

DIARY

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July 7, 1939

Called on Secretary Hull at 9:30.

Told him I came over to see him in regard to Merle Cochran. He said, "Well, we are glad to let you have him." So I said, "Well, that's putting the cart before the horse." I said, "You know under what circumstances I took him." He said no. I said, "For about a year, Bullitt has been putting the pressure on to get Cochran out of his Embassy." Hull said, "I did not know that." And I said, "Nobody has done a better job for the American Government than Cochran." Hull said, "That's right." And I said, "What I am over here for, in recognition of his work, to make Cochran Counselor because he is the only First Secretary in his class who isn't Counselor." Hull said, "Unless it means a hammer and tong fight, I will see that it is done."

He said, "The trouble with Bullitt is he always stirs up trouble wherever he is and," he said, "I guess Cochran did not try to smooth Bullitt down enough." I said, "I guess that's right." And I said, "If ever anybody deserves recognition for what he has done, it was Cochran."



July 7, 1939

11:20 am

Present:

Mr. Leroy-Beaulieu  
Mr. Lochhead

Mr. Beaulieu: I have a message from Mr. Paul Reynaud for you to say how very glad we were to be of small help to you in the last week. What we did was the only thing we could do; was only business between Equalization Funds and the Spirit of the Tripartite and we were pleased to be helpful in a very small way and of course we are glad that it turned out as it did because I think we will be able to work in the future as we did in the past.

HM, Jr: Well, will you please thank Mr. Paul Reynaud for me for his cooperation and it was particularly helpful just at that time. And I think now that that is over, that's better.

Some day I am going to the Fair. I don't know when. How do I make reservations at the French Pavilion.

Mr. Beaulieu: Ask me about it.

HM, Jr: Ask you? Have you any influence?

Mr. Beaulieu: I will have a little for you.

HM, Jr: They say it is the best place to see the lights.

I still have my passage on the NORMADIE on the second of August. I hope to go to the Scandinavian countries.

Mr. Beaulieu: Oh! You won't stay in France?

HM, Jr: I don't even land there this time.

Mr. Beaulieu: Well, I am sorry. You were

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not pleased with Cap Antibes last year?

HM, Jr: Most pleased! In fact, my sons had too good a time. They very much want to know why can't we go back there. So I think for a chance we will go, this time, to the Scandinavian countries.

oOo-oOo

July 7, 1939.

My dear Mr. Ogg:

I am writing to acknowledge receipt of your memorandum of July 6th, with which you enclosed a copy of your letter to Senator Capper and a clipping reporting the vote on the monetary powers bill.

We are, of course, all greatly gratified with the result, which has, I believe, averted very serious dangers to our monetary system and to our whole economy. I appreciate greatly the help that you and your associates rendered.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. W. R. Ogg,  
Director, Legislative Department,  
American Farm Bureau Federation,  
Husey Building,  
Washington, D.C.

HMG/mah

*W. R. Ogg*



5

5:40 P.M.

July 6, 1939.

Miss Chauncey brought this in with the following message:

"The Secretary would like you to write a very nice thank you to Mr. Ogg, but at the same time a very carefully prepared reply, for the reason that he takes all the credit for switching the vote on the monetary bill."

MAH



*25*  
*Jan 6*

TELEPHONE NATIONAL 3342

WASHINGTON, D. C.

July 6, 1939

**MEMORANDUM for Secretary Morgenthau:**

I am sending you a copy of a statement placed in the hands of several Senators before the vote yesterday on the conference report on the monetary bill. I also made several telephone calls appealing for support of the conference report.

I concentrated on six Senators, five of whom voted against continuing the President's power to revalue the dollar and one who was absent in the vote on June 26.

Of these six Senators, two (Hayden and Herring) who voted "nay" in the vote on June 26 voted for the conference report and one (Senator Gillette) who did not vote on June 26 voted for the conference report. If they had not changed their positions the conference report would have been lost.

It is interesting to note from the attached clipping that the opposition claimed an equal number of votes before the vote was taken and seemingly were greatly surprised at the defeat by four votes.

*W. R. Ogg*  
W. R. Ogg - Director

WRO:de.

7  
Same letter sent to Senators Hayden, Lundeen, and Shipstead.

July 5, 1939

Senator Arthur Capper,  
Washington, D.C.

My dear Senator:

The American Farm Bureau Federation is very much concerned lest the President's power to revalue our gold dollar be terminated. We feel that it would be calamitous to the farmers and to the country generally at this time to go back to the fixed gold standard. I enclose a copy of a letter sent to the Senate by President O'Neal on June 19, which sets forth in detail why the American Farm Bureau Federation believes this authority should be continued.

I sincerely hope you will give this your favorable consideration and support the conference report on H.R. 3325 in order that our domestic and foreign markets for farm products may be protected against competitive currency devaluation by competing nations.

Sincerely yours,

W. R. Ogg  
Director of Research.

WRO:ds.



# MONEY POWER RESTORED TO ROOSEVELT

Senate by Close Margin Votes  
To Accept Conferees Report  
After Sharp Partisan Clash

(Continued from First Page)

Gibson, Gurney, Hale, Holman, Johnson (Cal.), Lodge, Nye, Taft, Tobey, Townsend, Vendenberg, White and Wiley.

Farmer-Labor (2) — Lundeen and Shipstead.

G.O.P. Had Claimed Victory

The vote today was a stunning defeat for a coalition of conservative Democrats and Republicans. Republicans had claimed victory up to the hour of the vote, but when the showdown came they lost by four votes.

The vote came on a conference report compromising differences between the House and Senate on the monetary legislation. The Senate previously had voted to end the President's dollar devaluation power and to end the purchase of foreign silver. These provisions were restored to the bill and the conference report approved by the House last week.

Senator Austin of Vermont, acting Republican leader in the Senate, announced he had polled his forces and found they could command exactly as many votes as Administration followers.

Then a short time later, Senator Ashurst (D.) of Arizona, an Administration leader, announced during bitter debate over the monetary legislation that he would vote against giving President Roosevelt the emergency powers.

"Miserable Compromise"

He was joined by several silver State Democrats, and Republicans immediately claimed a victory. Ashurst condemned the report as "a miserable compromise."

"The conferees are servants of the Senate; not its master," he declared, contending that the domestic price of silver must be pegged at 77.57 cents per ounce.

The first vote was on a conference report designed to extend the President's powers, which expired last Friday midnight after a filibuster prevented action before that time.

Senator Austin and other Republican leaders claimed the filibuster had killed the conference report, but the Administration held that even if passed now it would extend the President's powers.

Senators Austin, Wiley of Wisconsin, Reed of Kansas, Danaher of Connecticut and Bridges of New Hampshire, Republicans, took the floor to plead with their colleagues to reject the conference report. Speaking for it were Senators McKellar (D.) of Tennessee, Norris (I.R.) of Nebraska, Maloney (D.) of Connecticut and numerous others.

Senator Ashurst engaged in a heated exchange with Senate Democratic Leader Barkley.

Challenged by Barkley

Ashurst's prediction that if the conference report is again sent to conference the conferees will fix the price of domestic silver at 77 cents per ounce, brought from Barkley a challenge to prove his prediction.

Vigorous criticism of the manner in which the legislation was handled in conference with the House was voiced by Senator Alva B. Adams (D.) of Colorado, one of the Senate conferees.

Adams said that a breakdown of the original Senate votes against devaluation and for the higher domestic silver price showed that 60 Senators voted for one or both of those proposals, and only 18 Senators voted against both of them.

Raps Choice of Conferees

"However," he added, "three of the five Senate conferees were appointed from among the 18 Senators who voted against both amendments. I was the only conferee who voted for all the amendments which the conferees were charged with upholding.

"If I were a lawyer in court, I wouldn't want these gentlemen on a jury."

Barkley said Adams had served on the relief conference despite the fact that he voted against some of the amendments. Adams replied that there were 132 amendments involved in the relief bill, where only three amendments were involved in the money bill.

# Roosevelt Regains Power On Dollar; Senate, 43-39, Reverses Self on Money

## Stabilization Fund Wins, Domestic Silver Price of 71.1 Cents Is Set Up

## Silverites Forsake Ranks of Coalition

## All but Four Run Out on Republicans in Final Test on Monetary Bill

By Jack Beall

WASHINGTON, July 5.—President Roosevelt regained actual if not legal control over the dollar and the \$2,000,000,000 stabilization fund in the Senate today as the New Deal rallied its forces and reversed a defeat of a week ago by adopting a conference report on the monetary bill by a vote of 43 to 39.

