't think you need "in the same class."

McR: "Another example" - leave out "in the same class." I wouldn't even admit there was a same class anyhow.

Duffield: I wouldn't either.

Blough: Neither would I.

H.M.Jr: All right.

"Another example is the limitation now placed on the deduction of corporation capital losses." Then the next....

Duffield: Roy, you wanted to leave that next sentence in.

Blough: Well, I would suggest leaving the next sentence in; it is an explanation of what the present law is.

H.M.Jr: All right. And then you cut out "as a result...."?

White: Yes, cut those next two sentences.

Blough: I'd even be willing to leave that sentence in.

Duffield: No, that shows....

White: We're beginning to argue.

McR: Stop at "\$2,000."

H.M.Jr: You guys - this particular one, I think, is very weak anyway.

Blough: I'm not too happy about it.

H.M.Jr: This capital losses business.

White: Technically, if you say you're going to cut the next paragraph out entirely....

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- Blough: Consolidated returns and intercorporate dividends.
- H.M.Jr: I don't want to say that. At least I'm consistent about that one.
- Blough: We didn't force that one back in. You brought that one back from New York.
- H.M.Jr: Well, I keep thinking all the time I want this statement, particularly now that nobody can point a finger at it - and if that was in, for a better description but not a good description, the left-wingers could hang a hat on that. But I don't want to give....
- White: There is enough else in there to make a good statement. I think it better be out. I'd like to see it out.
- Blough: I certainly think it ought to be out in view of the way you feel about it.
- H.M.Jr: Yes, I feel that way.
- "There are, of course, numerous minor provisions...."
- All right, gentlemen? Mac, would you plead for intercorporate dividends and consolidated returns?
- McR: They'll consider it anyway, whether you say anything about it or not. You don't need to mention them.
- H.M.Jr: "There are, of course, numerous minor provisions of the tax laws which have been found through experience to produce inequities or to be unnecessarily complicated. Such provisions are discovered and brought to the attention of Congress from time to time as they become of importance."
- Brought to the attention of Congress by whom?
- Blough: The idea is that the Treasury, which administers the law, discovers them and brings them to the attention of Congress. You can say "Such provisions are brought to the attention of Congress as the Treasury discovers them."

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- H.M.Jr: No, I'd leave it.
- "While no one of them may be of great significance as a business irritant or deterrent, in combination their effect may be substantial."
- Blough: I don't know whether you want that sentence in or not. Tarleau feels that some of those minor provisions are often quite substantial.
- H.M.Jr: That's the first time his name is mentioned.
- Blough: He read this through. We asked him in to talk about some other things and he read it over.
- H.M.Jr: The whole thing?
- Blough: Seemed quite well satisfied with it.
- H.M.Jr: Whatever happened to that meeting he had with the United States Chamber of Commerce?
- Blough: Well, I didn't know he had a meeting. I was busy on this.
- But it brings in the words "irritant" and "deterrent" again and if you're trying to minimize those....
- H.M.Jr: What's going through my mind is to leave that whole paragraph out.
- Haas: I'd vote with you.
- H.M.Jr: What?
- Haas: I'd vote with you.
- H.M.Jr: Mac?
- McR: I'd have no objection.
- Blough: Well, do you want to open the door for any more....
- H.M.Jr: Well, I'll tell you why. This, I think, opens the door too wide. That's what bothers me.
- Blough: Supposing you said this: "There are, of course, numerous

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minor provisions of the tax laws which have been found through experience to produce inequities or to be unnecessarily complicated. I shall not endeavor to discuss measures of this kind, but suggestions will be made later by the Treasury staff if you wish."

Gaston: "....if you wish them."

Blough: "....if you wish them."

H.M.Jr: Let me just think a minute.

McR: I think that's obvious and doesn't need to be said.

H.M.Jr: Is Harry going?

White: I wanted to leave. Gene is my advocate on something. I'm sorry. You'll excuse me?

H.M.Jr: Have a good time.

White: Good night. (Leaves).

H.M.Jr: We're just raising the question of leaving this whole paragraph out.

Blough: "There are, of course, numerous minor provisions...."

H.M.Jr: I'm fearful that it goes too far - I mean that we're giving them too much, you see.

Duffield: Yes. Tarleau does have the list of some 57 things or better.

H.M.Jr: Well, I know, but I mean the first thing - I mean I'm fearful that - I mean he doesn't think they're going to consider 57 things.

Blough: Oh no, he has half a dozen....

H.M.Jr: I mean Harrison has gotten down to what, three things, or something like that?

Duffield: These are mainly minor sections dealing with special cases.

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- H.M.Jr: Well, they're not going to take those things up at this session.
- Duffield: I would be perfectly happy to see it out.
- McR: You're not limiting the jurisdiction of the Committee by leaving this paragraph out. Why suggest anything further? You've suggested more than they can do anyhow.
- Haas: Not an all-inclusive statement anyway.
- H.M.Jr: You say you let Tarleau read the whole thing?
- Blough: Read it all, beginning to end.
- H.M.Jr: Did he like it?
- Blough: I particularly wanted him to catch any legal points, any errors in previous history. He didn't make any - didn't bring up any points at all.
- H.M.Jr: By God, my hunch is to leave this paragraph out.
- Gaston: I wouldn't object.
- H.M.Jr: What? I don't want them to say, "Good God - this fellow - what does he expect us to do, the whole God damn tax program?"
- Duffield: Let's leave it out.
- H.M.Jr: I'd leave it out.
- Blough: Would you like to add a sentence to these two that you're mentioning that this, of course, is not an inclusive list, or put that....
- Haas: You said that at the beginning.
- McR: It's still obvious, I think.
- H.M.Jr: You've got that at the end.
- Blough: O. K.

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- H.M.Jr: What?
- Blough: You just say "An example...." I guess that's all right, yes.
- Duffield: On 15 Mr. White has a suggestion.
- H.M.Jr: "An important factor in the consideration of many of the possible tax changes...."
- Blough: Mr. Greenbaum would change that sentence that you just started to read so it would read this way:
"In the consideration of many of the possible tax changes just discussed, it is essential to bear in mind that their adoption would result in a reduction in the revenue-producing capacity of the tax system." I think that streamlines it.
- McR: Simplifies it.
- H.M.Jr: Would you say it again?
- Blough: "In the consideration of many of the possible tax changes just discussed, it is essential to bear in mind that their adoption would result in a reduction in the revenue-producing capacity of the tax system."
- H.M.Jr: Say it once more.
- Blough: "In the consideration of many of the possible tax changes just discussed, it is essential to bear in mind that their adoption would result in a reduction in the revenue-producing capacity of the tax system."
- H.M.Jr: All right.
- Gaston: Down there in that paragraph - "although this problem"
- H.M.Jr: Cut out "must"?
- Gaston: "....is difficult, it is one that must be faced."
- McR: I think we've got to leave "must" in but leave the word "Congress" out.

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Duffield: In the next sentence, the one beginning "The taxes resorted to...." - Mr. White wants to add two sentences at the end of that one to make this fit with what the President said, so that the paragraph would read: "The taxes resorted to for replacing any lost revenue should have the least harmful effect on business and should contribute to greater equity. Above all, they should not increase the proportion of consumer taxes. If anything, it is highly desirable to reduce that proportion."

H.M.Jr: No, no.

Blough: You're saying that later.

H.M.Jr: We're saying that definitely later, and saying it much better than the President. No, I completely disagree with him. We're saying it at the end and saying it beautifully.

That's the price Harry pays for going somewhere.

No, I'd leave that just as it is.

Did you take out 14, have you got it started?

Blough: There's 13.

McR: Got 13 and 14 both there.

H.M.Jr: If anybody gets me to change this thing again....

McR: Page 14 is completed. You're down to the middle of 15 now.

Blough: The last two lines on 14 come out - I'm sorry.

H.M.Jr: I'd like to make just one suggestion - third line from the bottom - "....it is estimated that a total of 4,500,000 persons would be subject to the income tax." I'd like to add "that another million and a half persons...."

Blough: "An additional" or "another."

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- H.M.Jr: "An additional million and a half persons would be subject to the income tax." You see? I think that stands out more.
- McR: Much more.
- H.M.Jr: What?
- McR: Much more, because they won't look back at this three; they won't look back at the three.
- H.M.Jr: No. "...an additional million and a half persons would be subject to the income tax." I mean that's the only excuse for it, isn't it?
- McR: Sure.
- H.M.Jr: "The rates imposed on small incomes could be low with perhaps a small minimum tax."
- Well, I'm satisfied with 15.
- Blough: I think I mentioned the other day some objections which had been raised to this, but I don't know if you want them mentioned again now or not.
- H.M.Jr: I've been good so far. I've only got two more pages to go.
- Blough: Well, Magill felt that the corporation income tax rates could be increased, but it should be pointed out that only to the extent necessary to replace lost corporate revenues.
- McR: That's what you're talking about anyhow.
- Blough: Then Mr. Bailie suggested that that corporation item should go last and that the individual and estate and gift should go ahead of it.
- McR: Psychologically that's bad.
- Gaston: Yes, because you're talking about - you start with a reduction.

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H.M.Jr: Mac's good. Nothing the matter with Mac tonight.

Blough: Well, that's all so far.

H.M.Jr: The only other - "...with some allowance for corporations with small incomes." Can't you leave out "with some...."?

McR: "...with due allowance...."

H.M.Jr: "...due allowance...."

McR: That was Eddie Greenbaum's.

Blough: That's right.

H.M.Jr: "...with due allowance" - that's a good one. Anything else on that?

McR: Nothing else. No other marks on this.

H.M.Jr: "...with due allowance" - that's good.

All right. That's 15?

Blough: That's 15.

Gaston: "Due allowance" sounds as if it doesn't mean anything.

Haas: Adequate.

Blough: Equity.

Gaston: That doesn't mean anything either.

McR: Means your intentions are good, Herbert.

H.M.Jr: Well, I'm finished with three.

Blough: Two or three points on three.

H.M.Jr: All right.

Blough: Third sentence, which starts "The exemption could be reduced, the insurance allowance could be eliminated...." Mr. Greenbaum shuddered a little

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bit at the word "eliminated." He'd rather have it reduced, but personally I see no particular reason for changing it.

H.M.Jr: Well, that would please me. "...the insurance allowance could be reduced"?

Blough: Yes, instead of "eliminated."

H.M.Jr: Yes.

Blough: Would you prefer the "reduced"?

H.M.Jr: Yes, very much.

Blough: Then it would be "The exemption could be reduced, the insurance allowance could be reduced and rates in the lower and middle brackets could be increased."

H.M.Jr: Yes. I believe in doing these things gradually.

Blough: Cut off a dog's tail by inches.

McR: And Eddie suggested in the next sentence "Furthermore...." - he put in "As previously recommended."

Blough: That was mine. I'm sorry. That was put in after this afternoon, since we now brought in that integration of estate and gift taxes as a reiteration of a previous recommendation; seemed necessary to mention it here.

H.M.Jr: How would you put it?

Blough: "Furthermore, as previously recommended...."

H.M.Jr: O. K. All right. Anything else?

Gaston: "...as previously suggested...."

H.M.Jr: All right.

Blough: "...suggested...."

H.M.Jr: Yes.

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Blough: And the last sentence - the rewording of that - it's pretty cumbersome and Mr. Greenbaum suggested this in place of it: "Gifts should not be available as a means of avoiding the estate tax" or "Gifts should not be an available means of avoiding the estate tax."

H.M.Jr: That doesn't mean anything to me.

Blough: Well, I don't think it means as much as what we have there. It's a little complicated.

H.M.Jr: I'd keep what you've got.

McR: I don't see any objection to what you have.

H.M.Jr: Now, are you through with three?

Blough: Yes.

H.M.Jr: Anybody else?

Haas: Where does three end? Go down to the conclusion?

Blough: No - "In connection...."

Duffield: I think he's got an old copy.

Gaston: "....during life," it ends.

McR: "In connection with all the matters...."

H.M.Jr: I'd like to just say this: "In connection with all of the matters I have mentioned the Treasury is prepared, as usual,...."

McR: Good.

H.M.Jr: All right?

Blough: "....Treasury is prepared, as usual,...."

H.M.Jr: Yes. From now on, Mac, this thing is really very good. I had nothing to do with this. This is Jake Viner here. It's awfully good.

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- Gaston: I'd suggest that "the matters I have mentioned" and "the matters I have discussed" - there ought to be some change of wording there.
- Blough: Yes, that's duplication.
- Gaston: "In connection with all these suggestions" instead of "all the matters I have mentioned."
- H.M.Jr: No, the President keeps saying I shouldn't make suggestions. I'd rather leave that as it is, if you don't mind. If you don't like "the matters I have discussed" you can put in another word there, but I wouldn't change that other thing.
- "The matters I have discussed...." - "what I have discussed for the most part is concerned...." You can say "what I have discussed...."
- Blough: "What I have discussed is for the most part confined to a limited segment of the tax system."
- H.M.Jr: Is that all right?
- Blough: I think so.
- H.M.Jr: How would it be?
- Blough: "What I have discussed is for the most part confined to a limited segment of the tax system."
- H.M.Jr: Want to say "what I have discussed previously"?
- Duffield: I think it's better the first way.
- H.M.Jr: Which way? "What I have discussed...."?
- Duffield: Yes.
- Blough: "What I have discussed is for the most part confined to a limited segment of the tax system."
- H.M.Jr: "I do not consider them as constituting an adequate program of tax revision."

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- Gaston: You can't say "them" if you say "what I have discussed is...."
- H.M.Jr: All right, fix that up.
"I do not consider it...." Huh? Is that what you'd do?
- Blough: Or you can say "the subjects I have discussed...."
- H.M.Jr: Oh, don't let's change it so much. God, this is beautiful down here.
- Blough: I was going back, changing yours so we wouldn't need to change this. Instead of "matters" you say "the subjects we have discussed."
- H.M.Jr: All right - "the subjects."
- MoR: Then you won't have to change this.
- H.M.Jr: No.
"I do not consider them as constituting an adequate program of tax revision. Such a program can be developed only through long continued study and it cannot be static but must be adapted to changing conditions. But the general lines along which Federal taxation should develop in the future appear to be quite clear. We ought to increase the part played by direct taxes that can be made to take account of differences in the abilities of individuals to support government. This means that we should endeavor eventually to minimize the use of manufacturers' excises and other commodity taxes which tend to be shifted directly to consumers and also should reduce the importance of taxes on corporations, shifting the burden as far as practical to the individual income tax and the estate and gift taxes."
- Duffield: Harry White would like to take out the clause "and also should reduce the importance of taxes on corporations."

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- H.M.Jr: What does he want to do that for?
- Duffield: I guess he thinks it's not a good idea to suggest that we are going to take taxes off corporations and shift the burden to individual income tax.
- Gaston: I don't think it is either.
- Duffield: That happens to be a hobby of Jake's. Jake seems to think we ought to tax the corporations more and more as stockholders.
- Blough: That happens to be a hobby of almost any tax man in the country.
- Duffield: I know it.
- Gaston: If you found a way by which you could apply the withholding principle to corporate revenues and make it pay the same revenue as when distributed, that's all right; but when you abandon that principle completely you're simply opening up a great big channel of tax avoidance.
- H.M.Jr: You don't like the way it is here?
- Duffield: Just the one clause.
- H.M.Jr: Everybody in this room has seen it ten times.
- Gaston: I don't remember it. I don't like it.
- H.M.Jr: It was written ten - two weeks ago.
- Blough: Written when Viner was here.
- H.M.Jr: Which is how long ago?
- Blough: About a week.
- Gaston: I'd strike it out.
- Duffield: The sentence would read all right without it.

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H.M.Jr: How would you have it?

Gaston: "This means that we should endeavor eventually to minimize the use of manufacturers' excises and other commodity taxes which tend to be shifted directly to consumers...."

McR: Period.

Duffield: "...shifted directly to consumers." Period.

McR: No comma.

Gaston: And leave out the rest.

McR: Just leave out "and also should reduce...."

H.M.Jr: For entirely different reasons - if I talk about reducing the taxes on corporations, that would hit the President awfully hard.

Haas: It's not explained here why you would do it. That's what bothers me.

McR: I'd like it better with that out.

H.M.Jr: Yes, let's leave it out. Let's leave it out. I think that's unnecessary, in view of what he said last night.

Gaston: I think it's wrong, too.

H.M.Jr: Well....

Blough: I would agree for the reason you mentioned, not for the reason he mentioned.

Gaston: It's as plain....

McR: I agree that it's wrong for a very practical reason - unless some way were found, as Herbert says....

Blough: But it doesn't solve the problem. No use going into it tonight.

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H.M.Jr: Not tonight.

"....shifting the burden as far as practical to the individual...." Just leave out that part?

Blough: We ought to use the words "transferring the burden," since the word "shifted" is used before.

Duffield: Sure - "transferring the burden."

H.M.Jr: All right, that's fine.

Blough: Now, the next sentence is sort of thrown in there without very much rhyme or reason. "Such revision would facilitate coordination of Federal with State and local taxation." If you want to put that in, you probably should say "would incidentally facilitate coordination of Federal with State and local taxation."

McR: Why do you need that? Perfectly good statement.

Duffield: Perfectly good.

McR: Perfectly good statement, Roy - "would facilitate coordination of Federal with State and local taxation."

H.M.Jr: I'd leave it as it is.

McR: I like it.

Haas: I think it's all right. The next sentence bothers me. Maybe it wouldn't anybody else.

H.M.Jr: What's that?

Haas: The last sentence, Mr. Secretary. The public has been waiting so long to hear from these studies, you see, and you're going up there now and you're making the - and in other parts of the paper you said that you'd be glad to help, and so on; I'm inclined to leave that out.

H.M.Jr: I think George is right.

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- Blough: There's another element in that paragraph you may want to consider, at the beginning of the paragraph; has some bearing on this. Bailie and Greenbaum suggested that you might wish to say that the adequate program of tax revision would be something which the Committee and the Commission would develop. In other words, here is the immediate limited segment. "I do not consider them as constituting an adequate program of tax revision. Such a program can be developed only through long continued study and it cannot be static but must be adapted to changing conditions. The Committee and Commission previously mentioned would be ideally fitted to consider such a program." Something like that.
- McR: No, I think that's superfluous, Roy. I think it's superfluous.
- H.M.Jr: I think, as George says, here at the end - we've had so God damn many studies and so little action.
- Blough: I agree. Let's cut it off.
- McR: I think that clause should come out.
- H.M.Jr: That applies to the other thing. We've done all this - going to refer it to another committee, have another survey.
- You've got to take the brunt for these three men in New York.
- Blough: I'm willing to do that.
- H.M.Jr: You did a swell job on reporting.
- Now, we're going to leave out this sentence "The Treasury is continuously studying...."
- McR: Yes.
- H.M.Jr: All right.
- "In conclusion, permit me to say that one of the major tasks we have before us is to do everything we can to promote lasting business recovery. I must repeat now with the same deep conviction with

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which I said in November, 1937, that 'The basic need today is to foster the full application of the driving force of private capital. We want to see capital go into the productive channels of private industry. We want to see private business expand.'

Could you leave the last sentence off - "Our consideration of tax changes...."?

Duffield: Harry wanted to leave the last sentence off and said you wanted some language also....

H.M.Jr: Before we look at the language....

"Our consideration of tax changes...." - God, I don't want to bring that in again. I mean I'd like to end on that quote.

McR: That's the high point.

H.M.Jr: Leave out "Our consideration...." Cross that sentence off, will you, Blough?

McR: Your high point is the quotation from the '37 statement.

H.M.Jr: Yes.

Now, what's this Harry says?

Duffield: That would go on right at the end of the quote.

Gaston: When you cut that out, don't you leave this last paragraph unrelated to your statement?

Haas: I don't think you do, Herbert.

Gaston: Seems to me that you do.

Blough: "In conclusion, permit me to say that in our consideration of tax changes...." - no, that isn't - "...we must have in mind that one of the major tasks before us is to do everything we can to promote lasting business recovery."

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- Gaston: Unless you do that, it sounds as if you're just giving them a little sermon on recovery without any connection with your current discussion.
- H.M.Jr: Want to leave that last sentence in?
- Gaston: Either leave it in or put it in as Roy suggests, at the start, so as to show that you're talking about recovery in connection with taxes.
- H.M.Jr: Oh God!
- Haas: Unless the thing got cut off, Herbert, there couldn't be any other meaning - I mean unless the paragraph got separated from the other part of the paper.
- H.M.Jr: I'm certainly not going to leave that little sentence on the end.
- Duffield: That's a wow. Harry said, "I don't know how much of this I'll get away with."
- H.M.Jr: Oh....
- Duffield: Oh, you mean the "Our consideration" thing. Oh no, I thought you meant Harry's last sentence.
- H.M.Jr: Well, Harry's too. I mean I'm not going to use any of it.
- Duffield: I see what you mean.
- McR: As long as you've been talking about taxes all the way along....
- Haas: I don't see that you have to....
- McR:the connection is well established.
- Haas: In a speech, if you try to tie it up too logically, you lose too much freedom, it gets stilted.
- H.M.Jr: I think I'd like to say just this one - make this one change: "In conclusion, permit me to say that one of the major tasks we have before us today

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is to do everything we can to promote lasting business recovery. With this uppermost in my mind, I would like to repeat now...." - and the rest just as it is. "With this uppermost in my mind, I would like to repeat now...." It is uppermost in my mind. What?

Duffield: Yes.

H.M.Jr: That finishes it off.

Blough: You added the word "today" in there. Did you want that in? "One of the major tasks we have before us today...."

H.M.Jr: Where did I say that?

Blough: In the second line. "In conclusion, permit me to say that one of the major tasks we have before us today...."

H.M.Jr: Where did you get that?

Blough: Well, that's that last paragraph.

H.M.Jr: "In conclusion, permit me to say that one of the major tasks we have before us...."

Blough: You inserted "today." Did you mean to have that in or not?

H.M.Jr: Yes. I didn't, but I mean I did it subconsciously. Yes. "....before us today...." Yes. "....is to do everything we can to promote lasting business recovery." Then what did I say?

Blough: "With this uppermost in my mind, I would like to repeat now with the same deep conviction with which I said in November 1937...."

H.M.Jr: I'd say "With this still uppermost in my mind...."

Blough: "With this still uppermost in my mind...." Maybe then the word "today" shouldn't go in the previous sentence.

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Gaston: Haven't got any object to repeat unless you change "with which" to "what." "...I would like to repeat now with the same deep conviction what I said...."

H.M.Jr: What are you raising, Herbert?

Blough: That's right.

"With this still uppermost in my mind, I would like to repeat now with the same deep conviction what I said in November, 1937, that 'The basic need today is to foster....'"

H.M.Jr: I think that's good enough.

McR: And leave out your first "today" so you wouldn't be repeating.

Blough: Yes.

H.M.Jr: Right.

Blough: "In conclusion, permit me to say that one of the major tasks we have before us is to do everything we can to promote lasting business recovery. With this still uppermost in my mind, I would like to repeat now with the same deep conviction what I said in November, 1937, that 'The basic need today is to foster the full application....'" and so on.

H.M.Jr: I can't tell you how much I appreciate all of your forbearance. All I'm going to say - if anybody gets me to change that again - don't anybody come in tomorrow, because I'm going to carry a gun.

RADIO RECORDINGS

214A

NEC Radio Series - "United States
Government Reports" - "Cabinet Series"
HMJr and Lowell Mellett - 5/23/39

October 19, 1939.

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

My dear Mr. Secretary:

The accompanying package contains
a pressing of the recording which you made
for the "Cabinet Series" of the "United
States Government Reports" radio series
sponsored by this office.

The program was broadcast over
the attached list of radio stations on
May 23, 1939.

Sincerely yours,

Robert I. Berger,
SPECIAL ASSISTANT.

Bea Andreen
Bea Andreen
BY DIRECTION.

BFA MMS

cc to Mr. Herbert E. Gaston,
Assistant Secretary of the Treasury,
Room 272, Treasury Building,
Washington, D. C.

Note: record was sent to Miss Chatfield to send to the Archives
for storage for the Secretary - 1/9/40 - as per nmc's
instructions. mas

NEC RADIO SERIES, "UNITED STATES GOVERNMENT REPORTS."

21473
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"Cabinet Series"

No. 3 - Henry Morgenthau, Jr., Secretary of the Treasury, and
Lowell Mallett, Executive Director, NEC.

Tuesday, May 23, 1939

<u>STATE</u>	<u>STATION AND CITY</u>	<u>TIME</u>
ALABAMA	WBRC, Birmingham	9:15 PM
	WSFA, Montgomery	7:15 PM
	WALA, Mobile	7:00 PM
ARIZONA	KTAR& NETWORK, Phoenix	10:30 PM
	KLRA, Little Rock	8:30 PM
ARKANSAS	KFPW, Fort Smith	7:15 PM
	KELD, El Dorado	
CALIFORNIA	KFI, Los Angeles	3:30 PM
	KHJ, Los Angeles	2:00 PM
	KFRC, San Francisco	2:15 PM
	KVOD, Denver	8:45 PM
COLORADO	KFKA, Greeley	8:45 PM
	KGHF, Pueblo	8:45 PM
	WTIC, Hartford	5:15 PM
CONNECTICUT	WILM, Wilmington	7:45 PM
DELAWARE	WJAX, Jacksonville	6:00 PM
FLORIDA	WSUN, St. Petersburg	10:15 PM
	WIOD, Miami	10:45 PM
	WFOY, St. Augustine	5:15 PM
	WSB, Atlanta	6:45 PM
	KIDO, Boise	2:30 PM
GEORGIA	KRLC, Lewiston	7:45 PM
	KSEI, Pocatello	7:30 PM
IDAHO	KTFI, Twin Falls	
	WGFL, Chicago	7:15 PM
ILLINOIS	WMBD, Feoria	9:00 PM
	WDZ, Tuscola	1:30 PM
	WTMV, East St. Louis	
	WIRE, Indianapolis	5:15 PM
INDIANA	WEOA, Evansville	6:15 PM
	WSBT, South Bend	8:15 PM
	WIND, Gary	1:30 PM
	KRNT, Des Moines	9:30 PM
	KMA, Shenandoah	9:15 PM
IOWA	WMT, Cedar Rapids	4:30 PM
	WIBW, Topeka	9:15 PM
	KFH, Wichita	8:45 PM
	KSAL, Salina	12:45 PM
KANSAS	WHAS, Louisville	5:15 PM
	WG& NETWORK, Portland	9:00 PM
KENTUCKY	WBAL, Baltimore	2:45 PM
MAINE	WTBO, Cumberland	7:15 PM
MARYLAND	WSAL, Salisbury	6:30 PM

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<u>STATE</u>	<u>STATION AND CITY</u>	<u>TIME</u>
MASSACHUSETTS	WAAB & COLONIAL NETWORK, Boston	8:00 PM
	WHAI, Greenfield	7:45 PM
	WBRK, Pittsfield	
MICHIGAN	WXYZ, Detroit	9:30 PM
	WWJ, Detroit	12:00 Noon
MINNESOTA	KSTP, St. Paul	9:45 PM
	KROC, Rochester	9:45 PM
	KYSM, Mankato	9:45 PM
	KFAM, St. Cloud	9:45 PM
	WMIN, St. Paul	12:15 PM (Wed.)
	WEBC, Duluth	10:30 PM
	WMBG, Hibbing	10:30 PM
MISSISSIPPI	WHLB, Virginia	10:30 PM
	WSLI, Jackson	4:45 PM
	WCOC, Meridian	4:45 PM
	WGRM, Grenada	4:45 PM
MISSOURI	KXOK, St. Louis	9:30 PM
	WDAF, Kansas City	10:00 PM
	KWTO, Springfield	
MONTANA	KGVO, Missoula	
	KFBB, Great Falls	
	KGHL, Billings	
	KGEZ, Kalispell	
	KGCX, Wolf Point	
	KOIL, Omaha	4:45 PM
NEBRASKA	KOWH, Omaha	11:00 AM
	WJAG, Norfolk	7:00 PM
	KGNF, North Platte	1:45 PM
	KOH, Reno	7:30 PM
	WFEA, Manchester	7:00 PM
NEVADA	WLNH, Laconia	6:30 PM
	WHEB, Portsmouth	8:00 PM
	WAAT, Jersey City	10:00 AM
	WTNJ, Trenton	7:15 PM
NEW HAMPSHIRE	WPG, Atlantic City	2:30 PM
	WCAP, Asbury Park	8:00 PM
	KOB, Albuquerque	
	WHN, New York City	10:00 PM
	WOKO, Albany	6:30 PM
NEW JERSEY	WKBW, Buffalo	7:30 PM
	WSAY, Rochester	9:30 PM
	WFBL, Syracuse	5:15 PM (Wed.)
	WIBX, Utica	7:15 PM
	NEW MEXICO	
NEW YORK		

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<u>STATE</u>	<u>STATION AND CITY</u>	<u>TIME</u>
NORTH CAROLINA	WPTF, Raleigh	
	WBT, Charlotte	
NORTH DAKOTA	WBIG, Greensboro	
	KGCU, Mandan	5:45 PM
	KRMC, Jamestown	6:30 PM
	KFYR, Bismarck	6:30 PM
	KOVC, Valley City	7:00 PM
	KFJM, Grand Forks	7:15 PM
	KVOX, Moorehead	6:30 PM
OHIO	WLW, Cincinnati	11:15 PM
	WGAR, Cleveland	10:30 PM
	WHCO, Columbus	3:00 PM
	KTOK, Oklahoma City	8:00 PM
OKLAHOMA	<u>Oklahoma Mutual Network</u>	6:00 PM
	KBIX-Muskogee	
	KGFF-Shawnee	
	KADA-Ada	
	KVSO-Ardmore	
	KCRC-Enid	
	WBBZ-Ponca City	
	KTUL, Tulsa	
	KASA, Elk City	
	LOIN, Portland	9:00 PM
	WFIL, Philadelphia	10:15 PM
	WKST, New Castle	
	WGBI, Scranton	
WSAN, Allentown	6:30 PM	
WEAN, Providence	2:30 PM	
WIS, Columbia	3:30 PM	
SOUTH CAROLINA	KSOO, Sioux City	5:30 PM
	KELO, Sioux City	9:45 PM
SOUTH DAKOTA	WNAX, Yankton	
	KWTN, Watertown	
	KORH, Rapid City	
	KABF, Aberdeen	
	WAPS, Memphis	
	WAPO, Chattanooga	
	WNOX, Knoxville	
	KNOW, Austin	
	KXYZ, Houston	
	KGHC, Amarillo	
KTAT, Fort Worth		
TENNESSEE	KRGV, Weslaco	10:30 PM
	KSL, Salt Lake City	10:45 PM
TEXAS	KDYL, Salt Lake City	
	KLO, Ogden	
	KSUB, Cedar City	
UTAH		

<u>STATE</u>	<u>STATION AND CITY</u>	<u>TIME</u>
VERMONT	WCAX, Burlington	7:00 PM
	WDEV, Waterbury	6:15 PM
	WSYB, Rutland	8:30 PM
VIRGINIA	WMBG, Richmond	10:45 PM
	WTAR, Norfolk	6:45 PM
	WDBJ, Roanoke	5:45 PM
WASHINGTON	KIRO, Seattle	
	KFIO, Spokane	
	KUJ, Walla Walla	8:00 PM
	KWLK, Longview	7:00 PM
	KMO, Tacoma	10:45 AM
WEST VIRGINIA	WCHS, Charleston	7:45 PM
	WPAR, Parkersburg	7:45 PM
	WBLK, Clarksburg	7:45 PM
	WSAZ, Huntington	6:45 PM
	WWVA, Wheeling	7:30 PM
	WHIS, Bluefield	8:15 PM
	WTMJ, Milwaukee	9:30 PM
WISCONSIN		
PUERTO RICO	WPRP, Ponce	7:00 PM (Fri.)
WASHINGTON, D. C.	WOL	11:45 AM
SHORT WAVE	W2XAF) 9530 KC Schenectady,	3:30 PM
	W2XAD) 15330 KC New York	
	W6XBE - San Francisco, California	

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HENRY MORGENTHAU, JR., SECRETARY OF THE TREASURY
LOWELL MELLETT, EXECUTIVE DIRECTOR, NATIONAL EMERGENCY COUNCIL

ANNOUNCER: (OPENING ANNOUNCEMENT)

MELLETT: The Treasury Department of the United States, commonly known simply as the Treasury, one of the original executive departments of our Government, and one that is indispensable to the transaction of the Nation's business. The head of that department, the Secretary of the Treasury, the chief financial officer of the United States. The work of his department affects all departments and, in fact, all citizens of the United States very directly.

MORGENTHAU: We are conscious of that fact every day, Mr. Mellett.

MELLETT: The Treasury Department's activities cover a much broader field than the mere collection of revenue and the payment of the Government's bills-----

MORGENTHAU: The strictly fiscal activities are but a part of our work, though of course the most important part. These include the collection of the revenue, the keeping of the central accounts, the care of the government funds and their disbursement, the management of the public debt, the issue and redemption of United States money and the custody of the stocks of monetary metals, the stabilization of the exchange value of the dollar, the supervision of the National banks and the fulfillment of the Secretary's duty under the original act of 1789 which created the Treasury Department to "digest and prepare plans for the improvement and management of the revenue, and for the support of the public debt."

MELLETT: The revenue is collected-----

MORGENTHAU: It is collected by the Bureau of Internal Revenue and the Bureau of Customs. Internal Revenue is our largest single unit. Besides a large building of its own in Washington it has offices in every State in the Union. Last year it collected 5 billion 600 million dollars at a collection cost of about a cent to the dollar, which includes the cost of investigation of returns, settlement of disputed cases, litigation and action against tax evaders, from the moonshiner to the biggest tax-dodger.

MELLETT: After investigation, tax cases are settled-----

MORGENTHAU: They are settled now almost altogether in the field. We have decentralized what we call the technical staff. The taxpayer who is dissatisfied with our computation of what he owes can now have his appeal considered and acted upon by a group of our most highly trained experts at a city near his home, without the expense of a trip to Washington and without the necessity of hiring legal counsel.

MELLETT: A great boon certainly to the small taxpayers, and, perhaps, to some not so small-----The Customs collectors, Mr. Secretary, the men who meet us at the dock when we return from abroad or on the border when we return from Canada or Mexico-----

MORGENTHAU: The Bureau of Customs, oldest of revenue agencies of the Government, has had to take second rank to the Bureau of Internal Revenue in dollar collections, but it is still an important agency. It is a guardian of our trade and our domestic industry and that function

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MORGENTHAU: of policeman at our gates probably means more to us than the
(Cont'd.) 350 million dollars the customs collectors turned in last year.

MELLETT: That 350 millions plus Internal Revenue collections makes about
six billions in a year. This great stream of cash flows from
your collectors to----

MORGENTHAU: It flows into the depository accounts of the Treasurer of the
United States, who is the custodian of the Government's operating
funds. His immense vault in the Treasury building in Washington
always holds a store of currency and coin, but the greater part
of his balances are in the Federal Reserve banks and special
depositories. He has a large accounting force which has to keep
track not only of the stream of receipts but of the stream of
payments as represented by the huge volume of Government dis-
bursing officers' checks which come in for payment. Every day
he handles receipts and payments running into many millions
and of course his books must balance daily, just as any bank's;
but, unlike the bank, he publishes his figures every day.

MELLETT: The Daily Treasury Statement, sometimes called a real miracle
of accounting---

MORGENTHAU: The Treasury Statement is the joint product of the Treasurer's
office and that of the Commissioner of Accounts and Deposits, the
Treasury's principal accounting officer. It is he who keeps the
governing appropriation accounts, oversees the transfers of funds
from one account to another and generally keeps meticulous record
of all government fiscal transactions. From his books come data

MORGENTHAU:
(Cont'd.)

upon which the fiscal assistant to the Secretary, an experienced career officer of the Treasury, bases his reports to me as to fiscal prospects and financial needs. I should add that the checks the Treasurer pays are mostly issued by another Treasury official, the chief disbursing officer, through his offices in Washington and in the field—which means throughout the country.

MELLETT:

But when the disbursements exceed revenue—

MORGENTHAU:

The difference, of course, must come out of the General Fund balance, which must be replenished by borrowing on the general credit of the United States. New or refunding obligations—bonds, notes or Treasury bills, are prepared by the Commissioner of the Public Debt, who also exercises supervision over the issue and redemption of the Government's public debt obligations. Decisions must be made as to when to offer securities, how much and what kind; and since old debt is constantly maturing, maturities must continually be pushed forward so that not too much of the debt is payable in any one year or group of years. These are direct responsibilities of the Secretary of the Treasury, in which he has the help of various members of his staff, including research assistants. Selection of the kind of issues which the market will most readily absorb has, of course, a bearing on the interest cost to the Government. We have been successful in accomplishing very substantial reductions in interest rates in the last five years, as well as in extending the average maturity of the debt.

MELLETT: Secretary Hull, in our broadcast last week, mentioned the Treasury as a department with which the State Department has close contacts---

MORGENTHAU: Most important of our activities in the international field is the supervision of foreign exchange, including the operations of the Stabilization Fund, through which our own citizens and those who do business with us are protected against violent fluctuations of the value of the dollar. In that work we have indispensable help from representatives of the State Department whom Secretary Hull has assigned to cooperate with us. With their assistance we were able to conclude the tri-partite monetary understanding with Great Britain and France, to which Belgium, the Netherlands and Switzerland later adhered. This has been a strong influence in promoting international monetary stability and preventing trade dislocation. We also have Treasury agents in many countries, whose work is mainly in connection with Customs matters, the enforcement of Narcotic laws and conventions, and the protection of the public health.

MELLETT: Public health is hardly a fiscal function---

MORGENTHAU: No, of course it is not. It is an accident of history that the Public Health Service, one of the finest as well as one of the oldest of the Government's social and humanitarian functions, has been in the Treasury Department. It started with a hospital service for seamen, associated with the Customs, and from this has evolved the general quarantine and health services which have become of incalculable value to all our citizens. Somewhat similar

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MORGENTHAU:
(Cont'd.)

is the history of the Coast Guard, with its fleet of sea-going cutters, patrol boats, tugs, ice-breakers, its airplanes for rescue work and law-enforcement patrol and its great chain of life-saving stations which girdle the coasts and surround the Great Lakes. That all began with revenue cutters to combat smuggling. But the Coast Guard, which rescues persons in peril at sea and enforces our laws generally in the coastal waters, still has an important Treasury function in the protection of the revenue.

MELLETT:

The Treasury has become a policeman-----

MORGENTHAU:

So much so that most of the inhabitants of Federal penitentiaries are put there as a result primarily of the activities of Treasury law-enforcement agents. Our police agencies include, besides the Coast Guard, the Customs agency service, the Secret Service, which, in addition to protecting the President, combats counterfeiting; the enforcement branch of Alcohol Tax Unit; the Narcotics Bureau and the Intelligence Unit of the Bureau of Internal Revenue. Among the accomplishments of the Intelligence Unit, which acts in cases of suspected willful evasion of income taxes, have been the conviction of a long list of racketeers, who had made themselves leaders in many varieties of crime.

MELLETT:

To go from crime to manufacturing and construction-----

214L
~~51~~

MORGENTHAU: The Procurement Division of the Treasury has had the responsibility of designing and building all Government buildings, including post offices, throughout the country. We also buy supplies and materials for other Government departments, from paper clips to tractors. And as to manufacturing, we do some of that too. The Bureau of Engraving and Printing is a big industrial plant. It occupies two large buildings in Washington, has some six thousand employees and manufactures all our paper money, Government bonds and notes, postage and revenue stamps, checks and other obligations and documents. Our mints and assay offices are also manufacturing plants. They assay gold and silver and cast it into bars and they manufacture coins. The Mint Service also has custody of the stock of monetary gold and silver. There is a special depository for gold at Fort Knox, and one for silver at West Point.

MELLETT: You need, in all this, both legal and economic advice—

MORGENTHAU: Indeed we do. The General Counsel of the Treasury, directing legal divisions in all branches of the Treasury, is one of the most important law officers of the Government. We have three research divisions, one concerned with revenue estimates, general Treasury statistics and economic research, another with tax research and a third with monetary investigations.

MELLETT: The United States Treasury--collector, bookkeeper, paymaster, banker, financier, builder, manufacturer, sailor, policeman and physician—

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214M

MORGENTHAU: All of those, Mr. Mellett, and some things we have not had time to mention.

ANNOUNCER: (CLOSING ANNOUNCEMENT)

May 23, 1939
12:00 noon

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Sumner
Welles: Good morning, Henry.

HMJr: Good morning.

W: How are you feeling?

HMJr: Oh, I'd like to have my picture taken again.

W: (Laughter) I'm sorry to bother you, but I have an invitation to extend to you which I hope you will accept. The Little Cabinet is having its first dinner of the season on the evening of May 31, that's Wednesday, and we would like to have you the guest of honor and talk to us off the record.

HMJr: Well, I don't know whether I'm in any -- in the first place may I thank you, and secondly, I don't know, Sumner, whether you ought to have me there to talk.

W: I think it would be a very good plan if you did.

HMJr: I'm -- I'm kind of low.

W: Well, that's nine days off, and I think it would be very helpful if you would. I trust you will say "yes".

HMJr: Well, I -- I'll look at the family calendar, see.

W: All right.

HMJr: I don't know what my wife has on -- I mean, I'm not using this as a.....

W: No, I know perfectly.

HMJr: Let me look up and.....

W: You bet. Send -- just have somebody in your office send around word, will you?

HMJr: I'll -- I'll have them check and call your secretary back in five minutes.

- 2 -

W: Thank you so much.

HMJr: Thank you very much.

W: And I hope very much you'll do it.

HMJr: But -- God, I don't know what I'll talk about.

W: Well, I think there's a good deal that you might talk about.

HMJr: Well, I won't be funny on the 'phone. All right, Sumner.

W: All right, thanks, Henry.

HMJr: Thank you for asking me.

W: Thanks. Good bye.

May 23, 1939
12:07 p.m.

HMJr: Hello.

Operator: Congressman Doughton is on the floor and Miss Doughton won't be in the office today.

HMJr: Oh. Well, would you leave word that I'd like to talk to him between two-fifteen and two-thirty if he'd call me.

O: All right.

HMJr: If he'd call me between two-fifteen and two-thirty.

O: All right.

HMJr: Thank you.

O: Now about May 31. Janet says you have the White House press dance at nine o'clock.

HMJr: The White House what?

O: Press dance.

HMJr: Well then, call up Mr. Sumner Welles' office -- his secretary, and say we're very sorry but we're going to the White House on that night.

O: All right.

HMJr: Will you?

O: Yes, I will.

HMJr: We're going to the White House.....

O: All right.

HMJr:on that evening. And tell Miss Wais that Boyd from nine-thirty to ten is all right, but I wonder if we couldn't get Lang up there on -- I'll talk to her in a couple minutes myself.