The report extends until June 30, 1941, the authority to continue the stabilization fund and to devalue the gold content of the dollar from 23.00 to 50 per cent of its former value; it remonetizes domestic silver indefinitely by statute at a price of 71.1 cents an ounce and permits continuation of the foreign silver-buying program.

After suspending earlier in the day virtually all purchases of foreign and domestic silver, the Treasury prepared to announce new Mint regulations on the white metal as soon as the bill is signed. This action was delayed to await the signature of Speaker William B. Bankhead, expected by noon tomorrow.

### Domestic Silver at 71 Cents

From the time that President Roosevelt signs the bill the Mint will be forced to accept domestic and newly mined silver and to give the producer 66 per cent of its statutory value in coin, retaining a seigniorage of 45 per cent. This works out at exactly 71.1 cents an ounce to the producer.

All varieties of opinion were expressed in a six-hour debate on the Senate floor as to the legality of the extension of the Presidential monetary powers, but there was perfect agreement on all sides that nothing effective could be done by citizens in question the law in suits against the government.

The politics of the situation today justified the predictions that most of the "silver Senators" would "run out" on the Republicans with whom they had previously made an agreement to boost the price of silver and to regain for Congress emergency powers conferred on the President.

Only four of the silverites stuck—Senators Alva B. Adams and Edwin C. Johnson, both of Colorado, and Henry F. Ashurst, of Arizona, and Pat McCarran, of Nevada, all Democrats.

Up until the last moment it appeared that the coalition forces might prevail, although the vote was known to be extremely tight. They counted on Senators Guy M. Gillette and Clyde L. Herring, of Iowa, and on Senator George L. Radcliffe, of Maryland, all Democrats. When these Senators responded in favor of the conference report, all hope departed.

### How Senate Voted

The vote by which the Senate approved and sent to the White House the Administration's compromise monetary legislation, as reported by The Associated Press, follows:

FOR—43

Democrats—10

Bankhead	Hatch	Pepper
Barkley	Hayden	Pittman
Biden	Haring	Radcliffe
Bona	Hughes	Schwartz
Byrnes	Lee	Schwellens-
Chavez	Logan	soch
Clark	Lodge	Snodgrass
Isaacs	McCollar	Stanley
Connally	Mead	Smathers
Donahey	Miller	Stewart
Ellender	Minton	Thomas
Gillette	Murray	Tracy
Green	Neely	Wagner
Guffey	O'Mahoney	
Harrison	Overton	

Republicans—1

Borah

Independent—1

Norris

Progressive—1

La Follette

AGAINST—39

Democrats—10

Adams	George	Maloney
Ashurst	Gerry	McCarran
Bailey	Glass	Russell
Bulow	Holt	Tydings
Burke	Johnson	Van Nuys
Byrd	Colo.	Walsh
Clark, Mo.	King	

Republicans—18

Austin	Garney	Taft
Barbour	Hale	Taney
Capper	Holman	Thousand
Danaher	Johnson	Vandenberg
Davis	Calif.	White
Gibson	Lodge	Whitely

Farmer-Labor—2

Lindsen Shipstead

Fair—Thomas, of Utah, Democrat, for, and Bridges, Republican, against; Truman, Democrat, for, and Frazier, Republican, against; Andrews, Democrat, for, and Smith, Democrat, against; Hill, Democrat, for, and Reed, Republican, against; McNary, Republican, was announced as opposing the measure.

Only one Republican, Senator William E. Borah, voted against the Republican majority and for the conference report. He carried with him his colleague, the new Democratic Senator from Idaho, Worth D. Clark.

The situation which permitted of grave doubts of legality on a bill which Congress has just passed arose through a filibuster last Friday which "killed" the monetary bill, the powers of which expired automatically at midnight June 30.

In spite of the fact that it had been "killed," the Administration insisted that those powers could be revived by a favorable vote even after midnight. It set today at 3 p. m. for that vote.

In taking this stand the Administration reversed the position that it had held up to noon, at least, on Friday, that this mode of procedure could not be followed and that to save the President's powers it would be necessary to submit and pass new legislation. President Roosevelt himself subscribed to this view at a press conference, as did Henry Morgenthau Jr., Secretary of the Treasury, in a previous interview.



At the end of the long-drawn-out fight Senator Adams, who led the fight against the conference report, agreed with Senator Robert F. Wagner, Democrat, of New York, who led the fight for the extension of the President's powers, that there was absolutely nothing that could be done to question the Treasury's handling of the stabilization fund.

**Law Suits Unlikely**

Senator Adams said he thought the courts might adjudicate the legality of the devaluation law, should the President exercise the power and a depositor sue a bank for the difference between the value of the money he formerly deposited and what he later drew out. But this would not be a suit against the government in such a way as to get a declaration voiding the law.

In the heat of a bitter debate Senator Adams outlined how the Senate monetary bill, which drastically amended the House bill by cutting out the devaluation power entirely and forbade the buying of foreign silver, while raising the price of domestic silver to 77.57 cents a ounce, had been done to death.

He showed that while there were sixty Senators who voted for the so-called Adams amendments that accomplished these purposes, nevertheless three out of the five Senate conferees came from the small opposition group of eighteen. This constituted a majority.

The appointments were made by Senator Sherman Minton, Democrat, of Indiana, and one of the most rigid of New Dealers, who occupied the chair at the time.

Of the five conferees, only he, said Senator Adams, had voted to uphold the Senate as against the House conferees. He strongly intimated that the Senate conference committee had been "packed" and said that Senator Wagner, who was not a member of the Banking and Currency Subcommittee, had no business being in on the conferees at all.

Coming to the chronology of events, Senator Adams said that on Thursday a half conference was held with the House on Thursday afternoon at which no decision was reached. Following that, an entirely unofficial meeting of three Senate conferees, Senators Wagner, Barkley and James F. Byrnes, Democrat, of South Carolina, was held while Senator Adams was attending another conference on an entirely different subject, relief, and "decided" to yield to the House on practically everything except that they retained an increased price for domestic silver.

The first intimation he had of the situation was when Senator Byrnes came to him, said Senator Adams, and remarked that he thought the Coloradoan ought to know what had taken place.

Later in a very short conference with the House "we were not asked we were told what we would do," said Senator Adams, "and that after decisions that were not taken in the official conference committee."

Senator Barkley explained that there was great need for haste because of the deadline which both the monetary bill and the relief bill were up against. He admitted that "an informal talk" had been held by the three Senators mentioned by Senator Adams but complained that there was no action taken officially with House conferees.

"How did you manage to reach an adjustment on the silver purchases if not with the House conferees?" Senator Adams shot in, to the apparent discomfiture of the majority leader.

Senators Ashurst and McCarran threw their weight against the conference report on the ground that they felt sure they would be able to get a higher price for silver if the Senate rejected the pending report and asked for a new conference.

Senator Key Pittman, Democrat, of Nevada, who originally voted with the Republican coalition only to change his attitude soon after Presidential displeasure was made known from Hyde Park, declared that in a new conference the silver price would be "murdered." He said that there would never again be a chance to write into law a price of silver as high as that permitted by the conference report.

Senator H. Styles Bridges, Republican, of New Hampshire, attacked the opinion rendered last Friday by Attorney General Frank Murphy, at the request of the President, to the effect that a post-mortem revival might be accomplished by voting favorably on a bill even after the hour of midnight of June 30.

"Why didn't they bring up a new bill rather than go around to the back door and by tricky seek to gain the same results?" he demanded.

Senator Warren E. Austin, Republican, of Vermont, who is acting minority leader, presented a statement against the legality of the proceedings, declaring that when a statute is under a cloud of doubt, the doubts should be resolved against it and in favor of newly introduced legislation.

Senator Robert A. Taft, Republican, of Ohio, contended that the stabilization fund could not be put again at the disposal of the Administration to keep the prices of the dollar, pound and franc at relative values once the \$2,000,000,000 of the fund had reverted to the general fund of the Treasury on the stroke of midnight last Friday. He said that no opinion of the Attorney General could change the fact that the stabilization fund had ceased to be.