O: All right.

HMJr: Is she in her office, or.....

O: I'm not sure. She spoke of going to lunch at twelve o'clock.

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HMJr: Well then let me talk to her this afternoon.
O: All right. -- All right.

May 23, 1939
2:22 p.m.

HMJr: Hello.

Robert
Doughton: Oh yes, Mr. Secretary.

HMJr: Well, I just wondered if you'd care to tell me if -- if the situation is clearing up any.

D: Well, I think so. I was going to call Mr. Hanes this afternoon. I've been awful busy this morning. I told him yesterday I'd call him. I may just -- just as well tell you.....

HMJr: Yeah.

D: We had a conference among the Democratic members of the sub-committee on Internal Revenue taxation yesterday and we talked along about the line that we were discussing, you know, and it was the understanding something like this: That the Chairman of the sub-committee would get the sub-committee together.

HMJr: Yeah.

D: And they would make certain recommendations. I suppose he'll confer with you before he does that. And then when those recommendations were made the full committee -- then that I, Chairman of the full committee, would call a hearing at which you would be invited to appear and make your statement, and we may get at it this week. We can't get up this -- amendments to the Social Security Act -- I don't see any reason why we couldn't go to work after this week. I'm pushing them all I can. I just -- there's a limit to what I can get other members of the committee to do.

HMJr: Well now, I don't quite understand -- what would the sub-committee do?

D: What would the sub-committee do?

HMJr: Yeah.

D: Well, the sub-committee -- I'm a member of it.

HMJr: Yes.

D: We agreed to go along substantially -- along the lines -- that is, start out along the lines that have been kind of recommended by Senator Harrison, and it was understood --

at least I had understood, while I didn't so express it -- and send it back to you.

HMJr: Yeah.

D: Is that right?

HMJr: Well not -- here's -- he's got a particular set of recommendations. Mine are more general, a little bit broader. You know what mine are.

D: I know what yours would be in general, but I.....

HMJr: And I don't -- I mean.....

D: Our understanding was that we would be willing to go along and send -- in a -- all in one bill.

HMJr: Yeah.

D: Even with the corporations and extending the taxes that expire the 30th of June and also those expiring in January, with such changes in the present law and other than that as we deemed advisable, but to keep in mind all the time two things: That any changes -- in any changes made we must raise as much revenue from the corporations as the present law would yield.

HMJr: Yeah.

D: And that we must not open up any loopholes.

HMJr: Yeah.

D: Now that's about as far as we went. Now, I don't believe we're going to have much trouble going along. But of course.....

HMJr: Well.....

D:before they start we'll probably, as you said last night, have to see the President, you know.

HMJr: Yeah, but I mean, if you people invite me to come up there.....

D: How's that?

HMJr: If you people invite me to come up there, I take it you want to say -- hear what I have to say, and I -- as you

did in your letter. Now I -- the things that Senator Harrison stand for -- I mean, and the things that -- two or three things that I'd like to suggest are not exactly the same, but they're not very far apart.

D: Well, I don't want to stick up exactly what -- exactly what Harrison has been recommending nohow. It looked too much like he's leading the fight.

HMJr: Yeah.

D: Leading the way.

HMJr: And what we're doing down here is -- is my work and the work that we've done ever since I've been here, and I want to give you the benefit.....

D: Well, I thank you and I appreciate that.

HMJr: But it will not be just the same as what Senator Harrison.....

D: Well, I'm glad of that. I hope it won't be.

HMJr: And.....

D: If it did, we -- we'd want to make some changes ourselves I know.

HMJr: Yeah. So what I'll do is I'll send for Hanes and tell him that I talked to you and that -- just what you told me. That you're going to have a meeting of the sub-committee and that the sub-committee will recommend to the committee as a whole that they invite me to come up. Isn't that the idea?

D: That's the idea.

HMJr: What?

D: That's -- that's the way I understand -- the full committee.

HMJr: The full committee?

D: Yes.

HMJr: And you think there's some chance of -- maybe of your getting around to it this week?

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- D: I hope so. I don't see why we shouldn't right now.
- HMJr: Because.....
- D: I'll talk to Jerry and Bill about it this afternoon. There's just so much I can hurry him, you know.
- HMJr: Well, next week -- you see, the beginning of the week is Decoration Day.
- D: Yeah; well, we might -- we might have something else we'll have to take up the first of the week, but I thought I might start on it this week.
- HMJr: Well, what -- our thought was, and this is just for you, you see -- if you would let me know and say, "Now look here, Morgenthau, we're going to hear you on such and such a day." You see?
- D: Yes.
- HMJr: And just give me a little notice, then I'd want.....
- D: I'll give you all the notice I can.
- HMJr: I mean -- but give it to me privately.
- D: Yeah, I understand.
- HMJr: Then I'd walk across the street and see the President alone.
- D: All right.
- HMJr: And have a heart to heart talk with him.
- D: All right.
- HMJr: But if you would say me to, "Now, on such a day you -- I'm telling you unofficially that you're going to be invited".....
- D: Yeah.
- HMJr: Then I'd walk across the street and say that Bob Doughton called me up and here's my statement, Mr. President. Now this is what I'm going to say, and then he and I would have it out. You see?
- D: Will you be in your office later this afternoon?

HMJr: Yeah, how late?

D: Anytime along two or three hours.

HMJr: Ah.....

D: I've got this bond bill coming up right now. It's on the floor -- it's on the floor so I'll have to go back.

HMJr: Well, when you're ready, supposing you give me a ring.

D: I'll call you again.

HMJr: Thank you.

D: All right, thank you.

5-23-39

STATUS OF LOAN FUND
UNITED STATES HOUSING AUTHORITY
(In Millions of Dollars)

	<u>OBLIGATIONS</u> <u>(CONTRACTS SIGNED)</u>	<u>EXPENDITURES</u>
Prior to July 1, 1938 - - - - -	111.1	3.4
July - - - - -	-	.8
August - - - - -	28.3	2.1
September - - - - -	20.3	1.0
October - - - - -	11.7	1.3
November - - - - -	32.6	1.9
December - - - - -	74.9	11.6
January, 1939 - - - - -	24.3	2.6
February - - - - -	13.3	3.5
March - - - - -	25.3	5.2
April - - - - -	9.6	3.9
	<u>351.4</u>	<u>37.3</u>
Bond authorization - - - - -	800.0	
Sold - - - - -	<u>114.2</u>	
Balance - - - - -	<u>685.8</u>	
Proceeds of sale - - - - -		114.2
Cash disbursements - - - - -		<u>37.3</u>
Cash balance - - - - -		<u>76.9</u>

swob

TREASURY DEPARTMENT

225

INTER OFFICE COMMUNICATION

DATE MAY 23 1939

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

Re: Ching Chun Hee

J. Walter Doyle, the Collector of Customs at Honolulu, Hawaii, wrote you suggesting that you contact the Attorney General to secure the transfer of Ching Chun Hee, a convicted opium smuggler, from the penitentiary at Oahu to a Federal penitentiary in the United States. You asked me to write to Judge Neterer who sentenced Ching Chun Hee and ascertain his views as to Doyle's suggestion and also to find out how serious an offender Ching Chun Hee really was. I have written to Judge Neterer and I am attaching, for your signature, a suggested letter to Doyle.

The story of Ching Chun Hee is as follows:

Information had been received to the effect that the SS. PRESIDENT MADISON, enroute to San Francisco from the Orient, and due to arrive in Honolulu on August 30, 1928, was alleged to have a large shipment of opium on board and an attempt would be made to unlade the opium in Honolulu. Acting on this information, a customs officer, on August 31, 1928, stopped a truck belonging to YEE LUNG TAI CO., and ordered the contents of this truck, consisting of twelve cases of a shipment of sixty-five cases consigned to the above-mentioned firm taken to the customs appraisers warehouse for inspection. Upon opening these cases it was disclosed that each contained smoking opium. Upon finding the opium, the collector of customs ordered the entire shipment to be sent to the appraisers warehouse for inspection. During this inspection, more cases in the shipment were found to contain opium. The truck driver, YOUNG BARK YAU, and the freight checker on the pier, DAVID K. HOAPILI, were arrested. The officers then proceeded to the Yee Lung Tai Co., which is a Chinese merchandise store, and placed under arrest CHING HEE, the manager, and CHIN SHEU, the bookkeeper. Information had been received that Chin Sheu's father, CHIN HOW, had been residing in Macao for the past two and one-half years and that he was the agent in China for a number of Honolulu opium dealers, making all arrangements for shipments of opium from China to Honolulu. When questioned, Chin Hee and Chin Sheu denied any knowledge regarding this shipment, stating they had not ordered the shipment, but admitted they had paid the freight and duty on same. The total amount of smoking opium found in this shipment was 3,338 five-*tael* tins.

On September 24, 1928, two indictments were returned, one charging

all four persons with violating the Harrison Narcotic Law and the Narcotic Drugs Import and Export Act, and the other charging Chin Sheu and Ching Hee with violating the Narcotic Drugs Import and Export Act. The indictment first mentioned went to trial August 1, 1929, but resulted in an acquittal on August 7, 1929. On October 4, 1929, Chin Sheu committed suicide. On October 10, 1929, Mrs. Chin Sheu stated her husband had informed her that there were eleven persons interested in this opium deal and they were organized under the name of the HAWAIIAN CHINESE FINANCE CO., and that LAU LEE was the treasurer and active head of this company.

In June, 1930, a new indictment was returned charging CHING CHUN HEE, LAU LEE, HONG CHOW and CHIN HOW, with violation of the Narcotic Drugs Import and Export Act and Section 37 of the Criminal Code. This indictment also charged CHING HEE, YOUNG BARK YAU and DAVID K. HOAPILI with the same violation. Chin How, father of Chin Sheu (deceased) voluntarily came to Honolulu from Macao and entered a plea of guilty to this indictment. Hong Chow also pleaded guilty, and he and Chin How took the stand and testified for the Government. Their testimony implicated Lau Lee and Ching Chun Hee.

On November 14, 1930, Judge E. K. Mabee sentenced Ching Chun Hee to imprisonment for twelve years and fined him \$15,000.00, and similar punishment was meted out to Lau Lee. The other defendants received smaller sentences. The convicted defendants appealed from the judgment of conviction and the Court of Appeals for the Ninth Circuit, on October 16, 1933, reversed the decision of the District Court because that court had committed error in charging the jury as it did. The retrial of this case was continued from time to time and on December 20, 1935, Ching Chun Hee and some of the other defendants entered a plea of guilty to the indictment and District Judge S. C. Huber placed the defendants on probation.

In August, 1938, Ching Chun Hee communicated with a narcotic officer in Honolulu and told the officer he wished to corner the opium market in Honolulu and if the officer were willing to take smoking opium off certain boats touching at Honolulu, he would pay him. The officer, after notifying his superior officers of this proposition, pretended to agree to assist Ching Chun Hee in smuggling smoking opium into Honolulu. Over a period of months, the officer conferred with Ching Chun Hee, and during that time received sums of money as bribes. Ching Chun Hee finally notified the officer that the SS. EMPRESS OF JAPAN was due in Honolulu on December 15, 1938, and there would be on board eighty five-teen tins of smoking opium. He told the officer where the smoking opium would be concealed on the vessel and instructed the officer as to the method of unloading the opium and bringing it to his, Ching Chun Hee's, home. Other Federal enforcement officers witnessed this narcotic officer make four trips to and from the vessel and on each occasion the officer obtained twenty tins of smoking opium. After all of the smoking opium had been taken to Ching Chun Hee's

- 3 -

home, the officers arrested him and seized the opium.

Due to this last-mentioned violation, Ching Chun Hee was taken before the court for revocation of the probation imposed on December 20, 1935, and after having been given a hearing, Judge Jeremiah Neterer revoked the probation heretofore granted to Ching Chun Hee and on December 28, 1938, the Judge sentenced him to imprisonment in the Oahu Prison for a term of two years and fined him \$1,500.00 on the first count of the indictment which had heretofore been returned against him in 1930. He also sentenced him to imprisonment for five years on the second count but suspended execution of the five year sentence and placed him on probation for five years, the probationary period to begin upon his release from confinement under count one.

For smuggling the eightytins of smoking opium into Honolulu on December 15, 1938, Ching Chun Hee and a number of other Chinese were indicted on December 22, 1938. This indictment contained four counts, the first charging violation of Section 37 of the Criminal Code (conspiracy), the second and third charging violation of the Narcotic Drugs Import and Export Act, and the fourth charging violation of the Harrison Narcotic Law. To this indictment Ching Chun Hee entered a plea of not guilty on December 28, 1938, but changed this plea to one of nolo contendere on January 11, 1939. On January 16, 1939, he was sentenced to imprisonment for two years on count one, seven years on count two, seven years on count three and three years on count four, these sentences to run concurrently. He was also fined \$1,000.00 on count two. The court ordered the prison sentences on these four counts to commence at the expiration of the sentence imposed on the first count of the 1930 indictment, but provided that execution of these sentences be suspended if Ching Chun Hee is deported. In the event he should return to the United States after deportation or in the event he is not deported, the court ordered that the sentences under the 1938 indictment be served.

On January 24, 1939, the fact of Ching Chun Hee's conviction was called to the attention of the Department of Labor for any action it might take looking towards deportation of this individual.

When I have heard from Judge Neterer I shall bring the matter again to your attention.

P. W. F. H.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Managua

DATE: May 23, 11 a.m., 1939

NO.: 46

Announcement of the loan is treated by the press as fully satisfactory to Nicaragua; the press points out that it guarantees canalization of the San Juan construction of a road parallel to it and development of the country's economy. The press has not hinted of restrictions on the amount immediately available nor as to its allotment. As indicated in the following telegram from the Minister for Foreign Affairs to the Minister of Finance at Managua, the main source of information thus far, a general feeling prevails that this amount will be followed by further funds:

"Today at noon in the White House the arrangements destined to establish a close cooperation between Nicaragua and the United States for the common benefit of both countries were signed by President Roosevelt and President Somoza. (Here follow list of those present).

"The arrangements ensure the cooperation of the United States in the canalization of the San Juan River for ships of average draft and the construction of a highway parallel to the same. The credit of the export bank would be a half million

-2-

million dollars for the Banco Nacional de Nicaragua with the purpose of contributing, for the present, to the stabilization of the cordoba.

Economic cooperation in the development of the country ensures, as a beginning, a credit of two million dollars for the first plan of two years work in the construction of highways and other public works. Cooperation can continue immediately after the success which is expected in this first stage. The plan contemplates other important aspects of cooperation which will be known when the letters exchanged between Presidents Roosevelt and Somoza are published. The success obtained by the action of President Somoza ensures the future of Nicaragua through a just consideration of the common interests of both countries and ample and friendly cooperation. Signed Cordero Reyes."

CASTLEMAN

EA:DJW

RECEIVED

MAY 22 1954

RECEIVED
MAY 22 1954
U.S. DEPARTMENT OF STATE
WASHINGTON, D. C.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

May 23, 1939.

TO Secretary Morgenthau
FROM Mr. O'Connell

For your information

William E. White, Superintendent of Banks, State of New York, testified to-day before the Temporary National Economic Committee relative to the present New York legal restrictions on investments of trust companies and savings banks. He suggested the advisability of broadening the "legal list" so as to permit such institutions to invest in industrial securities of proven value. He was of the opinion that some way should be found of safeguarding depositors and beneficiaries of trust funds while at the same time broadening the field of securities in which the respective custodians of the funds might invest. He opposed permitting savings banks to invest in common stock, but felt that powers of trustees in this regard might be somewhat broadened. His testimony was not particularly illuminating and followed generally the pattern of recent legislative proposals in New York.

A. A. Berle then testified at length in relation to the functioning of our banking system, and suggested consideration of "A Banking System for Capital and Capital Credit". Without attempting to sketch his proposal in anything but the broadest outlines, Mr. Berle urged the need for having the banks operate on a service basis; that is on the basis of making credit available for the creation of wealth at whatever rates of interest are needed to permit its financing. He feels that the theory that a bank must make a profit has ceased to be valid, except in a limited sense and that as a mechanism for creating currency (through credit) it should function mainly with that in mind. This, of course, would mean flexible interest rates, with only nominal rates for such public projects as hospitals.

His specific recommendations to the Committee were that it should promptly do three things:

Secretary Morgenthau,

2.

May 23, 1939.

(1) Recommend passage of a bill creating a Public Works Finance Corporation, to finance self-liquidating Public Works Agencies of the Federal Government, with consideration given to extending similar privileges to municipal and local units.

(2) Recommend passage of a bill to insure loans to small business. This he considers a stop-gap to help put small business on a par with large corporations in having access to the capital markets pending the results of the broader treatment of the problem outlined generally.

(3) Appoint a sub-committee to study and report to the next Congress a bill providing for capital credit banks whose business it would be to provide capital for enterprises that need it, when they need it. Such credit to be available for public and private enterprise, following the plan generally outlined in his prepared statement.

Joseph J. Cannon

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

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

May 23, 1939

For your information

The legislation to remove the partition on the amount of bonds that may be issued within the \$45,000,000,000 limit set by the Second Liberty Bond Act will be taken up on the floor of the House today under a special rule limiting the debate to one hour. It is not anticipated that there will be any difficulty in securing the passage of this bill.

E. H. Foley

TREASURY DEPARTMENT

233

INTER OFFICE COMMUNICATION

DATE

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

May 23, 1939

For your information

Mr. Gibbons has just received a telegram from Congressman J. Parnell Thomas requesting the appearance of Harold Graves before him as a Subcommittee of the House Claims Committee in connection with the Sokol matter on Thursday, May 25 at 1 o'clock.

I have notified Harold Graves and Mr. McReynolds, and see no reason why Mr. Graves should not appear and follow the same course he pursued at the earlier hearing.

E. H. Foley, Jr.

J. M. J.

TREASURY DEPARTMENT

234

INTER OFFICE COMMUNICATION

DATE MAY 23 1939

TO Secretary Morgenthau
FROM Mr. Foley

The Supreme Court on Monday decided that the Gold Clause Resolution of June 5, 1933, is applicable to "multiple currency" bonds issued by American corporations. The Government had filed a brief urging the applicability of the Resolution to the bonds in question.

The majority opinions were written by Black and concurred in by Roberts, Frankfurter, Reed and Douglas. Stone wrote a dissent which was concurred in by Hughes, McReynolds and Butler.

E. N. Fh.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

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

May 23, 1939

For your information

The motion to dismiss the actions brought by the Bank of Spain against the Federal Reserve Bank of New York and the Superintendent of the Assay Office will be argued on Friday of this week ^{5/26/39} in the Federal District Court in New York. Henry L. Stimson will present the argument on behalf of the Federal Reserve Bank of New York and also the Government. He will be assisted by Paul Campbell of the Department of Justice. Mr. Bernstein will go to New York on Thursday to sit in on the final preparations and will also be in Court on Friday to give Stimson such assistance as he may desire.

Stimson's office has inquired as to the status of any negotiations between this Government and Spain for the settlement of the entire matter. It would be helpful if Mr. Bernstein could have the most recent information as to the status of the settlement when he goes to New York on Thursday.

E. H. F.

MAY 23 1939

MEMORANDUM FOR THE PRESIDENT

I have read the enclosed memorandum addressed to you by the Comptroller of the Currency on the Pennsylvania Turnpike Revenue Bonds and fully agree with the Comptroller's position.

This position was taken solely to protect bank depositors and not to keep national banks from investing idle funds in employment-producing construction enterprises. As pointed out in the memorandum, the Turnpike Bonds will be "risk" bonds until the Turnpike has been completed and has demonstrated that it will be self-liquidating. Up to that time, whatever risk there is should properly be carried by the Reconstruction Finance Corporation. As a matter of fact, the past experience in financing large construction projects whose bonds are payable only from revenues, such as the projects of the Triborough Bridge Authority, the New York State Bridge Authority, the California Toll Bridge Authority and the Jones Beach State Parkway Authority, shows that it has been very profitable for the Corporation to hold such bonds and not dispose of them until the projects have been completed, their earning capacity proven and the marketability of their bonds established. The Reconstruction Finance Corporation has on hand at the present time approximately \$30,000,000 of obligations of the New York City Tunnel Authority of the same type as the Turnpike Bonds. Although the Reconstruction Finance Corporation through the Public Works Administration has a

commitment to purchase approximately \$45,000,000 of bonds of the New York City Tunnel Authority, no attempt has been made to dispose of any of these obligations pending the completion of the tunnel under the East River in anticipation of whose earnings the bonds are being issued. After self-liquidating projects have demonstrated their earning power national banks can very well invest in bonds issued for the construction of such projects and this investment may be accomplished without placing unnecessary risks on bank depositors.

NOT/EHF:s;JWH/FLG--5/23/39

MAY 23 1939

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NOT/REY:s|JWH/FLG--5/23/39

MEMORANDUM FOR THE PRESIDENT:Re Pennsylvania Turnpike Revenue 3 3/4% Bonds

This memorandum is in response to your request for a statement of the position of the Comptroller of the Currency as to the eligibility, for inclusion in the investment portfolios of national banks, of Pennsylvania Turnpike Revenue 3 3/4% bonds.

As you know, under the National Bank Act and the regulations issued under it, investments to be eligible for purchase by national banks must be marketable and must not be predominantly speculative.

It is estimated that the total construction cost of the Pennsylvania Turnpike will be approximately \$58,300,000. Of this amount the Reconstruction Finance Corporation is committed to purchase approximately \$35,000,000 of the bonds at a price to return to the Turnpike Authority approximately \$32,000,000. Public Works Administration is committed to make a grant of not to exceed \$26,000,000. Approximately \$10,000,000 of the bonds of the \$35,000,000 commitment have been purchased and resold by the Reconstruction Finance Corporation to an underwriting group. The balance of the issue has not yet been taken up by the Reconstruction Finance Corporation. Public Works Administration has paid none of the grant. The sole security behind the bonds is the tolls to be paid by the users of the road. There is no recourse

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to taxing power or to other sources of revenue for the retirement of the bonds. Although title to the property is in the Commonwealth of Pennsylvania, the obligations in no way are guaranteed by the Commonwealth.

Contracts for the construction of only a portion of the Turnpike have been let and the project has just reached the construction stage. There is no assurance at this time that the road will be completed or, if it is, that the tolls will be adequate to retire the indebtedness. Under these circumstances it seems clear that revenue bonds for an authorized but uncompleted self-liquidating project are speculative in character, and so do not meet the tests of the National Bank Act and the Comptroller's Investment Regulation. This is the opinion generally shared in responsible financial quarters.

So much of the Pennsylvania Turnpike Revenue $3\frac{3}{4}\%$ bonds as have been sold have had no such public distribution as would bring them within the test of marketability. There is no active market in the bonds and quotations are somewhat nominal in character. Insurance companies and other institutional investors are not purchasing them. Competent financial authorities, including officials of the Federal Reserve Bank of New York, do not regard them as having marketability. They are not seasoned securities such as banks should invest "other people's money" in. They belong in the risk category.

Section 5136 of the Revised Statutes provides that for securities to be eligible for purchase by national banks they must be:

- (1) marketable;
- (2) bonds, notes and/or debentures commonly known as investment securities;
- (3) within the regulations prescribed by the Comptroller of the Currency. Under this provision of the law ~~the~~ regulations of this office prescribe that the securities which are predominantly speculative are not eligible for purchase by national banks.

Because these bonds fail to meet the legal requirement as to adequate marketability, and because they are speculative in character, it is the conclusion of the Comptroller of the Currency that they should not be eligible for investment purchase by national banks.

Freston Delano
Comptroller of the Currency

CBU/KHF:akms Retyped 5/19/39

TREASURY DEPARTMENT
Comptroller of the Currency
Washington

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May 22, 1939

MEMORANDUM FOR THE PRESIDENT

Re: Pennsylvania Turnpike Revenue 3 3/4% Bonds

This memorandum is in response to your request for a statement of the position of the Comptroller of the Currency as to the eligibility, for inclusion in the investment portfolios of national banks, of Pennsylvania Turnpike Revenue 3 3/4% bonds.

As you know, under the National Bank Act and the regulations issued under it, investments to be eligible for purchase by national banks must be marketable and must not be predominantly speculative.

It is estimated that the total construction cost of the Pennsylvania Turnpike will be approximately \$58,300,000. Of this amount the Reconstruction Finance Corporation is committed to purchase approximately \$35,000,000 of the bonds at a price to return to the Turnpike Authority approximately \$32,000,000. Public Works Administration is committed to make a grant of not to exceed \$26,000,000. Approximately \$10,000,000 of the bonds of the \$35,000,000 commitment have been purchased and resold by the Reconstruction Finance Corporation to an underwriting group. The balance of the issue has not yet been taken up by the Reconstruction Finance Corporation. Public Works Administration has paid none of the grant. The sole security behind the bonds is the tolls to be paid by the users of the road. There is no recourse

to taxing power or to other sources of revenue for the retirement of the bonds. Although title to the property is in the Commonwealth of Pennsylvania, the obligations in no way are guaranteed by the Commonwealth.

Contracts for the construction of only a portion of the Turnpike have been let and the project has just reached the construction stage. There is no assurance at this time that the road will be completed or, if it is, that the tolls will be adequate to retire the indebtedness. Under these circumstances it seems clear that revenue bonds for an authorized but uncompleted self-liquidating project are speculative in character, and so do not meet the tests of the National Bank Act and the Comptroller's Investment Regulation. This is the opinion generally shared in responsible financial quarters.

So much of the Pennsylvania Turnpike Revenue 3 3/4% bonds as have been sold have had no such public distribution as would bring them within the test of marketability. There is no active market in the bonds and quotations are somewhat nominal in character. Insurance companies and other institutional investors are not purchasing them. Competent financial authorities, including officials of the Federal Reserve Bank of New York, do not regard them as having marketability. They are not seasoned securities such as banks should invest "other people's money" in. They belong in the risk category.

Section 5136 of the Revised Statutes provides that for securities to be eligible for purchase by national banks they must be:

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- (1) marketable;
- (2) bonds, notes and/or deventures commonly known as investment securities;
- (3) within the regulations prescribed by the comptroller of the Currency. Under this provision of the law the regulations of this office prescribe that the securities which are pre-dominantly speculative are not eligible for purchase by national banks.

Because these bonds fail to meet the legal requirement as to adequate marketability, and because they are speculative in character, it is the conclusion of the Comptroller of the Currency that they should not be eligible for investment purchase by national banks.

(Signed) Preston Delano
Preston Delano
Comptroller of the Currency

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 24, 1939

TO Mr. White
FROM Mr. Gass

Subject: Mr. Edward Stettinius' Testimony before the Temporary National Economic Committee on Sources of Funds and Expansion in the Steel Industry

Sources of funds:

Mr. Edward Stettinius, Chairman of the Board of the United States Steel Corporation, testified on the capital financing of his company, on improved technology in the steel industry, and on the prospects for the expansion of investment in steel. His testimony may be summed up in the reply which he gave to a single question:

Mr. Henderson: "As far as ... your corporation is concerned, the prospects for individual savings being canalized into your operations is very, very low?"

Mr. Stettinius: "Yes."

He presented evidence showing that, over the whole period 1921-1938, the net flow of funds to the United States Steel Corporation from securities flotations was negative. The corporation issued \$240,000,000 of common stock, but it repaid \$333,000,000 worth of bonds. Its net acquisition of funds from security flotations was therefore negative to the extent of \$93,000,000.

Its principal internal sources of funds were \$938,000,000 from depreciation allowances and \$192,000,000 from retained profits. Other minor internal items add up to over two hundred million dollars. Over the whole period, the internal sources of funds were quite adequate to meet the replacements and expansion which the corporation wished to make. These capital needs did not keep it from distributing \$910,000,000 in dividends.

Only once did the corporation feel any real call to turn to outside sources for funds. In the year 1935 it embarked on a modernization campaign which involved capital expenditures in excess of \$300 million over a four year period. This was the greatest concentrated investment program

Mr. White - 2

which the corporation has undertaken in the post-war years. Business having failed to materialize on the level expected, except during the early part of 1937, the corporation found itself at the end of 1937 with a considerable part of its modernization program uncompleted and relatively short of cash. Therefore, on February 1, 1938, the corporation borrowed \$50,000,000 from a group of banks. It also disposed of \$50,000,000 worth of government and other bonds. Finally, on June 1, 1938, it issued about \$100,000,000 of 3½ percent debentures.

Aside from this one experience in 1938, the United States Steel Corporation has never in the post-war period needed to call upon outside sources to finance replacements or expansion. Mr. Stettinius was quite emphatic in his assurance that such a need was not likely to recur. He expressed the belief that his own company now has sufficient modernized capacity to meet any foreseeable demand.

The steel industry and the United States steel corporation:

In the course of his testimony, Mr. Stettinius gave certain interesting bits of information about the steel industry and especially about his own company. He indicated, for instance, that his modernized plants involve greater fixed capital costs per unit of capacity than did the old ones. They are more economical because they permit about 25 percent lower labor costs.

He testified that revolutionary changes have been taking place in steel technology. Steel pipe has been so improved that it is possible now to carry oil drilling to a depth of 15,000 feet instead of 5,000 feet, which was the maximum formerly. Tin plate for preserving foods has been greatly improved. Cold rolled sheets have made possible basic improvements in automobile bodies. Alloy and stainless steels are acquiring a wide variety of uses. Structural steels are being used in pre-fabricated housing. Research is constantly improving the quality of steel products.

The United States Steel Corporation, with its 140 subsidiaries, makes almost all kinds of steel products. During 1937 its employees averaged 261,000 and its payroll for that year was \$442,000,000. This giant company is not thinking of undertaking any major investments in the near future.

Mr. Stettinius made no recommendations on general issues of policy.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

May 24, 1939

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

For your informationRe: Gold Medal Farms, Inc.

When Mr. Sexauer of the Dairymen's League was in to see you last Saturday, you asked me to look into the proceeding which the Federal Trade Commission has brought against the Gold Medal Farms, Inc. Pursuant to your suggestion, I telephoned William T. Kelley, Chief Counsel for the Federal Trade Commission, and asked him if Joe O'Connell, the Treasury representative on the Temporary National Economic Committee, could come in and talk to him about the proceeding. Mr. O'Connell saw Mr. Kelley yesterday and discussed the case with him for more than an hour.

It appears that the Commission is divided as to the feasibility of issuing a cease and desist order against the activities of the Gold Medal Farms, Inc. From Mr. Kelley's conversation, Mr. O'Connell believes that there are three votes on the Commission in favor of issuing the order and two votes opposed. From Kelley's statements it was apparent that he has some doubt as to the sufficiency of the evidence to support a cease and desist order.

After Mr. O'Connell's conversation, Mr. Kelley asked Mr. O'Connell if he would be willing to review the file and give Kelley his candid views. Mr. Kelley indicated that he would be guided by Mr. O'Connell's judgment in the matter.

If you can take the time, Mr. O'Connell and I would like to discuss the matter with you.

E.H.F.

May 24, 1939

FOR THE SECRETARY:Spending

I believe that Mr. Currie in his testimony before the TNEC in part met your suggestion that he publish his data on the necessity for Government spending. His testimony seems to me at least to enable some criticism by competent authorities of his basic thesis and I thought that in view of the current discussion of Government spending you might like to have some critical survey made of both his testimony and Dr. Hansen's testimony. I have arranged, at Mr. Haas' suggestion, to have a copy of the testimony supplied to him, but I did not suggest that he do any critical survey of that data.

ESD

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE

May 24, 1939

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

For your information

Yesterday the House passed the amendment to the Second Liberty Bond Act removing the limitation of \$30,000,000,000 on the amount of bonds that may be issued within the \$45,000,000,000 ceiling. There was no roll-call vote.

Senator Harrison has been waiting until the House acted before he started hearings. Larry Bernard will see Senator Harrison today and make arrangements for prompt handling of the bill in the Senate.

E. H. Foley

May 24, 1939
10:14 a.m.

HMJr: Hello.

Operator: Mr. Johnson.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

Felton M. Johnston: Good morning, Mr. Secretary.

HMJr: How are you?

J: Fine. Mr. Secretary, the Senator asked me to call you to tell you that he was going to call the committee together at ten thirty Friday morning -- this Friday -- to take up the bill that passed the House yesterday amending the Liberty Bond Act.

HMJr: Yeah.

J: And he suggested that I let you know so that you could come down and bring with you the fellows you wish to.

HMJr: Uh-huh.

J: Is that time agreeable with you -- the day?

HMJr: Well now, there is another committee which is talking about -- they've got a kind of an option on me for that morning.

J: I see. Well, I can.....

HMJr: They couldn't make it tomorrow?

J: Well, I tell you, we have a sub-committee here on a matter relating to gasoline -- foreign products going into gasoline, that one of your men is down here on, and this sub-committee may not get through today. And I don't -- I think it wiser that they go ahead and finish the hearing they are having. That's the reason that I told the Senator that Friday seemed to me to be the best day.

HMJr: Well, as I say, there's a gentleman who just left here, Chairman of a committee, and he has a kind of an option on me.

J: I see.

HMJr: But -- I'd know better this afternoon.

J: Well, that's all right. I wonder then if you could have your secretary to get in touch with me later in the afternoon and then I can get out the notices in plenty of time.

HMJr: I'd be glad to and if you'll be a little patient with me.

J: Sure, I'd be delighted.

HMJr: I'll try and work it out.

J: I'll tell the Senator then that we're waiting to hear from you. You prefer, in other words, that it not be Friday if you're going to have to go somewhere else?

HMJr: Is that -- well I -- this gentleman who just left -- he just took an option on me, so -- but he was going to go back on the Hill and let me know later on this afternoon.

J: How have you been?

HMJr: I?

J: Yes.

HMJr: Oh -- well I.....

J: It's a busy time.

HMJr: My nose is still above the water, but every time -- once in a while somebody steps on it.

J: (Laughter) Well, I'll see you, Mr. Secretary.

HMJr: All right.

J: Good bye.

HMJr: Thank you.

May 24, 1939

12:25 p. m.

Present;

Mr. Klaus
Mr. McReynolds
Mr. Foley
Mr. Irej

HM, Jr: When the Attorney General wants more investigators, do we give them?

Mr. McR: We usually, if we have the men, give him everything he asks for from the Investigating Staff if he needs specific information that is available. Of course, we can't go on a wild goose chase just because he may have a lawyer that wants something done, but within reason we would normally furnish it.

HM, Jr: I did not realize, but I thought that once we turned over a case to them it's up to them to investigate.

How many investigators do they want?

Mr. Klaus: I think three top-notch men to take over and take the burden off Tessem, who is the fellow with a bad heart. Afraid he might pop off if he works too hard.

HM, Jr: Does he want men out of Irej's division? If he wants some good men, send the fellow from Atlanta. He's one of the best men we have. If he wants three good men, tell Elmer to give him enough men.

Mr. McReynolds: Elmer is in my room now.

(Secretary phoned for Mr. Irej to come to the meeting.)

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HM, Jr: Have you (Mr. Klaus) talked to Irey?

Mr. Klaus: No. I have not seen him.

HM, Jr: Three men they want?

Mr. Klaus: If he got three, they would be happy.

HM, Jr: What sort of thing do they want them to do?

Mr. Klaus: For instance, the thing that disturbs him is they cut off investigation as soon as the case was turned over to Justice and he knows the investigation was not completed. An area, supposed to be San Antonio, where there is a lot of race sheet music that they have not uncovered; activities of Annenberg in New York that they never went into and he feels that he has to investigate them and if he can't get them from us he will get them from F. B. I.

(Mr. Irey came in at this point.)

Mr. Klaus: There is one fellow on our staff he would like to appoint full time. Ziffren.

Mr. Foley: I don't think we have any precedent. It's just how far you want to go and how interested you want to be.

HM, Jr: I am tremendously interested. If he wants full time on a lawyer, let's give it to them.

Mr. Foley: I think we ought to give him all the help we can.

HM, Jr: Let's give him half a lawyer today. You (Klaus) can take that homewith you.

He says he needs three top-notch investigators, Elmer. Campbell.

Mr. Irey: He's got my whole force of agents out there.

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Mr. McReynolds: Sam made a statement I want to run down. Did our boys stop investigation when they turned it over to Justice?

Mr. Irey: Oh, no! Except we subjected ourselves to the Justice Department. We stop the initiative, but we are here to help.

Mr. McReynolds: That's all right. For them to say we pulled our men out when we turned it over to them is ridiculous!

Mr. Irey: Our men are doing nothing but working on that.

Mr. Klaus: He can't understand why "when they turned it over to us they stop investigation." He said Hoover talked to him and Hoover and he and the Attorney General had a conference and Hoover said, "You will get all the help you want from me".

Mr. Irey: He has all the Treasury help he wants if available.

HM, Jr.: Let him either come on here and have another talk with our people. It's worth his trip if he isn't satisfied. I can't send Irey and Foley and Graves out there. Let him come here; be here a week from today, the day after Decoration Day, and sit down and talk it through. We have made the case so far and we are not going to drop it now, but I would go back

Mr. McReynolds: The statement we have withdrawn from the investigation is ridiculous!

Mr. Irey: Our men are not doing anything else in Chicago but that.

Mr. Klaus: He said the area in San Antonio and New York not covered. Most of the work has been auditing up to now and since the case was given to him by Justice as an investigated case, it had to be investigated further; not simply to be presented

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(At this point, the Secretary placed a phone call for Mr. Campbell, U. S. District Attorney in Chicago.)

Mr. Klaus: Also impressed by the fact that Tessem has a bad heart.

Mr. Irey: He got his bad heart from this case. He has been working on it for three years and I was afraid we would have to bury him. He was also a very valuable man on the Capone case and also very valuable on this.

Mr. Foley: The ticker carried a story that the Attorney General said there was a gigantic swindle going on in Los Angeles and he and Hoover were going out there and were going from the airport direct to the Court House.

HM, Jr: That's the moving picture people. He won't get in the movietones making that statement.

Mr. Irey: We spent practically all day yesterday and the day before yesterday on this movie case. We are going to get it over as soon as we can.

HM, Jr: I told him we would not send it until we were ready.

Mr. Foley: I think we ought to send a telegram to him to Los Angeles tomorrow and tell him we are not ready.

HM, Jr: Why not? Ridiculous! We never handle cases like that.

(At this point the Secretary had a report from the operator that she could not reach Mr. Campbell. The Secretary asked her to remind him to talk to him later in the afternoon.)

HM, Jr: I will talk to him and I will simply say that you (Klaus) talked to me and, first, that he come on next Wednesday and have a conference with our

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boys and, in the meantime, do you (Foley) want to give him the rest of that lawyer or not?

Mr. Foley: Yes. I think we might just as well.

HM, Jr: So Sam can take something home with him.

(Note: Secretary's phone conversation with Mr. Campbell at 4:35 p.m. is attached hereto.)

May 24, 1939
4:33 p.m.

Operator: Go ahead.

HMJr: Hello.

William

Campbell: Hello.

HMJr: Mr. Campbell.....

C: Yes, Mr. Secretary.

HMJr: Morgenthau.

C: How are you, sir?

HMJr: I'm all right.

C: That's good.

HMJr: My man Klaus was in today.

C: Good!

HMJr: And I understand you need some more help.

C: Well, I think I've got it fairly well straightened out. The only thing I wanted -- you have a very good man out here named Ziffren who is a good research lawyer in this tax field.

HMJr: Yeah.

C: And I thought that we could use him to do some of our run-down work here if we could get someone to substitute for him in his regular work.

HMJr: Well, I told Foley today that he should assign him to you on full time.

C: Well that's just grand because we can use somebody like him in the library all the time here. We are going to have opposition from Waym us Kirkland and various others on every process that we issue, particularly on our subpoena to Statakum, and we want to be well fortified because they're going to be when they go into court to oppose us on the issuance of subpoenas and I want to be very well fortified, and I think this man is a very good man to run down all the decisions for us.

HMJr: Well, you're going to have him on full time.

- G: Well that's wonderful. I appreciate that.
- HMJr: Well now, Klaus said you need more investigators.
- G: Well yes, here's the situation on the investigators. I find that you -- your men have built up a very good case on the standpoint of book information and figures on the investigation of this man's own books and the various corporations that he's connected with. However, I do want some good -- what I would call in the parlance of the field, a bird-dog. I want some boys to follow up some angles that are revealed by these investigations reports and actually pin some fraud right on to the principle here.
- HMJr: Yeah.
- G: Now, I want to get the principle instructing some of these various accountants and auditors and attorneys to commit the various acts that were committed and thus knock in the head his argument/he didn't know what was going on. about.
- HMJr: Well now, here's the thing.....
- G: Three angles that we can follow that will produce that information. The file doesn't contain it now, and I think we're going to need another five or six good investigators to do that. Not accountants, but just good rope men. Good criminal investigators.
- HMJr: Well now, Campbell, there seems to be a little misunderstanding at this end, and.....
- G: Well I was in hopes Sam would get that straightened out.
- HMJr: Well, he tried to and I tried to, and I was going to suggest -- I think it would be worth a trip of yours to come here and spend a day with us.
- G: All right, I'll be glad to do that.
- HMJr: And I think right after Decoration Day if you'll come in and spend a day, I think it would be worth your while.
- G: All right, I think that's a very good suggestion, Mr. Morgenthau. I'll be happy to do that.
- HMJr: Now, we had a little misunderstanding with the District Attorney in Kansas City and he came on here for a day and I put him in touch with the right fellows and we ironed all the troubles out.

C: Good!

HMJr: I'd send them out, but I can't send out all of my head men to Chicago, and if you came here I can arrange a meeting for you with our head fellows.

C: Well, I can't ask for anything more than that, Mr. Secretary. I appreciate it very, very much.

HMJr: And I think one day here in the Treasury would be worth your while.

C: I think that's a very splendid suggestion. I'll be very happy to do it.

HMJr: And just send me a telegram a day in advance and I'll have the people ready to see you.

C: Grand; I'll certainly do that, and I want you to know how much I appreciate your cooperation, and I -- this boy Klaus that you sent out here is a marvelous little fellow.

HMJr: Well, he's a good detective.

C: Yes, he certainly is, and he's got a good head on his shoulders. He thinks very clearly and pretty well along the same lines I do.

HMJr: Good!

C: And we're working very closely together and I want you to know how much I appreciate it.

HMJr: Fine!

C: Well, I'll be glad to come down and spend a day with you, and between now and then whatever other angles arise, why I'll have in mind and I'm sure we'll get them all straightened out.

HMJr: We'll give you the help you need.

C: Well, thank you very much. You've been very cooperative and I do appreciate it.

HMJr: O. K.

C: All right, sir.

HMJr: Good bye.

C: Good bye.

May 24, 1939
(with certain pages
corrected May 25-4 PM)

I appreciate this opportunity to appear before your Committee to discuss with you certain broad fiscal problems and certain specific tax questions.