Senator Barkley, in predicting that the President would not use his devaluation powers even if they were extended, disclosed that the threat by the President last year to use them had dissuaded the British from attempting a further devaluation of the pound sterling.



July 6, 1939

At 3:40 Forster phoned the Secretary from the White House and told him the President had signed the Monetary Bill.

12  
July 7, 1939  
8:52 a.m.

HMJr: Hello.

Operator: Mr. Jones. Go ahead.

HMJr: Hello.

Jesse  
Jones: Hello, Henry.

HMJr: Are you feeling better?

J: Yeah, I haven't gotten out yet, but I feel so much.....

HMJr: What?

J: Yes, I do. I have not gotten out yet.

HMJr: Oh!

J: But, the boys left me here last night at the hotel a copy  
of the redrawn paper.

HMJr: Yeah.

J: I have read it over.

HMJr: Yeah.

J: And asked Claude Hamilton to come by my apartment. And --  
it seems to me like they've got it in pretty good shape.

HMJr: Good!

J: There are a few little changes that I want to suggest.

HMJr: Uh-huh.

J: But they're not -- I don't think they are serious.

HMJr: Well, when can we tell the President it will go up on the  
Hill?

J: Well -- when?

HMJr: Yeah.

J: I think it can go Monday morning or.....

HMJr: Oh, gosh!

J: Well, Congress has adjourned, aren't they?

HMJr: I know, but he wanted it yesterday.

J: Yes, I understand.

HMJr: I don't --hello?

J: Well then, you can send it up any time, Henry.

HMJr: I mean, I don't -- I mean, he asked for it at one or two o'clock yesterday.

J: What?

HMJr: He wanted it by one or two o'clock yesterday.

J: Well, you know where we were yesterday. Now, I can't help it that I was not down yesterday.

HMJr: No.

J: And so you just do whatever you want to do about it.

HMJr: Well, I mean, how.....

J: I'm willing to help any way that I can.

HMJr: Well, how about finishing it.....

J: There's a limit to my physical endurance.

HMJr: I understand, but I don't -- I mean, can't we clean it up this morning?

J: We can if we -- if -- I don't see why we can not.

HMJr: Uh-huh.

J: That's the reason I'm -- I've already read it this morning. I got up at six o'clock and I read that paper.

HMJr: Yeah.

J: Almost thirty -- twenty-five pages, and some are long pages.

HMJr: Yeah.

J: I read it carefully and I just want to ask the boys a few questions about it and make one or two suggestions to you.



HMJr: Yeah.

J: I'll be glad to do that in a little while.

HMJr: You see, I don't know whether he's going to put on that show that he spoke of at his press conference this morning or not. That's what's bothering me.

J: Well, I -- I think it's -- I think it's inadvisable, Henry.

HMJr: You do?

J: Yes.

HMJr: Uh-huh.

J: I think it's -- I don't think you need that.

HMJr: Uh-huh.

J: I think the way we've got this thing that I believe it will go through with very -- very -- with very little trouble, Henry.

HMJr: Well, here's.....

J: That is, if we can just show that it's done the way we've been doing things.

HMJr: Yeah.

J: And that's the -- there's no pride in my wanting it -- in my suggesting the R.F.C.

HMJr: Yeah.

J: It's only to help to get the bill through.

HMJr: Yeah.

J: And I believe that -- I don't believe we'll have a great deal of trouble.

HMJr: Well, may I suggest this. I don't know how you're fixed, but I -- the only time I've got this morning is from 11:15 until 12:00, when I go to the White House with Doughton and Harrison.

J: Yeah.

HMJr: And I'm going to save that 45 minutes. See?

J: Now, that's from when to when?

HMJr: 11:15 to 12:00.

J: All right.

HMJr: See?

J: Yeah.

HMJr: Is that.....

J: That's the only time you've got open?

HMJr: That's the only time I've got open. Now, is that crowding you too much?

J: No, that doesn't crowd me at all, Henry.

HMJr: Well, I don't want -- I don't want to crowd you, - I mean....

J: I haven't gotten up and if I don't feel like getting up I won't.

HMJr: You're right.

J: But I'll communicate just the same, don't you see? And I'll either -- I'll call you up.

HMJr: I'm awfully sorry -- I -- that you're not feeling better.

J: Well, I just got a little over -- well, I was pretty tired yesterday at lunch.

HMJr: Yeah.

J: Our lunch, and then -- I don't know - in the crowd discussing things I just.....

HMJr: Yeah.

J: .....I got a little bit nervous about it.

HMJr: When are you going to get away?

J: God knows!

HMJr: Huh?

J: I said, God knows!

HMJr: Well, I -- I'm going.....

J: There's a lot of things to do. I see -- well, Swanson just died.

HMJr: What?

J: Swanson.

HMJr: No!

J: He just died this morning.

HMJr: Well -- what was that, on the radio?

J: Yeah.

HMJr: Well, I'll be damned.

J: Well, I -- wait a minute, I said the radio, but my operator called me and told me.

HMJr: Uh-huh.

J: So that may still make some little change.

HMJr: Oh!

J: I don't -- I mean, in the present plans. Not anything else.

HMJr: Well, he originally offered you Navy, didn't he?

J: Yeah.

HMJr: What?

J: Yes. Yes. What I meant was it might -- what I was thinking about was today.

HMJr: Oh!

J: Whether he --/might change his plans.<sup>it</sup> today.

HMJr: Yeah, but he did -- didn't he offer you Navy once?

J: He talked about it.

HMJr: Yeah.

J: Yeah.



HMJr: I think you told me, didn't you?

J: How's that?

HMJr: I think you told me.

J: Probably I did.

HMJr: Yeah.

J: I didn't remember it. I tried not to tell anybody. I didn't.....

HMJr: Yeah. Well.....

J: Well, anyway that's -- I'll keep -- that's the only time -- could I get you on the phone in the meantime or.....

HMJr: Oh, yes. I -- but I've just -- I've just got these different people coming in from out of town.

J: Yeah.

HMJr: And I go to the White House at 12:00 and then there's Cabinet at 2:00.

J: Yeah.

HMJr: So I have from 11:15 to 12:00 that I -- I'm free, but any time you call I'll answer the telephone.

J: All right, and I'll -- are you at the office now?

HMJr: Yes.

J: Oh!

HMJr: Hello?

J: Wait just a minute -- I was just going to -- well, I won't attempt to -- this paper is too long, I won't attempt to discuss it on the telephone.

HMJr: No, but if you want -- for instance, Ed Foley to come up to your hotel he'll be glad to do that.

J: Well, I can talk to Ed on the telephone or.....

HMJr: Well, it's difficult. He'll run up there and see you.

J: All right. Well, I'll -- I'll call him.

HMJr: And if necessary, I'll be glad to come up to your hotel.

J: Well, thank you very much. That won't be necessary.

HMJr: But I'll be glad to.

J: Thank you very much.

HMJr: All right.

J: Good bye.

July 7, 1939  
10:01 a.m.

19

HMJr: Hello.

Alben  
Barkley: Henry?

HMJr: Yes, Alben.

B: This sub-committee over here, the Banking Committee, is meeting at ten o'clock to take some action or consider this bill of old man Townsend's to repeal the silver purchase act of '34, especially insofar as the purchase of foreign silver is concerned.

HMJr: Yeah.

B: Now, in talking to the President the other day, he was very much against cutting that purchase off because of certain diplomatic situations existing between us and Mexico right now, and of course also in the event that there's a European war, the purchase of silver from Canada would help them.

HMJr: Yeah.

B: Now, I'm going to try to get the thing put off on the ground that there ought to be some statement from the Treasury or somebody on that view of it.

HMJr: Oh, no. Don't put me on that spot because I -- I can't -- I'd have to myself.

B: Well, I don't want you to do that, of course, but -- but somebody certainly ought to be able to present the President's view about it.

HMJr: Well, I -- he hasn't given me a chance and -- on that thing. I mean, I can't -- everything else we've sent you on this Monetary Bill we believe in.

B: What's that?

HMJr: We believe in everything else that we've done that you people have done up there, but I -- I can't -- I can't give you a statement justifying the sale.....

B: Well, I'm not -- I didn't know whether you could or not.

HMJr: No, and.....



B: I -- I thought that certainly somebody ought to be able to present the President's view about it. If he still entertains that view.....

HMJr: Well.....

B: .....I don't see how he could sign the bill.