Tax proposals cannot be discussed comprehensively except in relationship to our whole national and fiscal position. We are now in the midst of a world situation which imposes on this Government a special responsibility. We must demonstrate that a democratic government has the power and the flexibility to survive a prolonged crisis and chaotic world conditions with the strength of its free institutions unimpaired. Preservation of our democratic form of government over a long period of years requires, in my opinion, a fiscal program which has a fourfold objective:

- (1) promotion of free enterprise and private investment;
- (2) attainment of full business recovery; (3) maintenance of our public finances in a sound and unassailable position, and (4) a just distribution of tax burdens and a more equitable distribution of national income.

Successful operation of democracy demands that all four objectives be solidly linked together. When we consider any specific change in our fiscal program we must satisfy ourselves that the change makes for a better and not a worse distribution of tax burdens

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and of national income, that the change promotes and does not retard business recovery, and that the change makes easier and not more difficult progress toward the establishment of a balanced relationship between revenues and expenditures.

Full attainment of these objectives is difficult at best. It is made more difficult by a new and ominous development in world affairs -- the armament race now gripping the important nations of the world. Great Britain in the present fiscal year is spending \$3 billion on military expenditures, or almost 50 percent of its national budget; France is devoting over 40 percent of its national governmental expenditures to the same purpose; Italy, 50 percent; Germany, probably 60 percent; Japan over 70 percent. These huge expenditures are being financed largely by borrowing. The race is becoming more intense and there is no end in sight.

For us these developments present the danger that they may involve us in increased cost for national defense here and that they may result in monetary instability abroad and disruption of our commerce, the consequences of which we cannot fully predict. In this connection, it is interesting to note that in our budget for this fiscal year expenditures for past wars and national defense are almost one-fourth of total expenditures.

No proper solution of any major problem facing this government today can be achieved without full consideration of the impact on our country of the present international crisis. The unmistakable implication of the international situation is that we should give serious attention to our future fiscal position and redouble our efforts to attain full recovery. High national income and a sound fiscal position are essential to adequate national defense. It is against this background that we reexamine our fiscal program.

A fundamental objective of sound finance clearly is a balanced budget. There is, of course, no good reason why taxes must exactly balance expenditures in each specific year any more than in each month, each week or each day. There are periods during which sound fiscal policy calls for an excess of outgo over income, and others when it calls for an excess of income over outgo. In a depression it is inevitable that there will be deficits. Revenues decline at the same time that the Federal Government is called upon to assume inescapable social and economic burdens.

If, however, deficits are too long continued, the depressive effects of uncertainty tend to make recovery more difficult. The sequel to deficits in emergencies should be surpluses during years of prosperity.

That was and is one of the broad purposes of seeking to raise the national income to a high level, thus assuring revenue great enough not only to end the deficits which began in 1931, but also to reduce the public debt.

In carrying out our fiscal policy it would be helpful to have machinery which would more fully coordinate our efforts. It is not the prerogative of any administrative Department to make suggestions to the legislative branch of the Government for the conduct of its work, but I am sure that you would wish me to be frank in suggesting ways of surmounting difficulties which I believe now attend the joint efforts of the Ways and Means and Finance Committees and the Treasury Department.

If, for instance, the Ways and Means and Appropriations Committees of this House and the Finance and Appropriations Committees of the Senate could meet each session as one Joint Committee on Fiscal Policy, to consider the over-all aspects of the expenditure and revenue programs, simplification and greater effectiveness would result. The Budget Act of 1921 set up a procedure for the orderly formulation by the Executive of fiscal proposals and for their submission to the Congress as a unified budget. No comparable procedure

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has been set up in Congress for considering revenues and expenditures together as two interrelated aspects of a single problem. I hope this Committee will agree with me that some such innovation would improve the efficiency of the Government. By providing for a preliminary legislative consideration of the over-all picture of appropriation and revenue measures it would give Congress a broad perspective of the state of the Government's finances and permit a better ordered coordination between the executive and the legislative branches in this field. This joint committee would in effect be a lens through which all appropriation and revenue measures could be viewed in relationship both to what the nation needs and to what the nation can afford.

In my opinion the fundamental fiscal question raised by the pending Department of Agriculture appropriation bill is precisely the type of question with which this joint committee should concern itself. This bill proposes to increase budgeted expenditures for farm parity payments by \$372,000,000 but no provision has been made for a compensating increase in revenue although we already face a deficit of \$3,426,000,000 in the coming fiscal year. The bill, upon the merits of which I am not commenting, is

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typical of scores of others which seem to me to present questions appropriate for consideration by a joint committee which looks at each proposed expenditure and each proposed revenue measure as a part of an integrated budget policy.

This committee should have continuous life for the purpose of actively studying fiscal problems between as well as during sessions of Congress. The Treasury Department would, of course, cooperate in this work to the full extent that the Committee desired.

Thus far I have dealt with the financial problems of the Federal Government alone. We must remember, however, with the best conceivable Federal fiscal plan in operation, we still would have touched less than half of the tax problem which confronts the nation. Almost 60 percent of the total tax revenues of the country are collected by state and local governments.

In the last five years we have given serious study to the problems created by Federal-State tax conflicts. The same problems had been recognized by our predecessors. It is my belief that we should take steps without delay to make these studies effective. I suggest that Congress create a small temporary national commission to report to Congress as soon as

feasible on the various aspects of intergovernmental fiscal policy and propose a plan for the solution of the problems involved. Such a commission should be made up of men of ability who command the highest possible public confidence, who are familiar with fiscal problems, but who will represent the public at large rather than particular governmental units.

Overlapping and competing 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 this fiscal situation are increasingly unsatisfactory to both state and municipal governments and to the Federal Government, and more and more burdensome to taxpayers. The recommendations of such a commission should assist us in achieving a more orderly relationship between the Federal, State and local fiscal systems.

Thus far I have talked about two fiscal matters of great importance. Let me turn now to more specific questions of Federal taxation.

I desire first to reiterate two tax recommendations which the President has already made and various suggestions which the Treasury has previously presented:

1. In his Budget Message of January 3, 1939, the President recommended that Congress extend the miscellaneous internal revenue taxes which under existing law will expire in June and July, and maintain the current rates of those taxes which otherwise would be reduced in June.

2. In his message of January 19, 1939, the President recommended legislation making all government salaries hereafter earned and interest on all government securities hereafter issued subject to Federal and state income tax laws. That part of this recommendation dealing with government salaries, I am pleased to note, has already been incorporated into law.

3. In my statement of March 24, 1939, I presented for your consideration four alternative rate plans for old-age insurance contributions during the next three years.

4. During hearings before this Committee in 1937 and 1938 representatives of the Treasury Department brought to your attention several changes in the tax laws upon which Congress has not yet acted. Of these the principal ones are (a) curtailment of excessive deductions now allowed for depletion of oil and gas wells and certain mines, (b) elimination of the preferred

income tax status enjoyed by residents of the eight community property states and (c) integration of the estate and gift taxes.

Even though a comprehensive revision of the tax structure probably will not be feasible at this time that fact, in my opinion, should not restrain your Committee from giving serious attention to removing from the tax laws any manifest inequities or other defects.

Before specifying the tax provisions which I believe deserve your special attention at this time I wish to emphasize the importance of maintaining the present revenue in any tax revisions which may be made. We must not forget that one of the important objectives of our fiscal program is to approach a balance between revenues and expenditures. For this reason any tax reductions must be offset by tax increases. If tax revision were confined to tax reductions the resulting uncertainty as to our future fiscal position would injure and not help business. We should take no step which the public may interpret as moving away from the objective of a balanced budget.

In discussing the elements or features of the tax system which you may wish to reexamine, I should like to classify them roughly into three groups.

The first group includes features which have been characterized as likely to hinder business expansion and investment.

One such feature is the absence of provision in our income tax laws for carrying over net business losses to be deducted from business profits of future years. The profits or losses of each year are considered without reference to those of any other year. In consequence a business with alternating profit and loss now pays higher taxes over a period of years than does a business with stable profits although the average income of the two firms may be equal. New enterprises and the capital goods industries are especially subject to wide fluctuations in earnings.

As a second example, I should also like to mention the questions of tax-exempt securities and surtax rates in the higher brackets. These two questions should be considered together. Tax exemption of securities is highly inequitable and tends to nullify our progressive surtax rates. Most persons subject to the high surtaxes have sizable holdings of governmental securities which yield them an income free from Federal income taxation, while other persons entirely escape the high surtaxes in this manner. Tax exemption also operates as a magnet which

pulls persons subject to high income taxes away from investments in private business. We should by all means pass legislation to make it impossible in the future to issue any more tax-exempt securities.

This having been accomplished first, it would then be fair and logical to reexamine the question of whether the present surtax rates on very large incomes may not be so high that they discourage the limited number of individuals subject to them from taking normal business risks.

In a second group are features of our tax system which have been referred to as "tax irritants". As an example I would mention the undistributed profits tax. In its present form, this tax is unimportant and does not accomplish the objectives of the original proposal. The tax produces little revenue and has little effect on business. It has acquired prominence as a psychological irritant largely because of the widespread and emotional criticism which has been directed against it. One of the objectives which the law sought to attain was to prevent the retention and accumulation of earnings by corporations from being used to avoid the personal income tax. This is still an important, and to my mind, a sound objective. The law in its present form does not attain it. Since the income tax

on corporations, of which the undistributed profits tax is a minor segment, expires by its own terms at the end of this year, your Committee should deal with this problem. The Treasury, of course, stands ready to work with you on it.

Another example is found in the capital stock tax and the related excess profits tax. Under the present law the capital stock tax is based upon a declared capital stock value which the taxpayer may revise every three years. The declared value may be any figure that the taxpayer desires to submit regardless of the actual value of the stock. The excess profits tax applies to profits in excess of 10 percent of such a declared value. The taxes are thus not really taxes on the value of capital stock or on excessive profits. Their major defect is that they operate very erratically. The tax liability they impose depends on the taxpayer's ability to forecast profits for the next three years as well as upon the amount of profits actually realized during each of the three years. Forecasts of earnings are particularly difficult to make in the case of new businesses and those with unstable incomes such as the capital goods industries with the result that taxes imposed on such businesses are at times inordinately high.

There is a third category of tax problems now being widely discussed which raises questions of tax equity. The Treasury has already worked on those problems and, if your Committee desires, our staff could continue these studies in collaboration with the Committee, possibly with a view to action at a later session.

An example is the limitation now placed on the deduction of corporation capital losses. Under the present law an excess of corporate capital losses over capital gains can be deducted from ordinary income only to the extent of \$2,000.

In the consideration of many of the possible tax changes just mentioned, it is essential to bear in mind that their adoption would result in a reduction in the revenue-producing capacity of the tax system. I have already emphasized the importance of not permitting the revenue-producing power of the tax system to be reduced at this time. Accordingly, with the adoption of any of the above measures involving loss of revenue there should be associated revenue-producing revisions. Although this problem is difficult, it is one that must be faced. The taxes resorted to for replacing any lost revenues should have the least harmful effects on business and should contribute to greater equity. They should not change the relative distribution of the tax burden between broad groups of taxpayers and especially should not place additional burdens upon consumers.

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The subjects I have discussed are for the most part confined to a limited segment of the tax system. I do not consider them as constituting an adequate program of tax revision. Such a program can be developed only through long continued study and it cannot be static but must be adapted to changing conditions. But the general lines along which Federal taxation should develop in the future appear to be quite clear. We ought to increase the part played by direct taxes that can be made to take account of differences in the abilities of individuals to support Government. This means that we should endeavor to minimize the use of manufacturers' excises and other commodity taxes which tend to be shifted directly to consumers, putting the emphasis on taxes based on capacity to pay. Such revisions would facilitate coordination of Federal with State and local taxation.

In conclusion, permit me to say that one of the major tasks we have before us is to do everything we can to promote lasting business recovery. With this still uppermost in my mind I would like to repeat now with the same deep conviction what I said in November, 1937:

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"The basic need today is to foster the full application of the driving force of private capital. We want to see capital go into the productive channels of private industry. We want to see private business expand."

May 24, 1939
9:00 a.m.

Present: Mr. Hanes
Mr. Doughton

Doughton: Very nice of you to let me come down for inspiration. How are you feeling, both of you?

H.M.Jr: I am feeling pretty well. Any inspiration you got?

Doughton: No, Jere called his sub-committee day before yesterday afternoon together -- I called Mr. Hanes yesterday, and we had a meeting early yesterday afternoon, and I had to have a conference with my majority members about new developments in the Townsend business. He introduced three and wants to introduce a fourth; said he had left out compulsory spending.

I had a conference with my majority members and at ten o'clock the full committee met and that Bond Bill went over fine and it debated all day. All our majority members and minority -- Treadway made a speech and so did Reed, but they jumped on the spending policy of the Administration. Wolcott, member of the Banking and Currency for Michigan -- he jumped on it; said it was inflationary after you issued the full limit of bonds then you could issue Treasury notes. All that kind of thing. Debated all afternoon but we licked it good. Didn't have to have roll call. Took all afternoon, then we had the Farm Bill all afternoon.

H.M.Jr: I thought you handled it beautifully.

Doughton: Well, did the best I could.

H.M.Jr: You always get what you want.

Doughton: Now, about the other matter -- Jere called his sub-committee day before yesterday afternoon -- Democratic members -- for a conference in the committee room at the capital and we discussed at length the matter of tax legislation, procedure and policy, etc., and quit with the understanding that his sub-committee -- he seemed to prefer it and it suited me that his sub-committee, full sub-committee, did take up the matter and consider whether to call you and Hanes; try to decide what was the wise and expedient thing to do, and report back to the full committee and then I, as Chairman of the full committee, would call a meeting and conduct hearings on their report.

H.M.Jr: But you haven't heard from him?

Doughton: Oh yes, I was there and heard it all. He has not called his full committee yet. I don't think we are going to give it any consideration -- either one of these, Social Security Bills, Townsend, or our bill, before Wednesday. We ought to get at it this week. What I want to do is get the sub-committee together today or tomorrow and go to work.

H.M.Jr: This is what I kind of hoped if it fitted in with what you had in mind, no matter what anybody else had in mind. If you could say informally to me, "Now, Henry, if I asked you to come up, let's say Friday, would you be ready"? Then, if I had that kind of word, then I would go across the street and say, "Mr. President, Mr. Doughton has asked me if I am ready. He would like me to come up Friday and I want to come to an understanding with you." Then that isn't putting the President on the spot and it gives me a chance once more to go over the situation with him alone and he and I can iron out our differences. That gives me a day to shoot at him.

Doughton: We will give you at least that. I can't give you a definite answer on that until I talk to Jere again because I don't know whether he wants you to come before his sub-committee or not, or confer with you privately and then let you come before the full committee, and I can't tell you when that will be until I see. You know his sub-committee has it under consideration.

H.M.Jr: My own inclination is to come before the full committee publicly.

Doughton: Well, of course we would expect you to do that and I can't see any good to be accomplished by having you come publicly before the sub-committee when you are going to come publicly before the full committee, but I think he would want to confer with you. Whether he would want to do it with the Democratic members or the full committee, I don't know, but I will sound him out this morning -- our procedure, it's necessary and important to be agreed upon.

H.M.Jr: Bob, if I go up before the Democrats of the sub-committee or of the whole sub-committee and they ask me "What have you got in mind," and they start to read from my statement, you know perfectly well it will all appear in the paper next day.

Doughton: Of course you could talk to Jere and it wouldn't appear in the paper.

H.M.Jr: That's right, and I can talk to you. Can I talk to Jere and will he hold it?

Doughton: Yes, no question on that. He's good on that.

H.M.Jr: But if I went before the sub-committee of eight members?

Doughton: Six and four are ten, and one is eleven.

H.M.Jr: Well, I might just as well go before the full House.

Doughton: Of course, he's got six Democrats and myself as ex-officio member makes seven and.....

Hanes: Four Republicans.

Doughton: Four Republicans. I will go back and confer with him this morning. Our committee meets this morning at ten o'clock and I will confer with him before that and then I will confer with you, or let him.

H.M.Jr: What I am suggesting fits in with your plans?

Doughton: Exactly. Only way to proceed. We would expect you to come before the full committee and I don't see any good accomplished.

H.M.Jr: I am not saying I won't go.

Doughton: I understand, but you don't think it's best.

H.M.Jr: I might just as well make one trip, whether I appear before eleven or twenty-five. But I am in your hands and I am more than willing to leave myself in your hands.

Doughton: I will go back this morning and get in touch with him. I can talk in confidence with him about our conversation.

H.M.Jr: Just so you get a timetable: the President is leaving, in confidence, leaving Friday night to go to Hyde Park. I was planning to go away also, and Decoration Day is on the 30th.

Doughton: That's next Tuesday.

H.M.Jr: So that would mean if they were not ready for me this Friday, then the first day I could come would be the 31st of May.

Doughton: That would be Wednesday, day a week.

H.M.Jr: So it's either this Friday or a week from today.

Doughton: Well, a week from today -- can't tell this far off. I think your understanding is, the kind of program is, if we get out the Townsend Bill to have it up by Wednesday, but I don't know whether they will come up. No reason why you can't come up in the forenoon.

H.M.Jr: Personally, I would like to get this off my chest. This is making me sick. Really, I am getting sick.

Doughton: If it makes you sick, don't think it doesn't make us definitely sick. On our minds, on our doorstep all the time.

H.M.Jr: But I feel this way. You are Chairman of the committee and everybody else is talking about somebody else's plan except what the Chairman has to say.

Doughton: That's the difficulty about a sub-committee. You can't hardly get along without one and when you get one, that, in a measure, ties your hands because you have to get along with them, otherwise you have mutiny in your own camp. Can't do that. Above all things I have realized the necessity of getting along with my committee members or don't get anywhere if you don't. I know a lot of sub-Chairmen on the Hill and they don't get very far and don't get along very well because they don't have teamwork with their committee.

Hanes: Did you give any consideration to the suggestion I made yesterday?

H.M.Jr: What John Hanes said, he thought if and when I came up that if you gentlemen, after you have heard me, would then just adjourn so that we cannot get into a cat and dog fight before the committee. He can tell it himself.

Hanes: Say, for instance, if he came up Friday at eleven o'clock and makes a statement and you announce immediately that the committee will go into executive session, or the sub-committee, whichever you see fit, and then bring all your staff and work out a program with the sub-committee and then call the main committee back and complete hearings, having

all agreed before hand that this is what we are going to present, something that the sub-committee was entirely in sympathy with and agreed upon, and then you will present it for hearings and close it up. Won't take very long. I don't think the hearings would last more than a couple of days.

Doughton: I hope not. You mean closed hearings before he is questioned by members of the committee? If you did, he would have to come back. The Republicans will say at once, "We want an opportunity to ask some questions."

Hanes: That's what he was trying to avoid.

Doughton: I don't believe you can.

H.M.Jr: On second thought I guess the Chairman is right. I will have to sit there and take it. The last time on Social Security they were very nice. Nobody asked me any questions.

Doughton: Another thing, on Jere's mind, kind of a ghost in his path, and that is you come down and there has not been complete agreement reached between you and the President. Some Republican will ask if you represent, if those are the views of the President. Just want to give you the warning. Jere thinks they will.

H.M.Jr: You're right -- you're right. What I would like to do -- I gave you my statement about two or three weeks ago and I have made some slight changes in it since then. I appreciate the fact that nobody even knows you have that copy.

Doughton: I don't know but what the sub-committee will work out -- I am sure they will want to talk with you before they reach any final conclusion but I am of the opinion from what I have heard, it won't be exactly the course the President wants to pursue, but I don't believe he will oppose it whenever we tell him what we want. Extension of taxes, that's one worry. In the first place we will have a row in our committee and then in the House; next place when it gets over in the Senate they take it up the first time and they will put on and make these changes and they will take credit for it. We will be placed in an embarrassing situation. I think the President is willing, from what I have heard him say, that he is willing to go along with about what we can agree on.

H.M.Jr: I think so. Would you like me to read this thing to you? Stop me any place. What I tried to do, Bob, is this: I tried to make this statement so new-dealish that

the President or anybody close to him can't say there is anything in that that the most liberal Democrat, from wherever he comes from or whatever wing he belongs to, but can't admit this is fair and there is nothing in here I don't believe in. I am willing to rise or fall on this and anybody who is fair, I don't care how extreme left he is, I don't think there is anything in here that he can point a finger at.

Doughton: If there is, let him point. In my judgment we can't let the extreme left or extreme right rule us. We try to please them all but we have to do as best we can.

H.M.Jr: But at the same time there is nothing in here that I, as a liberal, can't stand for publicly and say. Went over it again and looking at the President's speech this is as far as I can go and still have something to say.

The beginning is the same.

(Secretary began reading from page 7 of his statement as follows:

"Thus far I have talked about two fiscal matters of great importance. Let me turn now to more specific questions of Federal taxation.

I desire first to reiterate two tax recommendations which the President has already made and various suggestions which the Treasury has previously presented:

1. In his Budget Message of January 3, 1939, the President recommended that Congress extend the miscellaneous internal revenue taxes which under existing law will expire next June and July, and to maintain the current rates of those taxes which otherwise would be reduced in June."

H.M.Jr: No argument about that.

(Secretary resumed reading as follows:)

"2. In his message of January 19, 1939, the President recommended legislation making all government salaries hereafter earned and interest on all government securities hereafter issued subject to Federal and state income tax laws. That part of this recommendation dealing with government salaries, I am pleased to note, has already been incorporated into law."

Doughton: Mills jumped on that and said the President did not believe in that -- no, it was Earl Michener -- and the Judiciary Committee would probably take steps on that and it was understood the President had called it off.

(Secretary resumed reading as follows:)

"3. In my statement of March 24, 1939, I presented for your consideration four alternative rate plans for old-age insurance contributions during the next three years."

H.M.Jr.: Number four. This is new.

(Resumed reading:)

"4. During hearings before this Committee in 1937 and 1938 representatives of the Treasury Department brought to your attention several changes in the tax laws upon which Congress has not yet acted. Of these the principal ones are (a) curtailment of excessive deductions now allowed for depletion of oil and gas wells and certain mines, (b) elimination of the preferred income tax status enjoyed by residents of the eight community property states and (c) integration of the estate and gift taxes."

H.M.Jr.: Those are three things which we did bring to your attention in 1937 and 1938. Nothing new about that.

Doughton: No action on those and probably not this session. It is controversial and will take too much time.

(Secretary resumed reading as follows:)

"Even though a comprehensive revision of the tax structure may not be feasible at this session of Congress that fact, in my opinion, should not restrain your Committee from giving serious attention at this time to removing from the tax laws any manifest inequities or other defects."

H.M.Jr.: Now all I am doing, I am simply saying I am reviewing the things which have been accomplished. Simply say in 1937 we brought these to your attention.

"Even though a comprehensive revision of the tax structure may not be feasible at this session of Congress....."

Doughton: Pardon me. I'd like to make the suggestion instead of "may not be feasible" it should be "probably will not be feasible".

H.M.Jr: You would rather have that?

Doughton: I believe I would. Understand, we are not going into any general revision. I would say "probably". I think it would soften that a little. You see you might leave the inference you thought we would, but 'probably' would not.

Hanes: That suits me all right. I think it would sound just as good.

Doughton: How about grammar. Maybe it would be better to say, "it probably will not be feasible at this time".

H.M.Jr: Do you object to my saying the Treasury brought this to my attention?

Doughton: No, no. I am glad to say that. I think it is very appropriate.

H.M.Jr: They are there and that's all.

Doughton: You don't ask us to take it up. You say they have not been acted on.

H.M.Jr: We just say this is unfinished business. It does this, that some fellow from the left wing can't say.....

Doughton:Can't say the President has retreated. A fellow on the other side can't say that.

Hanes: Can't say it's anything new.

H.M.Jr: Just an inventory.

Doughton: This community property business is so thorny that you can't help but step on thorns.

H.M.Jr: But the purpose is just that we are not retreating.

(Secretary resumed reading as follows:)

"Before specifying the tax provisions which I believe deserve your special attention at this time I wish to emphasize the importance of maintaining the present revenue in any tax revisions which may be made. We must not forget that one of the important objectives of our fiscal program is to approach a balance between revenues and expenditures. For this reason any tax reductions must be offset by tax increases elsewhere.

If tax revision were confined to tax reductions the resulting uncertainty as to our future fiscal position would injure and not help business. We should take no step which the public may interpret as moving away from the objective of a balanced budget."

H.M.Jr: This isn't new. This was all in the other. Does it sound all right to you?

Doughton: Sounds all right to me and hope we can move in the direction to make it manifest. Better do something or quit talking about it, one.

(Secretary resumed reading as follows:)

"In discussing the elements or features of the tax system which you may wish to reexamine, I should like to classify them roughly into three groups."

H.M.Jr: That certainly is polite, "which you may wish to reexamine".

Doughton: That's all right. As good as you can make it.

(Secretary resumed reading:)

"The first group includes features which have been characterized as likely to hinder business expansion and investment.

One such feature is the absence of provision in our income tax laws for carrying over net business losses to be deducted from business profits of future years. The profits or losses of each year are considered without reference to those of any other year. In consequence a business with alternating profit and loss now pays higher taxes over a period of years than does a business with stable profits although the average income of the two firms may be equal. New enterprises and the capital goods industries are especially subject to wide fluctuations in earnings."

H.M.Jr: I understand the President is for that. He has told me so.

Doughton: That's carry-over losses. Didn't he, the morning we were up there -- I think he suggested the only obstacle in that path, that we would attempt to carry it too far -- four more years. That's the thing we have to hedge against. Might result in great loss of revenue.

H.M.Jr: In England they find that it is most efficient to have it for six years, but if you don't want it you can ridicule it, but of all the suggestions that have been made, I think this is the most important.

Doughton: In the first place it won't result in greater revenue than we could make up elsewhere and it will be appreciated by business. Business wants deterrent taxes removed but it's somebody's headache to impose others and maybe in imposing others you make it worse than the others. Have to watch that when you try to appease business. Jere Cooper tries to keep harping on our last tax bill -- tax revision results in the interest of business. I thought business was pretty well pleased. Even members of the Chamber of Commerce were tickled to death we did as much as we could, that we cut the undistributed profits tax down to a mere skeleton, but I thought they were pretty well pleased. What we want them to do again, we want them to show appreciation because if they just keep criticizing, no incentive to even try to appease them. What I want to say, what we do there, that they want it done and that they will accept it as a step in the way of removing deterrents to their business. In providing for carrying over of losses increase corporation taxes, raise money elsewhere. Is that going to offset with them all benefits we get from giving them permission to carry over those losses?

Hanes: It won't please some people, Uncle Bob, because you can't please some people. If you give them the earth -- some people are going to complain but by far the largest majority, I should say, that that suggestion has been a suggestion made by every business organization in the United States.

Doughton: If they carry along with the understanding that that must be made up out of corporation taxes and we would be willing to do it.....

Hanes: That's right. There is one type of corporation that you have in your district that never has had a loss since 1873. Never a red ink figure in their books. That business carry-over will not have any effect on them. I don't think we can write our tax laws so as to please one man in one community when the rest of the United States has suffered.

Doughton: We can't do that, of course. I just mean if there would be general objection to the increase that would be necessary to take care of losses from the carry-over loss.

Hanes: There is going to be objection from the fellow who never deals in capital goods and therefore has no capital profit but capital loss is a simple procedure. What's going

to happen to that fellow? Incidentally, he never pays any undistributed profits tax because your constituent always pays out 100% of his earnings, as high as 125%, that's the Reynolds Tobacco Company. They have a reserve. The law that was written was to catch that type of fellow who was saving and hoarding. They have been acting in accordance with the law, therefore. They haven't paid any undistributed profits tax, haven't needed the carry-over. None of this thing is going to appeal to them because they are going to have to pay a little more tax. He said that to me. I said, "If you are not patriotic enough" -- my family is concerned in this; it is biggest stockholders in that industry, as you know -- "If you are not patriotic enough to pay, in order to get the business of this country back on its feet when everyone has agreed this is a necessary item, then you are a bum citizen."

Doughton: He's a pretty fair-minded person -- a broad-visioned man.

Hanes: He was all right. He said none of these things help us a bit.

Doughton: But if it helps business generally, by heck, it indirectly helps him.

Hanes: It will cost him about \$450,000 a year.

Doughton: If there was no corresponding benefit to accrue.....

Hanes: Of course, if business does not improve -- the Secretary is not trying to tell anybody that this tax bill is going to make business good in the United States. We say this is just one point in the many things that this Government must do to try to help business.

Doughton: Psychologically, they should get out of their minds that which seems almost indelibly written there, that this Administration is inescapable to business. We want to remove that.

H.M.Jr: This next statement -- I changed this because I was told that if I did change it this way it would be acceptable to the President, and therefore I have written it the way I have.

(Secretary resumed reading as follows:)

"As a second example, I should also like to mention the questions of tax-exempt securities and surtax rates in the higher brackets. These two questions should be considered together. Tax exemption of securities is highly inequitable and tends to nullify our progressive surtax rates. Most persons subject to the high surtaxes have sizable holdings of governmental securities which yield them an income free from Federal income taxation, while other persons entirely escape the high surtaxes in this manner. Tax exemption also operates as a magnet which pulls persons subject to high income taxes away from investments in private business. We should by all means pass legislation to make it impossible in the future to issue any more tax-exempt securities.

This having been accomplished first, it would then be fair and logical to reexamine the question of whether the present surtax rates on very large incomes may not be so high that they discourage the limited number of individuals subject to them from taking normal business risks."

Doughton: That's the matter we discussed the other day.

H.M.Jr: I know.

Doughton: In our sub-committee meeting. I mentioned that we probably would not get needed changes in individual income tax laws. I was hoping for the day that we could do something about high surtaxes in the higher brackets, unreasonable and punitive, and John McCormack reached over and said he wanted to shake hands on that, but in our discussion we thought if we got into that we would be here all summer. We would have to go over the whole personal income tax provisions and better not take that up this time but could come up when we take up the matter of tax-exempts.

H.M.Jr: Do you like it?

Doughton: I like it. I want to do that some day. Terrible drive going to be made here from municipalities and states. I don't know whether you will get that through.

Hanes: Very doubtful if you get it through the Senate. I doubt if you could get it through the House.

H.M.Jr: I was told if I said it this way it would please the President.

Hanes: I think you are very clever. Nobody can complain about that.

H.M.Jr: And the fellow in the higher surtaxes -- it's a question of which comes first, the chicken or the egg.

Hanes: Even the most recalcitrant have not complained about this. I think that answers both sides. Beautiful.

Doughton: Hamilton Fish said he's in favor of removing them all. I would leave it in that shape.

H.M.Jr: At least these fellows can't say.....

Doughton:that you side-stepped it. Looks like he burned the midnight oil on that.

H.M.Jr: What I am trying to do, Bob, is this, you take the presentation of those two things, anybody who is fair has got to say that's the answer and this thing that the President suggested is reducing it 1 $\frac{1}{2}$ % a year for ten years. If I went up there they would just laugh me out of the halls of Congress but nobody is going to laugh at me on this.

Hanes: They can't. Very clever.

(Secretary resumed reading as follows:)

"In a second group are features of our tax system which have been referred to as "tax irritants". As an example I would mention the undistributed profits tax. In its present form, this tax is unimportant and does not accomplish the objective of the original proposal. The tax produces little revenue and has little effect on business. It has acquired prominence as a psychological irritant, largely because of the widespread and emotional criticism which has been directed against it. The end which the law sought to attain was to prevent the retention and accumulation of earnings by corporations from being used to avoid the personal income tax. This is still an important, and to my mind, a sound objective. The law in its present form does not attain it. Since the income tax on corporations, of which the undistributed profits tax is a minor segment, expires by its own terms at the end of this year, your Committee should deal with this problem. The Treasury, of course, stands ready to work with you on it."

H.M.Jr: What I am doing is simply saying here it doesn't amount to anything; people bally hooded it. But I am suggesting that the committee deal with it. I am not saying what they should do. No recommendation to make but I say here it is.....

Doughton: If the President does not object to it, we welcome it. If there is one thing he's been extreme about it was retain at least a shred. He says for goodness sake retain at least a shred of it.

H.M.Jr: But, Bob, look what he said Monday night. Monday night he said, "Make me 25 million somewhere else."

Doughton: If you want to do it I will not object.

H.M.Jr: I don't go as far as he does. I simply say this is something we have to deal with this year.

Doughton: Of course, it's not worth a fight either way. It's not going to hurt much to keep or let it go either. In order to remove criticism, I think it is well to let it go out. I agree with the fundamental soundness of it.

H.M.Jr: Is it all right leaving this?

Doughton: That's all right. Fine as could be. Leaves it right in the laps of the committee.

H.M.Jr: You have it!

Doughton: I am willing to see it go out. They are going to say you are acknowledging your mistake and we told you so. I don't care what they say. We want to do right. I think that will remove one of the criticisms of business, and objections.

H.M.Jr: (Resumed reading as follows:)

"Another example is found in the capital stock tax and the related excess profits tax, enacted in 1932. Under the present law the capital stock tax is based upon a declared capital stock value which the taxpayer may revise every three years. The declared value may be any figure that the taxpayer desired to submit regardless of the actual value of the stock. The excess profits tax applies to profits in excess of 10 per cent of such a declared value. The taxes are thus not really taxes on the value of capital stock or on excessive profits. Their major defect is that they operate very erratically. The tax liability they impose depends on the taxpayer's ability to forecast profits for the next three years as well as upon the amount of profits actually realized during each of the three years. Forecasts of earnings are particularly difficult to make in the case of new businesses and those with unstable incomes such as the capital goods industries with the result that taxes imposed on such businesses are at times inordinately high."

H.M.Jr: I am just stating it. I am not making any recommendation. Just bringing it to your attention.

Doughton: It's obvious in my mind that you can't repeal it and under the present condition of the Treasury if you repeal it you have to get a corporation tax so high that revenue.....

H.M.Jr: Under this thing I think the second group referred to as tax irritants and this is one of them which is referred to as a tax irritant. Just listing; making no recommendation.

Doughton: I have always believed that corporations should pay some tax for the privilege of doing business. Even if I believe in it, we could not do it now.

H.M.Jr: I am not suggesting. All I have done is name it and described it, that's all. Then I say there is a third group:

(Resumes reading:)

"There is a third category of tax problems now being widely discussed which raises questions of tax equity. The Treasury has already worked on those problems and, if your Committee desires, our staff could continue these studies in collaboration with the Committee, possibly with a view to action at a later session.

An example is the double taxation of corporate dividends paid to individuals. Under the present law corporations pay the normal corporate tax on their earnings. When these earnings are distributed to the individual stockholder they are subject to both the individual normal tax and to the surtax."

Doughton: Some ground for complaint that it's double taxation, but we have to have some money.

Hanes: The Treasury has taken the stand of being opposed to normal tax on dividends because it puts the little stockholder in the very high bracket class. If you get the undistributed profits tax and another corporation tax, which was the original suggestion, then it is perfectly fair that they should pay a tax on it, but the Treasury's position, his position there is just following what the Treasury's position has been since we have been here.

Doughton: How much loss would be sustained if that change were made?

Hanes: \$100,000,000. You can make it up by increasing the normal tax from 4 to 5 percent. That would just about offset the loss if you wanted to do it. He's not suggesting it. He's just taking a consistent position with what he has taken right along and just calling attention to it as an equity situation which might be explored and taken up at a later session.

Doughton: Normal tax 4 to 5 percent and then dividends an individual received would not be subject to that 5 percent?

Hanes: Not subject to the normal; subject to all the surtaxes.

Doughton: Get your point. That might work but that gets again into the field of individual income. When you start that you have a summer's work.

H.M.Jr: And I am not giving pros or cons. Just naming them.

(Secretary resumes reading as follows:)

"Another example is the limitation now placed on the deduction of corporation capital losses. Under the present law an excess of corporate capital losses over capital gains can be deducted from ordinary income only to the extent of \$2,000."

H.M.Jr: Just bringing it to the attention. Now I go in on the revenue side. It's just a rearrangement, but I think it is more palatable. I don't see how the President can object to anything I say. What I can't get through my head is this: Here we are wanting to help business. We want the President and you to get the credit. Why in heaven's name he wants to slay this thing instead of saying, "Henry, good boy, go on up, this is great politics. This will help us next year. This is swell for the campaign in 1940." I swear, I can't explain. There must be something the matter with either the President or me.

Doughton: You have thought this out.

(H.M.Jr resumed reading as follows:)

"In the consideration of many of the possible tax changes just mentioned, it is essential to bear in mind that their adoption would result in a reduction in the revenue-producing capacity of the tax system. I have already emphasized the importance of not permitting the revenue-producing power of the tax system to be reduced at this time. Accordingly, with the adoption of any of the above measures involving loss of revenue there should be associated revenue-producing revisions. Although this problem is difficult, it is one that must be faced. The taxes resorted to for replacing any lost revenues should have

the least harmful effects on business and should contribute to greater equity. I suggest the following three possibilities:"

H.M.Jr.: Where I differ is I don't say if you put a dollar off the corporations you have to put a dollar back. I leave it to Congress.

Hanes: You say the revenue system ought to be maintained intact.

Doughton: That's one thing for you and the President to get together on.

H.M.Jr.: I know.

Doughton: I think that our committee will go along unless you agree on something else on the basis, objective in mind, to make up the loss sustained by changes in the corporation tax. That was pretty well understood the other day in our discussion.

H.M.Jr.: I am not saying you should or shouldn't. I am being neutral. All I am saying, if you lose a dollar I want you to gain a dollar, but I am not saying how. But I am saying three different kinds of taxes, you take your choice.

Doughton: I get that.

(Secretary resumed reading:)

"1. The corporation income tax rate could be increased, with due allowance for corporations with small incomes.

2. A second possible source of additional revenue is the individual income tax. There is merit to the suggestion that the rates on incomes between the \$7500 and \$75,000 levels could be increased without inequity or material deterrent effects. Furthermore, to promote wholesome tax consciousness and good citizenship, the personal and family exemptions might well be decreased. At the present time only about 3,000,000 persons pay income taxes. If the exemption for individuals were decreased from \$1,000 to \$800 and the exemption for married couples decreased from \$2,500 to \$2,000, it is estimated that an additional 1,500,000 persons would be subject to the income tax."

Doughton: Only one difficulty I see about that. You say if it is done. You don't recommend. You call attention to it. The chances are that the newspapers will come in and say that you have recommended that that be done.

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H.M.Jr: All of these, I know. Well, supposing they do. I am the only fellow who has to take it.

Doughton: They would say you had recommended and we had not done it. I don't object to it. I am just pointing to that possibility; that that's what they will do.

H.M.Jr: Does this recommendation bother you?

Doughton: It is not exactly a recommendation. What I am fearful is that the newspapers will play it up in that way.

H.M.Jr: What I say is, "I suggest the following three possibilities." You can throw all three in the ash can. They are just possibilities. Supposing the newspapers would say, "Morgenthau recommends the following three."

Doughton: Then they will just say Congress ignored the recommendations of the Secretary. That is not a recommendation there.

H.M.Jr: You don't like it that way?

Doughton: I don't say I don't like it, but it looks to me that that is where you are going to be misrepresented. In place of being in disagreement, I am fearful they will say you have recommended.....

H.M.Jr: Would you rather I did not point to any means of getting more money?

Doughton: I wish you would if you recommend it. I am afraid the committee will say you haven't been much help to me. We knew all that before but we want some suggestions, where the shoe pinches at least and the Secretary has not given us any.

H.M.Jr: If it gets down to that I am not giving how much this program will cost and if you figure up, it will cost \$150,000,000 to do what I suggest.

Doughton: I think somewhere either in public and on the record, or in private off the record, that committee would like to have from you a suggestion, your suggestion, as to just how many and which of these corporation taxes should be removed or reduced and just where revenue be obtained to make it up.

HM.Jr: May I beg to differ with you?

Doughton: You betcha.

H.M.Jr.: I think it would be a great mistake if I came up and they said, "Morgenthau has a program."

Doughton: Probably would.

H.M.Jr.: And have it the "Morgenthau program", or the "Morgenthau-Hanes program", or Treasury. Personally, that's what I've been trying to get away from and that's what the President wants me to get away from.

Doughton: Then the question is what is the object of your coming.

H.M.Jr.: It is to give you gentlemen a review of the situation and to point the way that the Treasury thinks it would be helpful to get business going. Now, if I came up and made a flat statement, in the first place it would be irritating to the President.

Doughton: You notice my suggestion is a double-barreled one. If you don't do it in your statement, which I think it is wise not to do, but I do think we want some help from you off the record, on the side. We will need that.

H.M.Jr.: We will give you all of that.

Doughton: I have it pretty well in mind -- the points. We could deal with you successfully.

H.M.Jr.: And before I go up there I would like to have a dress rehearsal with some of your boys anyway.

Doughton: That's what we ought to do.

H.M.Jr.: We could start at eight o'clock in the morning.

(Secretary resume reading:)

"The rates imposed on small incomes could be low with perhaps a small minimum tax. Even though the tax imposed on small incomes were of little importance from the revenue point of view, the tax would constitute a valuable instrument for making a larger group of our citizens directly aware of the Federal tax problem.

3. Estate and gift taxes could be increased. Although high rates are applied to extremely large estates the great majority of the estates pay little or no tax. The exemption and the insurance allowance could be reduced and rates in the lower and middle brackets could be increased. Furthermore, as

previously suggested consideration might well be given to the possibility of combining the estate and gift taxes into one consolidated tax. At the present time a person with a large volume of property who is in position to give much of it away during life can reduce his total tax far below that which must be paid on the estate of a person who is not in position to give away his property during life."

H.M.Jr: That was all in there before, I think.

Doughton: Right! In that connection our friend Ken Morris was up here sometime ago and sweating blood about estate and gift taxes. He said that was one of the greatest deterrents to business for a person who wants to invest money and go on expanding the business, they are the ones who are getting ready to die, so what's the use. What's the use of going ahead and making money. The Government will take it away anyway. He said that's one of the biggest deterrents.

H.M.Jr: If we are going to spend nine or ten million and not go bankrupt we have to raise it some place and not look for tax deterrents after the fellow is dead.

Doughton: I just mentioned that.

H.M.Jr: In 1937-38 we recommended on the estate and gift taxes so there is nothing new in this.

(Resumed reading:)

"In connection with all of the matters I have mentioned the Treasury is prepared as usual to furnish further information and will be happy to work with you to the extent that you desire."

H.M.Jr: Now, this is just the closing.

(Resumed reading:)

"The subjects I have discussed are for the most part confined to a limited segment of the tax system. I do not consider them as constituting an adequate program of tax revision. Such a program can be developed only through long continued study and it cannot be static but must be adapted to changing conditions. But the general lines along which Federal taxation should develop in the future appear to be quite clear. We ought to increase the part played by direct taxes that can be made to take account of differences in the abilities of individuals to suppose Government. This means that we should endeavor eventually to minimize the use of manufacturers' excises and other commodity taxes which

tend to be shifted directly to consumers, transferring the burden as far as practical to the individual income tax and the estate and gift taxes. Such revisions would facilitate coordination of Federal with State and local taxation."