HMJr: Well, I wonder -- I wonder if he feels that way since he got his Monetary legislation through.

B: Well, I don't know. I -- I assumed he was sincere about it when he discussed it with me.

HMJr: Yeah.

B: Well, I'm going to try to get it put off anyhow.

HMJr: Well, you always want me to tell you how I feel.

B: Why, of course. I'm not going to mention you. I just -- I'm not going to get you in.....

HMJr: Yeah.

B: .....dutch on it but I -- I don't think they ought to take action on it now.

HMJr: Yes. Well, I just wanted you to know. I mean, it's -- I don't know what -- what the hell we'd do, see? But as far as I'm concerned, I couldn't sign any statement saying that I think we've got to buy foreign silver.

B: Well, I don't -- I'm not suggesting that you do.

HMJr: No. But, I -- I get what you want. You also -- if I called you up and -- you appreciate I -- I'm.....

B: Well, here's the thing, the President can't come down here; he can't sign the statement.....

HMJr: No, no.

B: .....down here.

HMJr: No, no.

B: But if there's any validity to his view that it is important from that standpoint, why it ought -- somebody ought to be in a position to present it.

HMJr: Well, if it's a foreign affair matter, maybe the State Department will.

B: Well.....

HMJr: They're good at it.

B: Yeah. That might be.

HMJr: (Hearty laughter).

B: They've got their hands full right now.....

HMJr: Well.....

B: .....with another matter.

HMJr: Well listen, Alben.....

B: Huh?

HMJr: .....March a year ago, just remember -- without even saying "By your leave" they came out and canceled -- announced that we'd stop buying silver from Mexico; the State Department did.

B: Um-hm.

HMJr: They just kicked the bucket out from under me a year ago last March, and now they're all hot and bothered because we don't pay them enough.

B: Yeah. Well.....

HMJr: It don't -- it don't make sense.

B: You departments better get together.

HMJr: You're telling me!

B: Yeah.

HMJr: O. K. How do you feel? You sound awful tough this morning.

B: Tough?

HMJr: Yeah.

B: I'm tough!

HMJr: (Laughter).

B: Yeah.

HMJr: Did you see that cartoon in the Star last night?

B: Yeah, wasn't that good?

HMJr: That was awful good.

B: (Laughter).

HMJr: You certainly were perspiring freely.

B: Yeah. Well, it all worked out.

HMJr: All right, Alben.

B: Good bye.

HMJr: Thank you.



July 7, 1939

About 10:10 (Immediately following the Secretary's conversation over phone with Barkley)

Present:

- Mr. Lochhead
- Dr. White
- Mrs. Klotz

(This took place after the Secretary's conversation over the phone with Senator Barkley. At this meeting, the Secretary prefaced his remarks by repeating the gist of Barkley's request for a statement on foreign silver purchases.)

Dr. White: Well, I think there is another choice.

HM,Jr: Sure! We knew you would have one.

Dr. White: I mean I think there is. Merely explaining the facts without tying yourself to any policy and let them deduce their own policy from the facts and I think the conclusion will be rather obvious from the facts.

HM,Jr: What are the facts?

Dr. White: We can state that our purchases of silver from Mexico, what it means to Mexico, what it means to us in the way of trade. And do the same thing with Canada, what it means to Canada, Canadian business; our business, without in any way raising the issue as to whether the monetary objectives or aims or what not, and I think after they have those facts, their position will be easier.

HM,Jr: Which way?

Mr. Lochhead: Which way will it be easier?

Dr. White: To buy foreign silver.

Mr. Lochhead: Canada is your strong point, and that's just a speck in the ocean. Mexico is the big one and that's the one they jumped all over and said, "Look at the trade figures. What did they do? They cut down on us." Peru is the next one and that's not so hot.

Dr. White: There are answers to that.

HM, Jr: Just for a minute, let's be intellectually honest. I am asking your advice at this stage of the game. With what has happened, everything else, I am asking you do you recommend to me what should my position be in regard to continuance of purchase of foreign silver.

Dr. White: Under the existing legislation I would, and I take it that's your question.

HM, Jr: No, that's not my question. My question is this: if I have to go up there Monday and testify on a bill whose sole purpose is to stop the purchase of foreign silver and I am pressed and I cannot avoid answering this: "Mr. Morgenthau, are you in favor or are you opposed to it?" That's what I am asking you.

Dr. White: That's a tough question. Well, I could only say what I believe. In the light of the whole situation, if I were you, I would not favor it unless you wished to do so for the present.

HM, Jr: No. I am Henry Morgenthau, Jr. I am charged with the responsibility. I have to go up and they press me to say. "Mr. Morgenthau, we demand for you to say yes or no. Don't equivocate. Are you or are you not in favor of this policy?"

Dr. White: My answer would be "At this time" -- I would stress "at this particular time" -- "in view of the general situation, I think it is desirable to continue for a while."

HM, Jr: You want me to say that?

Dr. White: Yes. That's what I would say.

HM, Jr: I am asking what you would recommend.

Dr. White: I can't give you that advice independent of your relationship to the Administration and the view they have taken. Your view is not in accord with the Administration position and whether you, as Secretary of the Treasury .....

HM, Jr: Oh, wait a minute! I am in accord with the position the Department took March a year ago.

Dr. White: They wanted you to stop buying silver from Mexico.

HM, Jr: That's right.

Dr. White: Well, I don't quite see that that is the particular issue. The issue ....

HM, Jr: Who is the Administration?

Dr. White: Well, I take it the President's pronouncements, Democratic party pronouncements. The fact that you have a silver history of five years behind you and it would be possible for you to come out and say you are opposed, you are not in favor of it, then you raise the question as to why you were so equivocal about it previously. You never came out publicly and said you were opposed to it and I don't think there is enough at stake to raise that issue. And moreover, I am pretty certain that I could demonstrate to your satisfaction that it is economically beneficial, to a minor degree; matter of second important, but within that range of minor importance it puts more men to work. If you had your blue card I would say yes.

HM, Jr: We took the blue card down. It served its purpose.

Dr. White: It puts more men to work.

HM, Jr: Wait a minute, Harry. If you don't mind my using an expression, I don't want a "slick" answer.



Dr. White: No. I am not trying to give you a slick answer. I am trying to give you an honest answer. Two reasons why I find it difficult to give an answer; (one I feel can be objectively given and the next can be given on economic grounds: that it is of minor advantage and it's not an economic loss in any way. However, there is much more involved than that there is a general attitude of the public, of the press and of the bankers towards silver and there is the possibility that they might regard, without knowing the merits of the case and most don't understand it -- I mean to say that categorically -- they don't understand the merits of it; -- they may regard any pronouncement by you in favor as indicating that you are unsound, unorthodox. I have to weigh that against the fact that if you come out flatly against it, you are coming out flatly against the Administration program.

HM, Jr: Wait a minute! Don't forget -- and look it up because I will ask you over the weekend to have something ready for me -- the President of the United States said, within the last week -- look up exactly what he said -- "why not a price for hogs, what and corn?".

Dr. White: That's a good question.

HM, Jr: Now, that's within the week and that's .....

Dr. White: Of course, that's the first time he has ever said that.

HM, Jr: But you did see it?

Dr. White: Yes. Surprised, too.

HM, Jr: My record, as far as an individual is concerned, is much better than the President because I have not made all of these .....

Dr. White: ... you have never gone that far.

HM, Jr: And I have never gone much "agin" it. When he made that, I almost sent him a copy of what

he said in 1933-1934 on silver but I thought 'he need not have me tell him what he said. When he made that statement I thought my hands were untied and what I said to Barkley this morning "When did he make this statement to you before or after the monetary bill passed?" and he said before. He said, "I take it the President meant what he said." He said, "And then he would mean it now." I said, "I think it is a horse of an entirely different color.

Dr. White: Let me think it over over the weekend.

HM, Jr: Here's the thing. This is the way I feel and this is the way you can take as the way I feel. If I have to go up -- and there are two things -- and testify as Secretary of the Secretary I would simply say, "Gentlemen, as far as I am concerned, whatever useful purpose silver served, foreign silver is through and .....

Dr. White: .. if you say that it would not be accurate.

HM, Jr: What I am thinking about I am thinking about China. "From today on, I don't see that it serves any useful purpose."

Dr. White: Well, let me point out briefly where it does.

HM, Jr: All right. But you do that in a memorandum.