H.M.Jr: This is the very end of it.

(Resumed reading:)

"In conclusion, permit me to say that one of the major tasks we have before us is to do everything we can to promote lasting business recovery. With this still uppermost in my mind I would like to repeat now with the same deep conviction what I said in November, 1937: "The basic need today is to foster the full application of the driving force of private capital. We want to see capital go into the productive channels of private industry. We want to see private business expand."

Doughton: I think that's fine -- it's all right. Unless you are willing or he thought it advisable to make more concrete recommendations, I don't think you could beat that to save your life. We will have to have that on the side.

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

Hanes: I think he has gone as far as he can get by on the President on that and I think he's done very well. I like it.

Doughton: I will report to you today everything I can find out about our future procedure after I have a talk with Jere. I want him to call his sub-committee right at once and get in touch with you at once and let you know at once when we expect you to come down. But I am sure that a conference will be necessary with him, his sub-committee, maybe not the whole sub-committee, but with him anyhow. But anyhow, understanding be reached and you know about when we will be ready for you to talk with us. Was there anything else?

H.M.Jr: No, except I did appreciate the opportunity.

Doughton: I appreciate talking with you and knowing what you have in your mind.

H.M.Jr: You have got everything I've got, but there is no use in my going over to see the President any more until I know that I am going on the Hill.

*This was
with the
Meeting 11:45
- 1:15
15*

May 24, 1939

I appreciate this opportunity to appear before your Committee to discuss with you certain broad fiscal problems and certain specific tax questions.

Tax proposals cannot be discussed comprehensively except in relationship to our whole national and fiscal position. We are now in the midst of a world situation which imposes on this Government a special responsibility. We must demonstrate that a democratic government has the power and the flexibility to survive a prolonged crisis and chaotic world conditions with the strength of its free institutions unimpaired. Preservation of our democratic form of government over a long period of years requires, in my opinion, a fiscal program which has a fourfold objective:

- (1) promotion of free enterprise and private investment;
- (2) attainment of full business recovery; (3) maintenance of our public finances in a sound and unassailable position, and (4) a just distribution of tax burdens and a more equitable distribution of national income.

Successful operation of democracy demands that all four objectives be solidly linked together. When we consider any specific change in our fiscal program we must satisfy ourselves that the change makes for a better and not a worse distribution of tax burdens

*and
of national*

income, that the change promotes and does not retard business recovery, and that the change makes easier and not more difficult progress toward the establishment of a balanced relationship between revenues and expenditures.

Full attainment of these objectives is difficult at best. It is made more difficult by a new and ominous development in world affairs -- the armament race now gripping the important nations of the world. Great Britain in the present fiscal year is spending \$3 billion on military expenditures, or almost 50 percent of its national budget; France is devoting over 40 percent of its national governmental expenditures to the same purpose; Italy, 50 percent; Germany, probably 60 percent; Japan over 70 percent. These huge expenditures are being financed largely by borrowing. The race is becoming more intense and there is no end in sight.

For us these developments present the danger that they may involve us in increased cost for national defense here and that they may result in monetary instability abroad and disruption of our commerce, the consequences of which we cannot fully predict. In this connection, it is interesting to note that in our budget for this fiscal year expenditures for past wars and national defense are almost one-fourth of total expenditures.

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No proper solution of any major problem facing this government today can be achieved without full consideration of the impact on our country of the present international crisis. The unmistakable implication of the international situation is that we should give serious attention to our future fiscal position and redouble our efforts to attain full recovery. High national income and a sound fiscal position are essential to adequate national defense. It is against this background that we reexamine our fiscal program.

A fundamental objective of sound finance clearly is a balanced budget. There is, of course, no good reason why taxes must exactly balance expenditures in each specific year any more than in each month, each week or each day. There are periods during which sound fiscal policy calls for an excess of outgo over income, and others when it calls for an excess of income over outgo. In a depression it is inevitable that there will be deficits. Revenues decline at the same time that the Federal Government is called upon to assume inescapable social and economic burdens.

If, however, deficits are too long continued, the depressive effects of uncertainty tend to make recovery more difficult. The sequel to deficits in emergencies should be surpluses during years of prosperity. That was and is one of the broad purposes of seeking to raise the national income to a high level,

~~That was and is one of the broad purposes of seeking to raise the national income to a high level, thus assuring revenue great enough not only to end the deficits which began in 1931, but also to reduce the public debt.~~

In carrying out our fiscal policy it would be helpful to have machinery which would more fully coordinate our efforts. It is not the prerogative of any administrative Department to make suggestions to the legislative branch of the Government for the conduct of its work, but I am sure that you would wish me to be frank in suggesting ways of surmounting difficulties which I believe now attend the joint efforts of the Ways and Means and Finance Committees and the Treasury Department.

If, for instance, the Ways and Means and Appropriations Committees of this House and the Finance and Appropriations Committees of the Senate could meet each session as one Joint Committee on Fiscal Policy, to consider the over-all aspects of the expenditure and revenue programs, simplification and greater effectiveness would result. The Budget Act of 1921 set up a procedure for the orderly formulation by the Executive of fiscal proposals and for their submission to the Congress as a unified budget. No comparable procedure

efficiency of the Government. By providing for a preliminary legislative consideration of the over-all picture of appropriation and revenue measures it would give Congress a broad perspective of the state of the Government's finances and permit a better ordered coordination between the executive and the legislative branches in this field. This joint committee would in effect be a lens through which all appropriation and revenue measures could be viewed in relationship both to what the nation needs and to what the nation can afford.

In my opinion the fundamental fiscal question raised by the pending Department of Agriculture appropriation bill is precisely the type of question with which this joint committee should concern itself. This bill proposes to increase budgeted expenditures for farm parity payments by \$372,000,000 but no provision has been made for a compensating increase in revenue although we already face a deficit of \$3,426,000,000 in the coming fiscal year. The bill, upon the merits of which I am not commenting, is typical of scores of others which seem to me to present questions appropriate for consideration by a joint committee which looks at each proposed expenditure and each proposed revenue measure as a part of an integrated budget policy.

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This committee should have continuous life for the purpose of actively studying fiscal problems between as well as during sessions of Congress. The Treasury Department would, of course, cooperate in this work to the full extent that the Committee desired.

Thus far I have dealt with the financial problems of the Federal Government alone. We must remember, however, with the best conceivable Federal fiscal plan in operation, we still would have touched less than half of the tax problem which confronts the nation. Almost 60 percent of the total tax revenues of the country are collected by state and local governments.

In the last five years we have given serious study to the problems created by Federal-State tax conflicts. The same problems had been recognized by our predecessors. It is my belief that we should take steps without delay to make these studies effective. I suggest that Congress create a small temporary national commission to report to Congress as soon as feasible on the various aspects of intergovernmental fiscal policy and propose a plan for the solution of the problems involved. Such a commission should be made up of men of ability who command the highest possible public confidence, who are familiar with fiscal problems, but who will represent the public at large rather than particular governmental units.

Overlapping and competing 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 this fiscal situation are increasingly unsatisfactory to both state and municipal governments and to the Federal Government, and more and more burdensome to taxpayers. The recommendations of such a commission should assist us in achieving a more orderly relationship between the Federal, State and local fiscal systems.

// Thus far I have talked about two fiscal matters of great importance. Let me turn now to more specific questions of Federal taxation.

I desire first to reiterate two tax recommendations which the President has already made and various suggestions which the Treasury has previously presented:

1. In his Budget Message of January 3, 1939, the President recommended that Congress extend the miscellaneous internal revenue taxes which under existing law will expire next June and July, and to maintain the current rates of those taxes which otherwise would be reduced in June. //

// 2. In his message of January 19, 1939, the President recommended legislation making all government salaries hereafter earned and interest on all government securities

hereafter issued subject to Federal and state income tax laws. That part of this recommendation dealing with government salaries, I am pleased to note, has already been incorporated into law. //

3. In my statement of March 24, 1939, I presented for your consideration four alternative rate plans for old-age insurance contributions during the next three years.

4. During hearings before this Committee in 1937 and 1938 representatives of the Treasury Department brought to your attention several changes in the tax laws upon which Congress has not yet acted. Of these the principal ones are (a) curtailment of excessive deductions now allowed for depletion of oil and gas wells and certain mines, (b) elimination of the preferred income tax status enjoyed by residents of the eight community property states and (c) integration of the estate and gift taxes. //

Even though a comprehensive revision of the tax structure may not be feasible at this session of Congress that fact, in my opinion, should not restrain your Committee from giving serious attention at this time to removing from the tax laws any manifest inequities or other defects. "

Before specifying the tax provisions which I believe deserve your special attention at this time I wish to emphasize the importance of maintaining the present revenue in any tax revisions which may be made. We must not forget that one of the important objectives of our fiscal program is to approach a balance between revenues and expenditures. For this reason any tax reductions must be offset by tax increases elsewhere. If tax revision were confined to tax reductions the resulting uncertainty

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as to our future fiscal position would injure and not help business. We should take no step which the public may interpret as moving away from the objective of a balanced budget. "

" In discussing the elements or features of the tax system which you may wish to reexamine, I should like to classify them roughly into three groups. .

" The first group includes features which have been characterized as likely to hinder business expansion and investment.

One such feature is the absence of provision in our income tax laws for carrying over net business losses to be deducted from business profits of future years. The profits or losses of each year are considered without reference to those of any other year. In consequence a business with alternating profit and loss now pays higher taxes over a period of years than does a business with stable profits although the average income of the two firms may be equal. New enterprises and the capital goods industries are especially subject to wide fluctuations in earnings. "

" As a second example, I should also like to mention the questions of tax-exempt securities and surtax rates in the higher brackets. These two questions should be considered together. Tax exemption of securities is highly inequitable

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and tends to nullify our progressive surtax rates. Most persons subject to the high surtaxes have sizable holdings of governmental securities which yield them an income free from Federal income taxation, while other persons entirely escape the high surtaxes in this manner. Tax exemption also operates as a magnet which pulls persons subject to high income taxes away from investments in private business. We should by all means pass legislation to make it impossible in the future to issue any more tax-exempt securities.

This having been accomplished first, it would then be fair and logical to reexamine the question of whether the present surtax rates on very large incomes may not be so high that they discourage the limited number of individuals subject to them from taking normal business risks. X

In a second group are features of our tax system which have been referred to as "tax irritants". As an example I would mention the undistributed profits tax.

In its present form, this tax is unimportant and does not accomplish the objective of the original proposal. The tax produces little revenue and has little effect on business. It has acquired prominence as a psychological irritant, largely because of the widespread and emotional criticism which has been directed against it. The end which the law sought to attain was to prevent the retention and accumulation of earnings by corporations from being used to avoid the personal income tax. This is still an important, and to my mind, a sound objective. The law in its present form does not attain it. Since the income tax on corporations, of which the undistributed profits tax is a minor segment, expires by its own terms at the end of this year, your Committee should deal with this problem. The Treasury, of course, stands ready to work with you on it. //

Another example is found in the capital stock tax and the related excess profits tax, enacted in 1932. Under the present law the capital stock tax is based upon a declared capital stock value which the taxpayer may revise every three years. The declared value may be any figure that the taxpayer desires to submit regardless of the actual value of the stock. The excess profits tax applies to profits in excess of 10 percent of such a declared value. The taxes are thus not really taxes on the value of capital stock or on excessive profits. Their major defect is that they operate very erratically. The tax liability they impose

depends on the taxpayer's ability to forecast profits for the next three years as well as upon the amount of profits actually realized during each of the three years. Forecasts of earnings are particularly difficult to make in the case of new businesses and those with unstable incomes such as the capital goods industries with the result that taxes imposed on such businesses are at times inordinately high.

There is a third category of tax problems now being widely discussed which raises questions of tax equity. The Treasury has already worked on those problems and, if your Committee desires, our staff could continue these studies in collaboration with the Committee, possibly with a view to action at a later session.

An example is the double taxation of corporate dividends paid to individuals. Under the present law corporations pay the normal corporate tax on their earnings. When these earnings are distributed to the individual stockholder they are subject to both the individual normal tax and to the surtax.

Another example is the limitation now placed on the deduction of corporation capital losses. Under the present law an excess of corporate capital losses over capital gains can be deducted from ordinary income only to the extent of \$2,000.

In the consideration of many of the possible tax changes just mentioned, it is essential to bear in mind that their adoption would result in a reduction in the revenue-producing capacity of the tax system. I have already emphasized the importance of not permitting the revenue-producing power of the tax system to be reduced at this time. Accordingly, with the adoption of any of the above measures involving loss of revenue there should be associated revenue-producing revisions. Although this problem is difficult, it is one that must be faced. The taxes resorted to for replacing any lost revenues should have the least harmful effects on business and should contribute to greater equity. I suggest the following three possibilities:

1. The corporation income tax rate could be increased, with due allowance for corporations with small incomes.

2. A second possible source of additional revenue is the individual income tax. There is merit to the suggestion that the rates on incomes between the \$7,500 and \$75,000 levels could be increased without inequity or material deterrent effects. Furthermore, to promote wholesome tax consciousness and good citizenship, the personal and family exemptions might well be decreased. At the present time only about 3,000,000 persons pay income taxes. If the exemption for individuals were decreased from \$1,000 to \$800 and the exemption for married couples decreased from \$2,500 to \$2,000, it is estimated that an additional 1,500,000 persons would be subject to the income tax. The rates imposed on small incomes could be low with perhaps a small minimum tax.

Even though the tax imposed on small incomes were of little importance from the revenue point of view, the tax would constitute a valuable instrument for making a larger group of our citizens directly aware of the Federal tax problem.

3. Estate and gift taxes could be increased. Although high rates are applied to extremely large estates the great majority of the estates pay little or no tax. The exemption and the insurance allowance could be reduced and rates in the lower and middle brackets could be increased. Furthermore, as previously suggested consideration might well be given to the possibility of combining the estate and gift taxes into one consolidated tax. At the present time a person with a large volume of property who is in position to give much of it away during life can reduce his total tax far below that which must be paid on the estate of a person who is not in position to give away his property during life.

In connection with all of the matters I have mentioned the Treasury is prepared as usual to furnish further information and will be happy to work with you to the extent that you desire.

The subjects I have discussed are for the most part confined to a limited segment of the tax system. I do not consider them as constituting an adequate program of tax revision. Such a program can be developed only through long continued study and it cannot be static but must be adapted to changing conditions. But the general lines along which Federal taxation

should develop in the future appear to be quite clear. We ought to increase the part played by direct taxes that can be made to take account of differences in the abilities of individuals to support Government. This means that we should endeavor eventually to minimize the use of manufacturers' excises and other commodity taxes which tend to be shifted directly to consumers, transferring the burden as far as practical to the individual income tax and the estate and gift taxes. Such revisions would facilitate coordination of Federal with State and local taxation.

In conclusion, permit me to say that one of the major tasks we have before us is to do everything we can to promote lasting business recovery. With this ^{still} uppermost in my mind I would like to repeat now with the same deep conviction what I said in November, 1937: "The basic need today is to foster the full application of the driving force of private capital. We want to see capital go into the productive channels of private industry. We want to see private business expand."

May 24, 1939

3:30 pm

Present:

Mr. Hanes
 Mr. Doughton) about 3:35
 Mr. Cooper)

HM, Jr: Doughton called me up at my home and said "I am here with Jere Cooper" and I understood him to say that the Sub-Committee wanted to meet with me and you Thursday night, but I did not have it straight whether it was only the Democratic members or the whole. He said, "That's what you want, isn't it?" I said, "No." He said, "I thought that's what you wanted and we are telling you now so you can make your arrangements now." I said, "No."

He kept saying, "Jere is standing right next to me."

"But I am sorry; that's not what I want."

He said, "Can you make it Friday?" I said, "No, I hope to be away, but I will make it any time this afternoon or this evening, and what's it all about and what are we to come up about?"

They said 3:30. I imagine he had not told Cooper he was down here. But he had it all wrong, and he does not usually get it wrong.

He said, "Now you can go across the street and fix it up before you see us." I said, "No."

That was quite contrary. We said we would much rather meet with the full Committee and make one appearance.

(At this point, Mr. Doughton and Mr. Cooper arrived.)

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HM, Jr: Very nice of you gentlemen to run down. Ought to offer you some refreshments.

Mr. Cooper: We expected that.

HM, Jr: My memory has gotten so mixed up on this tax thing, I can't keep up with the latest, so I want to have a record for my grandchildren and they can say, "Why didn't you do this?"

Mr. Cooper: We have to get back. They are fighting up there this afternoon. One roll call after another.

HM, Jr: I take it you want to get down to business.

Mr. Doughton: You suggested you might see us this afternoon, so we are ready to talk with you now.

HM, Jr: You gentlemen invited me -- I did not understand whether it was the Democratic members .

Mr. Doughton: Democratic members, I think, that Mr. Cooper wanted to have.

Mr. Cooper: This is between us, naturally. But I called a conference of the Democratic members of my Sub-Committee and, of course, Mr. Doughton, as ex-officio member of it.

We met Monday afternoon, two o'clock. All of them were there. Went over the situation and discussed the tax matters. I tried to bring them up to date as best I could on the situation as it stood and the understanding was reached that I would ask you and the Under-Secretary to meet with the Democratic members of the Sub-Committee, at your convenience of course, and it was thought best that to avoid any publicity or anything of that kind, if it would meet your convenience we had better just drop in here some evening so we could talk things over and not have to run the gauntlet of newspaper men and have them inquiring everything. So that's the story.

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HM, Jr.: Seeing that you want to make it short, may I ask this: If you can give me -- I saw by the ticker that you saw the President this morning. Does he know of this invitation that we are to meet with your people?

Mr. Cooper: Yes.

HM, Jr.: Does he approve of that?

Mr. Cooper: Yes! Yes! The situation is this: you will recall, in fact both of you were present, the last conference we had at the White House. The President asked me if I could get the Democratic members of my Sub-Committee together to talk things over with them. I told him yes; of course I would be glad to do that. And he asked me then to report to him after I had done that.

We had this meeting, this little conference, Monday afternoon. Lasted about 2 hours, from about 2 to 4. As soon as the conference was over, in keeping with my promise to the President, I called the White House and talked to General Watson and told him that we had had this conference of the Democratic members of the Sub-Committee; gone over the situation; that I was ready to report to the President on it at his convenience any time he wanted me to. So this morning I was talking to the Ways and Means Committee, between 10 and 10:30, and the White House called and said the President wanted to see me at 11 o'clock this morning. So, of course, I went down and he said that he was expecting Senator Harrison and Senator Byrnes to lunch with him and he wanted me to give him a report on our conference.

So I did. I gave him a report on the conference and also told him that our Democratic members of the Sub-Committee wanted a conference with you two gentlemen and that we would like to get that arranged as soon as we could, because we wanted to go over things together and get a meeting of minds and understanding so that as soon as we get that out of the

-4-

way then we can start work on the full Sub-Committee. You see? But the point is, we want to know where we are going and I thought the best way to do that was for us to get together in a huddle. You see? So I understood from the President that he would communicate with you.

HM, Jr: Well, I will call up the White House and tell them that Hanes and I are going up to see you gentlemen and does the President care to see me before I go up?

Mr. Cooper: Yes. That's all right.

HM, Jr: Do you want to set a time now?

Mr. Cooper: We had thought that if it would be convenient for you, to let us come down here, say, 7:30 either tomorrow evening or the following evening.

HM, Jr: Well, tomorrow we are going to that testimonial dinner for Monsignor Ryan. I guess you are going too; aren't you?

Mr. Hanes: I think so.

HM, Jr: And Friday night I had planned to go home. Couldn't we meet at 5 o'clock?

Mr. Doughton: Tomorrow afternoon?

HM, Jr: Yes.

Mr. Doughton: I should think we can.

Mr. Cooper: I imagine so.

HM, Jr: They don't watch this place. You could come in this way.

Mr. Doughton: If they do, it's not against the law.

HM, Jr: They don't watch this entrance. How would 5 o'clock be?

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Mr. Cooper: Five o'clock tomorrow afternoon, as far as I know, it's all right.

Mr. Doughton: Better than night.

HM, Jr.: It would suit me.

Mr. Cooper: One or two other members of my Democratic Sub-Committee suggested it would be more convenient and agreeable all around to have it in the evening.

HM, Jr.: I was -- then let's leave it this way: I am ready any time from 4 o'clock on.

Mr. Doughton: We will be here sometime between 4 and 5.

HM, Jr.: If you will tell me tomorrow.

Mr. Cooper: I will check in with my other men and whatever time we agree on, after 4 o'clock, I will let you know.

HM, Jr.: Did you gentlemen want me and expect me to show you my statement at that time?

Mr. Cooper: Statement?

HM, Jr.: The statement I have had written and want to give.

Mr. Cooper: You mean to the full Committee when you appear then? It will be all right. We will be glad to hear it and -- you mean for the purpose of us commenting?

HM, Jr.: Yes. And advice.

Mr. Cooper: Sure! We will be glad to do that. The main thing, as I understand it now, when we get in this huddle we want to agree on what we are going to do so that when I call my full membership, including Republican members of my Sub-Committee, we

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can all have an understanding and know where we are going.

HM, Jr: That's fair enough.

Mr. Cooper: Sure! Because I don't want to run into a situation where I get into my full Committee without any agreement or understanding among my Democrats and have one or two Democrats probably join with the Republicans and we can't get anywhere.

HM, Jr: You think you will want me Friday morning for anything?

Mr. Cooper: I can't think of anything now, if we can finish up in the conference tomorrow afternoon.

HM, Jr: I will tell you why I am asking. I have an invitation from the Finance Committee of the Senate to appear at 10:30 on the bill that you passed yesterday.

Mr. Cooper: What bill?

Mr. Doughton: The extension of the limitation ..

HM, Jr: And I told them I could not answer them until late this evening.

Mr. Cooper: That's all right. Let me tell you about your bond bill, in a joking, friendly spirit. You and John Hanes see that it passes the Senate this time like we passed it in the House! We did this job for you last year. You let the Senate put an amendment on it and made it necessary to do it all over this year. You and Ros Magill said that amendment is all right; Mr. Doughton was sick anyhow.

HM, Jr: I will tell you exactly what happened.

Mr. Cooper: Said the amendment is all right. Asked unanimous consent to take the bill from the Speaker's table and concurred in the Senate amendment. That's what was done; then we had to do our job over this year.

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HM, Jr: You do it so well I don't mind asking you. But what happened -- Senator Brown of Michigan ...

Mr. Cooper: I know that.

HM, Jr: told Pat he wouldn't let it pass and wouldn't let it out of Committee unless they tack his amendment on.

Mr. Cooper: Suppose they take that position this year?

HM, Jr: If Miss Chauncey wan't here, I would say to hell with them, but Miss Chauncey is here and so I can't say to hell with them.

Mr. Doughton: Before we get away from this, did you say something about getting ready to come up Friday before the full Committee. We couldn't get ready by then, Jere.

Mr. Cooper: No! No! He wants to go before the Senate Committee on his bond bill.

Mr. Doughton: Didn't you say something about being ready?

HM, Jr: I said I was ready, but I would not give Pat Harrison an answer until I heard from you two.

Mr. Cooper: (To Mr. Doughton) He asked us if we would need him Friday and I said no. Then he can accept Harrison's

Mr. Doughton: When would you be available next? You said not until next week. Tuesday is Memorial Day.

HM, Jr: If you need me, no matter whether I am on the Farm, I can be back here in two hours and I will be here. Any time you need me. What I said was this; and will say it again, as we go along on this thing if I could have at least 36 hours' notice so that I can see the President.

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What I am doing and what he's doing, he's playing poker with me. I see him. He does not mention it and as long as he does not mention it, I am not mentioning it. I have been with him longer than anybody else in this town. I have known him longer and have worked for him longer. The minute you fellows say, "Now, Morgenthau, we want you to come up and give a statement," I am going to say "Mr. President, I am invited," and he and I will have it out in the room there. But I have to have a deadline.

I can't be any franker and when I tell you fellows I know I am not going to read it in the New York Times tomorrow. Somebody -- that was a dirty thing telling that story about the President calling me names and all the rest of it. It appeared in -- Pearson and Allen got the whole thing.

Mr. Cooper: I did not see it. I heard about it. It was awful.

HM, Jr.: I am going to do two things. I will do it right here now. It's no secret.

Mr. Cooper: What I think is important, Henry, is for you to get an understanding with the President, if you can, before we come down here between 4 and 5 o'clock tomorrow so we can all have a meeting

(Over the White House phone, the Secretary spoke to Kannee and said, "Would you mind taking an important memorandum for me to the President. Mr. Hanes and I are meeting with the Democratic members of the Tax Sub-Committee of the Ways and Means Committee at 4 o'clock Thursday afternoon, my office, and I would be pleased to discuss the matter with the President before that if he wishes it. I think you had better show it to him before he leaves the office. Would you mind reading it back? Could you say 'We have been invited' -- just change that in the beginning. And if you would show it to him before 5 o'clock, I would appreciate it."

Now, what the President may say is send word 'Go ahead and meet with you boys'.

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Mr. Cooper: That's all right. I told him.

HM, Jr: I have worked with that fellow longer than anybody else and I am still working for him, but he's a poker player.

Mr. Cooper: Oh, yes!

Mr. Doughton: Very successful one, isn't he?

HM, Jr: So far.

Mr. Cooper: I told him we want to have such a meeting with you gentlemen and, of course, I intended to get in touch with you today and tell you we wanted to have such a meeting, but Mr. Doughton said he had talked to you this morning, so he and I went together back in the Committee room and were together when he called you.

I think this: we discussed at our conference the other day the tax situation and the method of procedure and I advanced the idea, as was expressed by the President as you know, that we have about four different bills. First, of course, Social Security taxes -- we are dealing with that. That's in the bill now. And, incidentally, that's going to give more relief to business than anything else that's going to be done. \$520,000,000 less taxes they will have to pay under our new bill than they pay under the present law. \$520,000,000, next year! That's real tax relief! And that's going to be more than anything else we are going to be able to do under the absolute necessity of not losing revenue. So that's all right.

Then I advanced the idea, as expressed by the President, that we pass a Joint Resolution continuing the expiring excise taxes, and then come along with a bill to continue corporation taxes and include the changes on corporation taxes.

Democratic

And the members of the Sub-Committee seem to feel that in view of the practical situation we have

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facing us, knowing that if we send the Joint Resolution extending excise taxes to the Senate, the Senate would put something else on it, we might just as well face the practical situation. So then an understanding was reached we would put it all in one bill; that is, a bill extending the expiring excise taxes, bill on corporation taxes to have effect, of course, from January 1 as the present taxes expire December 31, and include in that this limited revision. And after we pass that -- ought to be able to pass it by probably the 10th of June or the 15th -- anyhow, that goes to the Senate and if it becomes apparent that it is not going to get through in time to keep us from losing the revenue because of the expiration of the excise taxes at the end of June, about a week before or so before the end of June then we will pass a Joint Resolution extending excise taxes alone and send that over, so that we are not going to be put in the hole of losing revenue.

HM, Jr: Now, it seems to me you are talking practically now!

Mr. Hanes: Good sense!

Mr. Cooper: That's the understanding. That's the course that we have reached an understanding on -- the Democratic members of my Committee.

HM, Jr: They are not going to have any argument with us at all.

Mr. Cooper: That's agreeable then?

All right! The President agreed with me this morning on that. I told him in view of the practical situation, we feel that's the best thing to do. So he agreed.

Then I went over with the Democratic members of my Sub-Committee these four proposals that we have had under consideration and we have reached an understanding on them as to the revision.

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Number 1. Substitute corporation income tax applicable to corporations with net income of over \$25,000, a flat rate of 18%. Leave corporations with net income of under \$25,00 subject to the rates provided in existing law.

Now, that eliminates your undistributed profits tax. Now, the President is willing to go along on that with the condition that he set out in his speech Monday night, with which we agree; that is, we have got to prevent the opening up of loopholes.

And that's going to mean we are going to have to further strengthen 102 some. And he gave me a suggestion there that he had in mind today and I told him, as you will recall it, that John Hanes gave a suggestion in our last conference there. You remember? About your suggestion with respect to 30%, etc.? So I understand he's agreeable for us to abandon the undistributed profits tax, but we are going to have to strengthen up 102.

Then, second is, allow corporations a three-year carryover of net losses excluding capital losses. Now, he wants that two years instead of three. No room for any great argument there.

Number three is, repeal the \$2,000 limitation on the deduction by corporations of capital net losses over their income in so far as such losses result from assets held over 18 months. That's your so-called long term.

Number four, allow a corporation to increase its declared value for capital stock purposes for fiscal years ending June 30, 1939 and June 30, 1940, but do not permit them to decrease such value for such years. In other words, to allow them to increase their capital stock value for the next two years where it is apparent to them they are going to get hit by the excess profits tax.

They are the items that Senator Harrison has agreed on. Not, the Democratic members of our Sub-

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Committee apparently are in agreement on that. Is that your understanding?

Mr. Doughton: That's my understanding. Make this suggestion: That inasmuch as that was Harrison's program, some could say, if there could be some addition worked out so it would be accepted hook, line and sinker as his program.

Mr. Cooper: Substantially it will be this;

. I think, on the question of 102, John, you are going to have to help us on that along the line you suggested over there.

This is the President's suggestion in very rough form. I just scribbled it down as he stated it and it's in very rough form.

Frankly, it looks to me like it is all right provided it can be analyzed and maybe smoothed up some, but anyhow I can get the idea to you.

With respect to closely held corporations, if in a corporation in which an individual stockholder owns more than \$100,000 of stock, any distribution of surplus is made, it shall be prima facie evidence that the surplus was unnecessarily lodged within the meaning of 102. Any such distribution to any stockholder or successor owner shall be retroactively taxed on personal income tax rates. And further, apply the same rule to purchase of stock out of surplus funds.

In other words, if a person holding over \$100,000 of stock in one of these closely held corporations makes one of these big distributions, why then it will be considered that that retention and piling up of that large surplus had been in violation of the intent and purpose of 102 and then you can retroactively tax them at the ordinary income tax rates that they would have had to pay if they had declared it and taken it up in an individual way.

That's his suggestion.

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HM, Jr.: May I have a copy of that?

Mr. Hanes: That's the same as Harrison.

HM, Jr.: This is the same as Harrison.

Mr. Cooper: Yes.

HM, Jr.: Do I understand it -- things move so fast, one minute I am on my head and the next minute somewhere else -- did the President say O. K. on that?

Mr. Cooper: Yes.

HM, Jr.: You go over and see him. Shake hands! What's the use of my seeing him? Shake hands, Ambassador Cooper.

Mr. Cooper: I want a meeting of minds between you two. The President is not going up to talk to my boys.

HM, Jr.: I have never had any trouble in the five years I have been here with the boys. But he agreed to that?

Mr. Cooper: Yes.

HM, Jr.: Well, what's the use. I can't take it back now. If I go over and see him

Mr. Cooper: Of course, I want you to see him. Of course I don't want you to take my word. I want him to tell you that that's agreeable to him and it's agreeable to you to come up there and take a position agreeable to this.

HM, Jr.: "Ambassador Cooper informs me, Mr. President, that this is your program."

Mr. Doughton: That's our program.

Mr. Cooper: That's our program.

HM, Jr.: I said, "Ambassador Cooper says"

Mr. Cooper: Let me get this straight. These

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were suggestions that Harrison made the last time we had our conference at the White House. I had with me a copy of that. When I got through talking with him, he said "Let me have a copy of that, because Harrison and Jimmie Byrnes are going to be here for lunch with me today." I handed him that copy, which was the only one I had; wrote my name on it. He said, "I will send it back to you when I get through." That was a carbon copy of this I have just read to you.

As I told the members of my Sub-Committee Monday afternoon, I don't have any doubt but I can get the President to agree to go along on this. And there wasn't the slightest trouble; never saw a man in finer humor or finer frame of mind or quicker agreement than was there this morning. No difficulty.

What I plan to do is like we have always done. After we have this conference, this understanding, then I am going to call my full Sub-Committee together. We are going to work this out as our plan, as our suggestions. Then we are going to call you up for your comment.

HM, Jr: Of course you will want my statement.

Mr. Cooper: I am just trying to do what I can to help you and Mr. Hanes, so when you get before the full Committee, you will be ready to click.

(Mr. Doughton and Mr. Cooper left the Secretary's office.)

HM, Jr: I got an excuse. I am going to call up Pat Harrison and ask him what happened at lunch.

(At this point the White House phone rang, General Watson calling. Mr. Morgenthau's part of the conversation was: "He will see Johnnie Hanes and me at 9:15 tomorrow morning over at the House? Well, I can't ask for anything more. Ever so much obliged.")

The Secretary then spoke to Senator Harrison, and their conversation follows.

May 25, 1939

HM, Jr called Pat Harrison on the phone at 11:25 today. The following is the Secretary's part of the conversation:

"How are you, Pat?"

I have good news. Johnnie Hanes and I were over for almost an hour with the President this morning and we have come away with complete agreement and he now says that I can say, when I appear publicly, that what I say has his approval.

"For your own information, the Democratic members of the Sub-Committee of the Ways and Means are coming down here at four o'clock to have a meeting with me, but inasmuch as they have taken your plan and there is nothing in my statement which in any way goes contrary, in fact just supplements it, I think it is O. K.

"I did not know until he read my statement how he would feel. I said to him, 'Mr. President, when I read this and some Republican should say 'Has this the approval of the President?' what can I answer?' and the President said, 'Tell him that you have my approval.'"

"I am going to press them to let me come up there just as soon as possible.

"I want you to read my statement before I give it. When can we get together?"

"Do you want ^{me} to let you know after I have met with this group?"

"If they stay too late, I will give you a ring in the morning.

"It looks awfully good. I congratulate you and myself."

(At the conclusion of the conversation, the Secretary told Mrs. Klotz that Pat Harrison said that he saw Doughton last night and had a talk with him and that he was worried about one thing, which was straightened out.)

-2-

The Secretary also called Jere Cooper and the following is HM, Jr's part of their phone conversation:

"What I would like to do, before somebody who is unfriendly does something, I wonder whether it would not be possible to get me up there Saturday morning and get this thing over with.

"The President has authorized me to say that, with a few changes which he made, the way we have it now has his approval."

cOo-oOo

May 24, 1939
4:17 p.m.

HMJr: Hello.

Operator: Senator Harrison.

HMJr: Hello.

Pat

Harrison: Hello, Henry.

HMJr: Pat?

H: Yeah.

HMJr: I hear you love me so that you insist that I come up there Friday in person.

H: No, what -- what's happening -- you see, they appointed -- passed this forty billion forty-five million dollar stuff yesterday.

HMJr: Yeah.

H: Over in the House.

HMJr: Yeah.

H: And I told them I'd try to call the committee for Friday or when it was agreeable to you.

HMJr: Now.....

H: I don't know whether it will be necessary for you to say anything, but I think probably it would be better to be there.....

HMJr: O. K.

H:because some of them may want to delay it if I ask you to come down.

HMJr: Now supposing I have my tax statement in my left pocket and the other one in the right and I get mixed up and pull the wrong one out.

H: Oh well, we're not going to discuss taxes.

HMJr: Oh, you don't want me to pull the wrong one out?

H: No, no -- not yet.

HMJr: Not yet.

H: No -- they may ask you some questions, but I doubt it. But I think it would be better for you to come.

HMJr: Yes.

H: I want to get through with it without anything, if I can.

HMJr: Yeah.

H: You understand?

HMJr: I understand. Now look.....

H: I think it would be a good idea for you to be in the ante room.

HMJr: Oh, I'll -- I'll come right in publicly, if you want me to.

H: And bring who you want.

HMJr: Yeah, I'll -- I'll come up.

H: Are you going to be here Friday?

HMJr: Yeah, I'll be there at ten thirty.

H: Is Thursday more satisfactory to you?

HMJr: No, I think Friday at ten thirty would be perfectly.....

H: All right, Friday at ten thirty.

HMJr: And Hanes and Bell and I will be up there.

H: All right.

HMJr: Now, do you want to stop by tomorrow morning?

H: Well, I don't know whether -- I don't know what my status is over here.

HMJr: Uh-huh.

H: I don't know whether I -- you mean, on my way down?

HMJr: Yeah.

H: What time do you get down?

HMJr: Oh, nine o'clock.

H: Uh-huh. Do you want to see me about anything in particular?

HMJr: Well, this thing is kind of moving, and I don't know whether the President talked taxes to you at lunch or not.

H: Well, he went over things generally and it seemed to me -- I -- that he has got a kind of change of mind.

HMJr: Well that's.....

H: He talked very well -- very fine about it.

HMJr: Yeah.

H: That's the way he talked today.

HMJr: Uh-huh.

H: I made a suggestion -- similar to the one I made the other day.

HMJr: Yeah.

H: That he ought to ask Doughton to put the continuation of the excise taxes, which expired December the 30th -- January -- June the 30th.....

HMJr: Yeah.

H:with this corporate structure proposition.

HMJr: Yeah.

H: And that on the -- taxes on the incomes from future securities, that that come in a separate bill.

HMJr: Yeah.

H: And I think -- I think things will be all right.

HMJr: You think things will be all right?

H: I think so.

HMJr: Uh-huh.

H: That's the way it's working toward. I put in a call for Doughton a while ago, but I haven't gotten him.

HMJr: Well, they've been down here.

H: Huh?

HMJr: He's been down here.

H: Well, he isn't still down there is he?

HMJr: No, he's left.

H: Has he gone back to his office?

HMJr: Yeah.

H: All right, I may get with him this afternoon.

HMJr: Well, don't keep me in the dark now.

H: I won't. Well, that's exactly what happened.

HMJr: All right. Well they.....

H: Jimmy Burns was out with him Sunday on his boat.

HMJr: Yeah.

H: And I think Jimmy brought the question up.

HMJr: Yeah.

H: And the President asked us to come down and have lunch today.

HMJr: Uh-huh.

H: And I think it's kind of getting to him don't you see?

HMJr: I see.

H: So I think things are going to work out all right.

HMJr: Well.....

H: I hope so.

HMJr: That sounds good.

H: Yeah. All right, Henry.

HMJr: O. K. All right. Good bye.

REB

TELEGRAM SENT

GRAY

May 24, 1939

7 p. m.

AMEMBASSY

ROME (ITALY)

42

Your telegram No. 127, May 19, 5 p. m.

You may explain to appropriate authorities that Section 303 of the Tariff Act of 1930 is mandatory and leaves no discretion as to its application by the Treasury Department under the conditions set forth in paragraph two of my telegram No. 36 of May 23, 2 p. m., and that this administrative measure is not directed exclusively against Italy.

In fact, as a result of findings by the Treasury Department, countervailing duties are now in effect or have in recent years been in effect upon various products of Australia, Denmark, England, Ireland, Netherlands, Germany, South Africa, Lithuania, Nova Scotia, Poland and other countries. In a number of cases the other country involved has modified its practices so as to avoid the necessity of incurring countervailing duties. Sometimes

the

REB

2-#42, To Rome, May 24, 7 p.m.

the other government has taken the corrective steps after the countervailing duty order was issued, in which case the order has been revoked or appropriately modified. In other cases it has proved not to be necessary to issue the countervailing duty order at all since the other government acted promptly upon the receipt of prior notice, such as that which has been given to the Italian Government, to eliminate the subsidy procedure in question, in so far as it applied to exports to the United States.

For example, extended discussions took place last year between representatives of the Netherlands Government and the Treasury Department with a view to determining how the various Netherlands procedures with respect to dairy products could be modified so as to keep exports of such products free of entanglement with Section 303.

Explanation along the foregoing line would appear timely since the Italian Commercial Counselor recently stated informally at the Treasury Department that the Italian Ambassador here might request assurances that contemplated action has no political significance.

HULL
(SW)Eu:JNH:AIR
EA:LS

PA/D

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EG

GRAY

London

Dated May 24, 1939

Rec'd 2:40 p.m.

Secretary of State,
Washington.

732, May 24, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

One. The Prime Minister's announcement in the House of Commons today forecasting an Anglo-Russian understanding in the near future has further reenforced the growing optimism in the city. This more hopeful attitude of mind has been partly occasioned by the absence of any untoward development since the seizure of Albania and partly by the inspired reports of British armament progress, coupled with the conclusion of alliances, particularly with Turkey. It has also been fostered by the statements made last week by the Prime Minister at a private dinner of the Parlour Club, which is composed of about thirty leading figures in the city. Mr. Chamberlain is said to have given the impression of considerable optimism and emphasized the armed strength of this country. He also is said to have expressed the view that, whereas he was not prepared to negotiate with Germany

-2- #732, May 24, 6 p.m. from London

Germany at the present time, he did feel that at some future date the gap might be spanned by "a golden bridge".

Two. The recent strength of British Government securities - for example $3\frac{1}{2}$ per cent war loan which stood at $90\frac{7}{8}$ on April 27 closed at $95\frac{1}{2}$ today - permits the issuance tomorrow of a pounds five million South African loan. Its terms are $3\frac{1}{2}$ per cent 1954 - 59 at $96\frac{1}{2}$. Incidentally this is the first new money to be raised by South Africa in the London market since 1932. In fact in recent years South Africa has been steadily repaying her London debt which has been reduced to pounds 101,000,000.

Three. The Governor of the Bank of France has arrived in London and I understand is discussing with the British monetary authorities possible measures for Anglo-French financial cooperation in the event of war and other related problems. Unless instructed I shall make no attempt to learn from official sources what transpires as I feel we have in this matter no locus standi.

Four. In the official record Simon's statement quoted in paragraph numbered two of my 729, May 23, 6 p.m., was changed to read: "I do not (repeat not) think that my answer covers that".

Five.

-3- #732, May 24, 6 p.m. from London

Five. The foreign exchange market inactive. The Bank of France which has only been a small buyer of sterling in the recent past began again today to buy dollars at $37.74\frac{1}{2}$. 187 bars were sold at gold fixing of which 75 were married and the Bank of England supplied 50. Requirements were prorated at 35 per cent.

KENNEDY

HPD

RECEIVED
MAY 25 1950
DEPARTMENT OF THE TREASURY
WASHINGTON, D. C.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

Date: May 24, 1939, 5 p.m.

NO.: 1000

FOR THE TREASURY.

On the exchange market today there were no outstanding developments. A fair amount of dollars was bought for the fund by the Chase Bank. More cheerful security market. A gain of about 20 centimes in rentes, and about 1 percent in variable revenue securities.

According to a semi-official statement published in most financial papers this morning, conversion subscriptions to the loan issuance of May 15 which is scheduled to close May 25 "have been substantial". Contrary to rumors, it is emphasized, no further loan issues in the near future are contemplated by the Minister of Finance. It is stated that the Treasury, as a matter of fact, has enough funds to last quite a long time.

BULLITT.

EA:LWW