Dr. White: But I don't think that even answers the question. Even if it did serve a useful purpose, the answer in this broad case is not clear because there is so much opposition to the purchase of foreign silver and it is regarded in the realm of category of -- you ask the man in the street "Are you in favor of foreign silver?" -- "That's monetary" and doesn't know what he's talking about. Therefore, since the economics of the matter is pretty unimportant in the realm of the larger things, the other aspect coming from the Secretary of the Treasury assumes greater importance and



it's a question of weighing pros and cons.

HM, Jr: We have been smart politically. I will put it the other way -- we have been intelligent, I believe, on the various taxes, Social Security, etc., and having been intelligent, fortunately it happened to be good politically. And in those things we have taken three of the major things out of the hands of the Republicans as campaign issues.

Now I am going to talk politics. Now Barkley, if he was smart, 90% or 95% of the people are opposed to our purchase of foreign silver and if he was smart he would work out some way that our Party would just grab this thing away from Townsend, because if they are going to make this a straight Party issue -- I am thinking as I go along -- we are going to offset all the good we have gained from having Lodge and Vandenberg vote for 77 cents if the Democratic Party on the line votes for foreign silver.

Dr. White: If you stop buying foreign silver I think we agree the price would drop 20 - 25 cents eventually and the Republicans would be able to come -- you are speaking of politics now -- come to the public and say "For five years they bought 3,000,000,000 ounces of silver. They paid an average of 55 cents and 50 cents for foreign silver. What's the price of foreign silver today? Today it's 25 cents and the Government paid 50 cents."

HM, Jr: And you know what my answer is? The same as on Social Security -- we were wrong.

Dr. White: Yes; that's the best answer.

HM, Jr: "We were wrong." We were wrong on Social Security. I said "I admit we are wrong. Yes; gentlemen, we are wrong."

Dr. White: Well, you ....

HM, Jr: ... and I believe we were wrong.

Dr. White: Would the President take that position?



HM, Jr: Of course (again talking) about the President -- which Barkley doesnot know -- the night before last he said, "Don't hurry that bill through. I don't want to do anything for the blankety-blank blackmailers", referring to the silver senators. He said, "Why hurry the thing through?" His position today is one of great cynicism on this whole thing and his very gesture, which I told you about "with my strong right arm, nothing; but with my left, come and get it" -- at this stage, Harry, I am going to do publicly only that thing which I believe in 100% and I am not going to give in, to do something, just because somebody else made a mistake.

Dr. White: You have held that position, but the alternative which may be open to you is not to say anything, the way you have in the past. Do you have to go up and testify?

HM, Jr: No. Barkley, after he heard this thing, isn't going ....

Mr. Lochhead: I am sure Barkley would not insist on you personally, but he's looking for somebody ....

Dr. White: Again is it better for you to go up and testify or is it better to let a dead dog die.

HM, Jr: I want you to toy with another memorandum making the best out of a bad situation, which should go up from the White House if they wish. An economic document giving the best face it can, but not over my signature.

Dr. White: Let me prepare three documents and they will all be intellectually honest. I won't say anything I don't believe in any of them, curious as that might sound. There will be three different decisions. One is in favor of the President's position; another going on record as opposed to it, and the third is if you are called on and you merely set forth what you regard as an analysis and let them take the position. Let me try three different ways for you.

-8-

HM, Jr: Remember, the old man is not going to say anything, in the 18th months I have left, for anybody that I don't believe in. I haven't done it in 7 years.

Dr. White: But you don't want to believe anything that you don't believe is sound. Therefore, if we can make a good case, that it's not as economically bad as you say it is .....

HM, Jr: In the room here -- this comes over yesterday and I am going to show it to Lauchlin Currie and say it smells like him -- from the President "New loan agency to borrow on its books from (a) free gold fund (b) free silver fund." Will you make a note of that.

Incidentally, keep the price of silver as is.

This is what I tell people who come in. This is what I tell people who come in criticizing the lending program and so on. "Until we get peace or war, approximately half of the world is putting 75% of its expenditures into non-productive purposes and just as long as that continues, our markets will continue to shrink" and with that picture, I always say my figures are approximate, and "with that picture I am in favor of doing things in this Federal Government to offset our loss of markets until we get peace or war." I have yet to find the first person to challenge it.

-OoOoO-

31

File as of

7/7 date of  
memo



SUNSHINE MINE TO RESUME

JUL 6 1939

32

WALLACE IDAHO - THE SUNSHINE MINING CO MINE  
PLANS TO RESUME OPERATIONS IMMEDIATELY AND WILL  
INCREASE THE WAGES OF EACH OF ITS 550 EMPLOYEES  
50 C A DAY - THE MINE WAS CLOSED JUNE 30 BECAUSE  
OF THE UNCERTAINTY OF THE SILVER SITUATION

0-

2-33

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 7, 1939.

TO Secretary Morgenthau  
FROM Mr. White  
Subject: Sunshine Mining Company

The appended memorandum (prepared by Mr. Brown) reveals the following facts with respect to the Sunshine Mining Company:

1. It is the largest and most profitable silver mine in the world - it produces about one-fifth of the total silver mined in the United States.

2. It makes a net profit of silver produced of about 45¢ per ounce (excluding taxes) when silver sells at 66¢ an ounce. At 71¢ an ounce it will make a profit of about 50¢ an ounce.

3. The mine employs between 500 and 600 workers and made an annual net operating profit per worker of \$9,000 a year in 1938 (exclusive of taxes).

The increase in the price of silver to 71.11 cents will increase their revenue by over one-half million dollars a year. By increasing the wages 25¢ a day less than 10 percent of this increased revenue will be passed on to the workers in form of higher wages, the remaining 90 percent going to the owners of the mine in the form of earnings.

4. If, as reported over the ticker, the Sunshine Mining Company closed down on June 30, it certainly could not have been for the reason alleged in the press - that of uncertainty of the silver situation. The mine was highly profitable. Its shares rose 50 percent between June 1, 1939, and July 6, 1939. Even had the price of silver dropped to one-half, the mine could have continued to operate. If they did close on June 30, it must have been done for political effect or/and to give the workers a longer weekend.

5. We do not know whether the mine will continue to be profitable for any length of time or not because we have no adequate information with respect to the reserves of ore the mine has. However, judging from the fact that the value of its stock has just risen 50 percent in price, the chances are that it will continue to be profitable for some time to come.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 6, 1939

TO Mr. White

FROM P. S. Brown

Subject: Sunshine Mining Company

Place in industry

The Sunshine Mining Company, located at Shouts, Idaho, is the only large "straight silver" producer in the United States. In 1938 it produced 11.2 million ounces of silver, equal to about one-fifth of the total mine output of silver in the United States.

This company, which was virtually abandoned a few years ago 1/, has become the largest and most profitable silver mine in the world as a result of the recent fortuitous discovery of a very rich ore body. Silver production since 1931 (the first year for which a production figure is available) has been as follows:

	<u>Millions of ounces</u>
1931	2.4
1932	3.0
1933	3.2
1934	3.7
1935	5.9
1936	9.1
1937	12.1
1938	11.2

Costs of production and earnings

This company produced 12.1 million ounces of silver in 1937 at an average cost (including depreciation bonuses to employees and all overhead but excepting taxes) of 17.6 cents an ounce. In 1938, costs rose to 18.9 cents per ounce on account of a decline in the average grade of ore milled.

1/ I have been told that the stock of this company is owned largely by a group of Washington State apple growers and lumber men, to whom the stock was sold a few years ago when it was generally supposed that the mine was about to be exhausted. The president of the company is a prominent banker in Yakima, Washington.



Mr. White - 2

In the past five years this company, the nominal value of whose capital stock is \$149,000, has paid out \$14.2 million and has accumulated \$3.5 million of current assets.

The company's financial record is indicated by the following figures: *see table appended*

Number of Employees and Shareholders

This company, which produces one-fifth of the domestic silver output, employed 639 persons on December 31, 1937. More recently this number is reported as only 550.

The number of shareholders on December 31, 1935, the only date for which a figure is available, was 2,265.

Ore Reserves and Future Prospects

Ore reserves, as stated in the company's annual report for 1938 were 270,000 tons on December 31, 1938, equal to less than the volume of ore milled in 1938, which was 318,000 tons. New ore reserves are constantly being developed so that little information can be gained from the annual report in regard to potential ore reserves. It is at least possible that the ore bodies now being worked may be soon exhausted and the mine may fade out as rapidly as it came into prominence.

As far as can be learned the volume of low grade ore is not very great. Consequently, the increase in the price of silver since 1933 has not added greatly to the company's ore reserves; certainly the increase in price has not been an important factor in expanding production.

Share prices during the recent debate in Congress

Fluctuations in the price of Sunshine shares during the recent debate on silver in Congress have been very great.

June 1	7-7/8
19	8-5/8
23	9
26	9 (day on which Senate voted to increase the price to 77.6 cents)
27	11-1/4
28	10-1/4
29	10
30	10-1/2
July 5	10-3/8 (Final fixing of price at 71 cents)
6	11-1/2

*July 1 9 7/8*

	Gross income (in thousands of dollars)	Operating expense (in thousands of dollars)	Net income		Earnings per share (in dollars)	Dividends (thousands of dollars)
			Total	per oz. of silver in cents		
1932	736	458	92	3.1	.06	149
1933	1,078	495	329	10.2	.22	372
1934	2,080	628	1,208	32.7	.81	1,012
1935	4,155	1,031	2,403	40.9	1.61	2,084
1936	6,774	1,649	3,909	42.9	2.63	3,350
1937	9,165	2,093	5,401	44.4	3.63	4,446
1938	6,927	2,113	3,653	32.6	2.43	3,275

6.2000

## In the Senate of the United States

July 7, 1939.

**Resolved,** That invitations be extended to the President of the United States and the members of the Cabinet, the Chief Justice and Associate Justices of the Supreme Court of the United States, the Diplomatic Corps (through the Secretary of State), the Chief of Staff of the Army, the Chief of Naval Operations of the Navy, the Major General Commandant of the Marine Corps, and the Commandant of the Coast Guard to attend the funeral of the Honorable Claude Augustus Swanson, late Secretary of the Navy and former Senator from the State of Virginia, in the Senate Chamber, at 1 o'clock p. m., Monday, July 10, 1939.

Attest:



Secretary.



**Order of Services at the Funeral**

**of**

**Claude Augustus Swanson**

**Late Secretary of the Navy and former Senator  
from the State of Virginia**

**Order of Services at the Funeral**

of

**Claude Augustus Swanson**

**Late Secretary of the Navy and former Senator  
from the State of Virginia**

---

The services will be held at 1:00 o'clock p. m., Monday, July the tenth, Nineteen Hundred and Thirty-nine.

The body of the late Secretary will be placed in the Senate Chamber prior to the services.

The President of the United States and his Cabinet, the Chief Justice and Associate Justices of the Supreme Court, the Diplomatic Corps, the Members of the House of Representatives, the Chief of Staff of the Army, the Chief of Naval Operations of the Navy, the Major General Commandant of the Marine Corps, and the Commandant of the Coast Guard have been invited to attend the services in the Chamber and will occupy the seats on the floor of the Senate assigned them by the Sergeant-at-Arms.

The President and his Cabinet will meet in the President's Room.

The Supreme Court will meet in its former chambers in the Capitol.

The Diplomatic Corps, the Chief of Staff of the Army, the Chief of Naval Operations of the Navy, the Major General Commandant of the Marine Corps, and the Commandant of the Coast Guard will meet in the Senate Reception Room.

The Vice President's Room will be reserved for the members of the family of the late Secretary and the officiating clergy, whence they will be escorted to seats on the Senate floor.

Seats will be reserved for those entitled to them upon the floor, to which they will be shown by the attachés of the Senate.

The Honorable  
Secretary of the Treasury



The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses herewith copy of the Order issued by direction of the President officially announcing the death of Claude A. Swanson, Secretary of the Navy, which occurred on the morning of Friday, July 7, 1939, at six minutes after eight o'clock.

Enclosure:  
Copy of Order.

Department of State,  
Washington, July 7, 1939.

*Handwritten initials/signature*

TO THE PEOPLE OF THE UNITED STATES:

Claude Augustus Swanson, Secretary of the Navy, died at his camp on the Rapidan River in the Shenandoah National Forest on the morning of Friday, July 7, 1939, at six minutes after eight o'clock.

Greatly loved by those who were privileged to know him and widely honored for his many years of faithful public service, this distinguished member of the President's Cabinet will be mourned throughout the nation.

Born and educated in the Old Dominion, he represented Virginia in Congress from 1893 until he resigned to become governor in 1906. Four years later he became a member of the United States Senate where he continued to serve until he was appointed Secretary of the Navy by President Roosevelt in 1933. It was a career which exemplifies the finest traditions of American public life.

As an expression of national mourning, the President directs that the flag of the United States be displayed at half-mast until sunset of the day of interment on all public buildings and at all military posts and naval stations and on all vessels of the United States.

By direction of the President,

**CORDELL HULL**

Secretary of State

Department of State,  
Washington, July 7, 1939.



DEPARTMENT OF STATE  
WASHINGTON

July 7, 1939.

My dear Mr. Secretary:

I appreciate your courtesy in informing me in your letter of June thirtieth of your conversation with the Soviet Ambassador on the subject of the Russian debt.

Since the debt problem is closely interwoven with other problems affecting American-Soviet relations, I would be grateful if you would keep me fully informed regarding any developments which might follow your talk with the Ambassador.

Sincerely yours,

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.



EG

GRAY

Habana

Dated July 7, 1939

Rec'd 6:25 p.m.

Secretary of State,  
Washington.

73, July 7, 5 p.m.

The peso closed at a nominal discount of 8.

Four leading Cuban business men including the President of the Cuban Chamber of Commerce and the President of the Produce Exchange were arrested yesterday afternoon on the charge of raising prices of commodities and later released.

Senator Casanova, after a meeting of the President Colonel Batista the Cabinet and Congressional leaders yesterday, met with clearing house members and said that decisions had been reached.

(ONE) To ask Congress to authorize the Executive to take steps to protect the peso.

(TWO) Not to establish exchange control.

(THREE) Not to undertake any new coinage.

(FOUR) To balance the budget by new tax legislation (information from another source indicates that the legislation is that transmitted with the Embassy's despatch No. 2059 of June 6).

(FIVE)

42

-2- #73, July 7, 5 p.m. from Habana

(FIVE) All obligations to continue to be met in currency contracted.

(SIX) Social defense code to be modified so as to establish penalties for cases such as the raising of prices of essential commodities and speculation in exchange.

The Government's general attitude as outlined above is considered to mark an improvement in the situation, although partly because of the last decision referred to very few exchange transactions have taken place and business is naturally greatly slowed up.

There has been a considerable withdrawal of dollar funds from savings banks and transfer of dollar accounts to the United States during the last three days but there has been less nervousness in this respect today than yesterday.

WRIGHT

RR

RECEIVED

JUL 8 1933

THE UNITED STATES DEPARTMENT OF THE TREASURY

WASHINGTON, D. C.

AS  
Prepared by: H. C. Murphy  
Assisted by: Wesley Lindow  
and V. L. Eyre



46

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 7, 1939.

TO Secretary Morgenthau  
FROM Mr. Haas *CH*  
Subject: Recent Developments Affecting United States Securities

SUMMARY

- (1) After reaching a low on Monday, July 3, the Government bond market rallied sharply after the Fourth of July holiday. Rallies of approximately the same proportions occurred in the Government bond markets of Great Britain and France (Chart I).
- (2) The United States security portfolio of the Federal Reserve banks decreased by \$13 millions in the week ending June 28. The decrease occurred entirely in bills, and is understood to be due to the difficulty of replacing maturing bills at better than a zero yield basis. This is the first change which has occurred in the total amount of the portfolio since November 1937 (Chart II)\*.
- (3) The June 30, 1939 statements of the eight New York City banks reporting United States security holdings of more than \$200 millions all show increases in their Government portfolios over March 30 (Chart III). These increases aggregate \$395 millions, and are accounted for mainly by the Chase National Bank with \$185 millions, J. P. Morgan and Co. with \$60 millions, and Bankers' Trust Co. with \$52 millions. Although New York City banks as a class still hold fewer Government securities than at the peak of June 1936, Chase National and J. P. Morgan and Co. have substantially larger holdings than at that time.

\* As reported on Wednesdays, when the portfolio is "evened" for statement purposes. There have been minor changes in the month-end totals shown in the chart.

Secretary Morgenthau - 2

Movements in the United States  
and Foreign Government Bond Markets

After reaching a low on Monday, July 3, the United States Government bond market rallied sharply after the Fourth of July holiday. At the close on Thursday, the long-term issues had recovered their entire net loss since the latter part of June, the average yield on all long-term Treasury bonds standing at 2.17 percent. Rallies of approximately the same proportions occurred in the Government markets of both Great Britain and France, commencing on Tuesday, when our own markets were closed (Chart I).

The present rally in United States Government securities has been confined particularly to long-term bonds, and to some extent to short-term notes. Neither the longer notes nor five to ten year bonds had shown much improvement through the close on Thursday.

Federal Reserve Bank Holdings  
of United States Securities

The United States security portfolio of the Federal Reserve banks decreased by \$13 millions between Wednesday, June 21, and Wednesday, June 28. The decrease was from \$2,564 millions to \$2,551 millions, and occurred entirely in bills. No further change in either the portfolio as a whole or in its component elements occurred between June 28 and July 5.

This is the first change which has occurred in the total amount of the portfolio since November 24, 1937.\* It is the first decrease (other than minor fluctuations, never more than \$2 millions) since March 1933. In order to avert any fear on the part of the market that the decrease might be the harbinger of a tight money policy, the Board of Governors announced in a formal statement that:

"This action is in response to technical conditions in the bill market, and does not represent a change in general credit policy."

\* As reported on Wednesday, when the portfolio is "evened" for statement purposes. There have been minor changes in the month-end totals shown in Chart II.



Secretary Morgenthau - 3

Immediately before the \$13 millions decrease, Reserve bank holdings of bills amounted to \$477 millions, or about 36 percent of the total outstanding supply. The "technical" condition in the bill market referred to in the Board of Governors' statement is understood to be the difficulty of replacing maturing issues at better than a zero yield basis.

Since November 1937, when the portfolio was stabilized at \$2,564 millions, Federal Reserve holdings of bills had decreased by \$181 millions, while those of notes had increased by \$8 millions and those of bonds by \$173 millions. During this period, there had been a decrease of \$1,095 millions in the outstanding supply of Treasury bills, a decrease of \$3,332 millions in the outstanding supply of Treasury notes, and an increase of \$5,262 millions in the outstanding supply of Treasury bonds.

Monthly figures on the total amount and composition of Federal Reserve bank holdings of United States securities since the beginning of 1929 are shown in Chart II. The main changes during this period in the total amount of the portfolio have been sharp upward surges in the fall of 1929 (after the stock market crash), in the spring of 1932, and in the fall of 1933. In November 1933, the portfolio became stabilized at around \$2,430 millions. The increase from that time, up until the present decrease, amounted to only about \$135 millions in all, and occurred in two instalments -- one during the spring of 1937, and the other in the fall of the same year -- both in response to pressure on the Board and the Open Market Committee for an easier credit policy.

New York City Bank Holdings of United States Securities

In the past few days, the large New York banks have published their statements of condition as of June 30, 1939, and it is now possible to see what these banks individually have been doing with respect to Government securities in the last three months.

Chart III shows, for selected dates, the holdings of direct and guaranteed Government securities of each of the seven New York City member banks reporting holdings of more than \$200 millions on June 30, 1939. These banks account for about 80 percent of the holdings of all New York City weekly reporting member banks. The chart also shows, for



Secretary Morgenthau - 4

the same dates, the holdings of all weekly reporting member banks in New York City. The combined holdings of J. P. Morgan and Co. and Drexel and Co. are also shown, although these institutions are, of course, not weekly reporting member banks. The dates used in the chart are June 30, 1936, when New York City weekly reporting member banks reached an all-time peak in their holdings of Government securities; September 30, 1937, the date which marked the subsequent low point; and the last three dates of quarterly reports of condition.

In the last three months, weekly reporting New York City member banks increased their holdings of Government securities by \$414 millions, of which \$335 millions was accounted for by the seven member banks shown separately in the chart. The Chase National Bank alone accounted for \$185 millions of the increase, and every one of the other banks shown separately in the chart reported some increase during the period. The large amount of acquisitions by Chase National increased its holdings to \$835 millions, or about \$100 millions more than it had held on June 30, 1936, when New York City weekly reporting member banks established their all-time peak.

The purchases by Chase National in the June quarter came after only a small net gain in the March quarter, but some of the other banks showed large increases in both quarters. Guaranty Trust, for example, acquired \$117 millions of Government securities in the March quarter, and then added a further \$34 millions in the June quarter. In spite of these purchases, however, Guaranty still held \$181 millions less in its Government portfolio than it did three years ago.

The Central Hanover Bank and Trust Company practically doubled its holdings during the first six months of this year. As of June 30, 1939, this institution had \$303 millions of Government securities, as compared with \$153 millions on December 31, 1938. Despite this large increase, however, Central Hanover's holdings were still \$95 millions lower than three years ago.

Similarly, the Bankers Trust Company portfolio of Government securities is lower than three years ago, although it was increased by \$63 millions during the first six months of the year. Present holdings aggregate \$445 millions, or \$136 millions less than in June 1936.

The only bank shown in Chart III which did not increase its Government portfolio during the last six months is the National City Bank, which showed a net reduction for the

Secretary Morgenthau - 5

period of \$43 millions, bringing its total holdings down to about the same level as three years ago. The entire reduction occurred during the first quarter, however, the holdings of this institution increasing by \$7 millions during the past three months.

J. P. Morgan and Co. (including Drexel and Co.) also showed large increases in the first six months of this year, the figures being \$34 millions for the first quarter and \$60 millions for the second quarter. Total holdings are now \$393 millions, or \$68 millions larger than on June 30, 1936.

Attachments

Chart I  
 COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY  
 BONDS AND U.K. 2½% CONSOLS  
 Weekly Average of Daily Figures

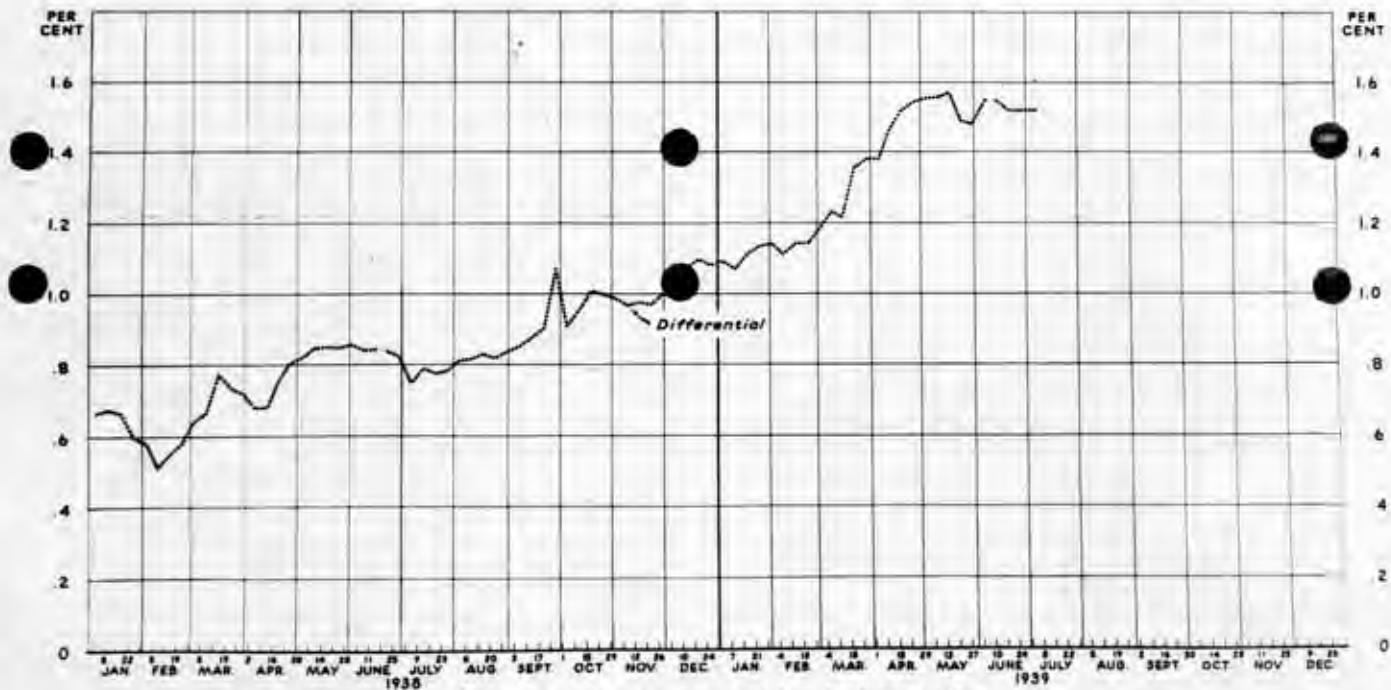
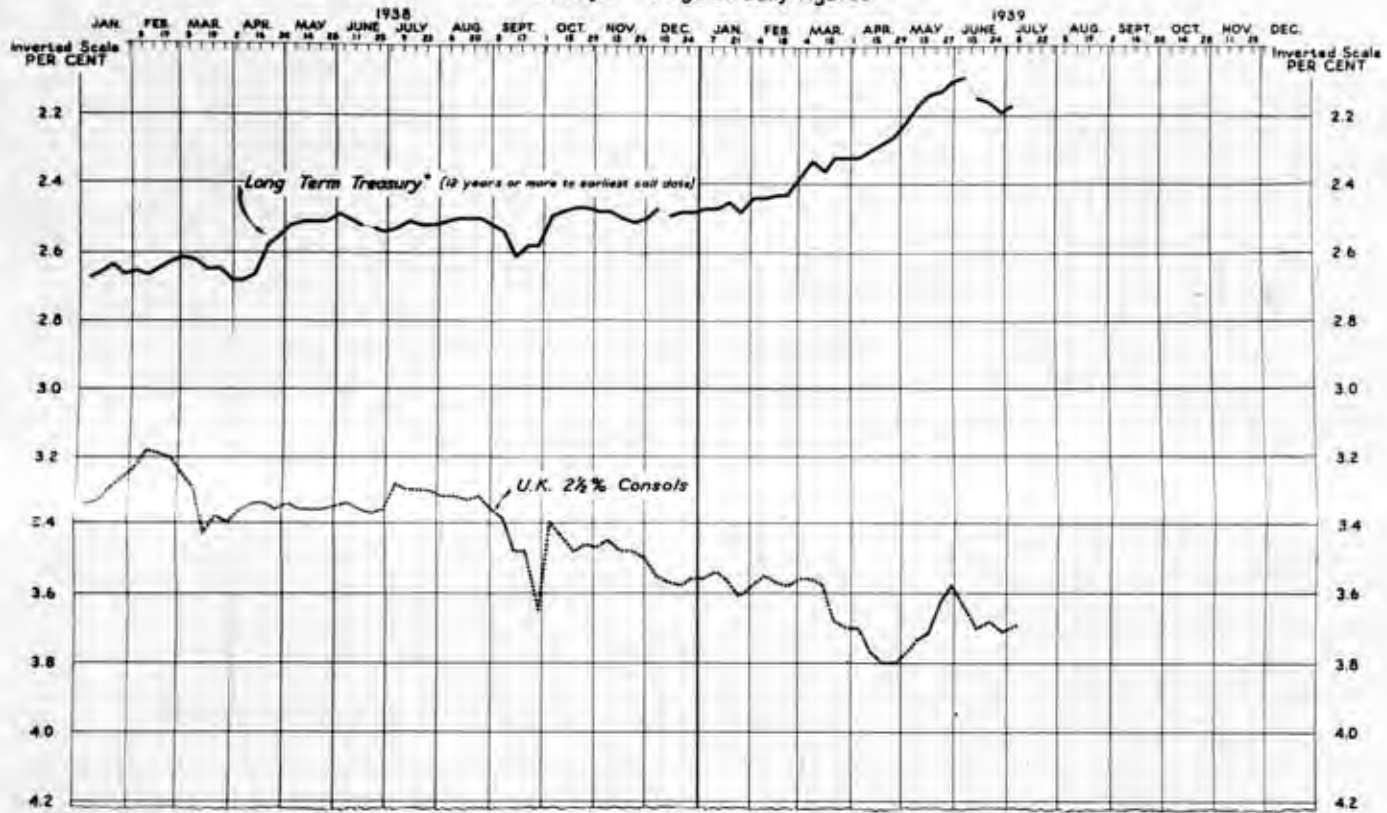
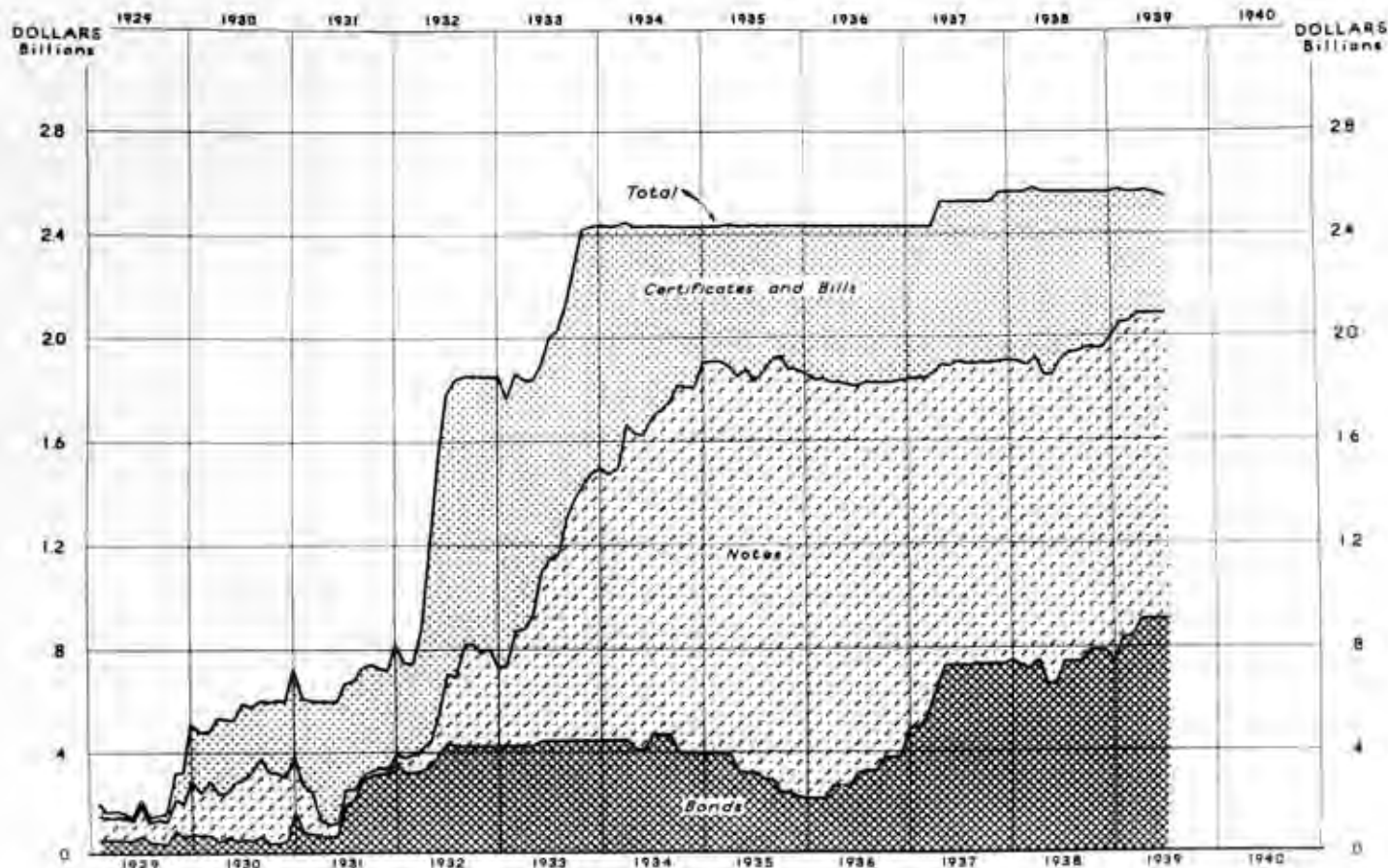




Chart II

FEDERAL RESERVE BANK HOLDINGS OF U.S. SECURITIES

End of Month Figures



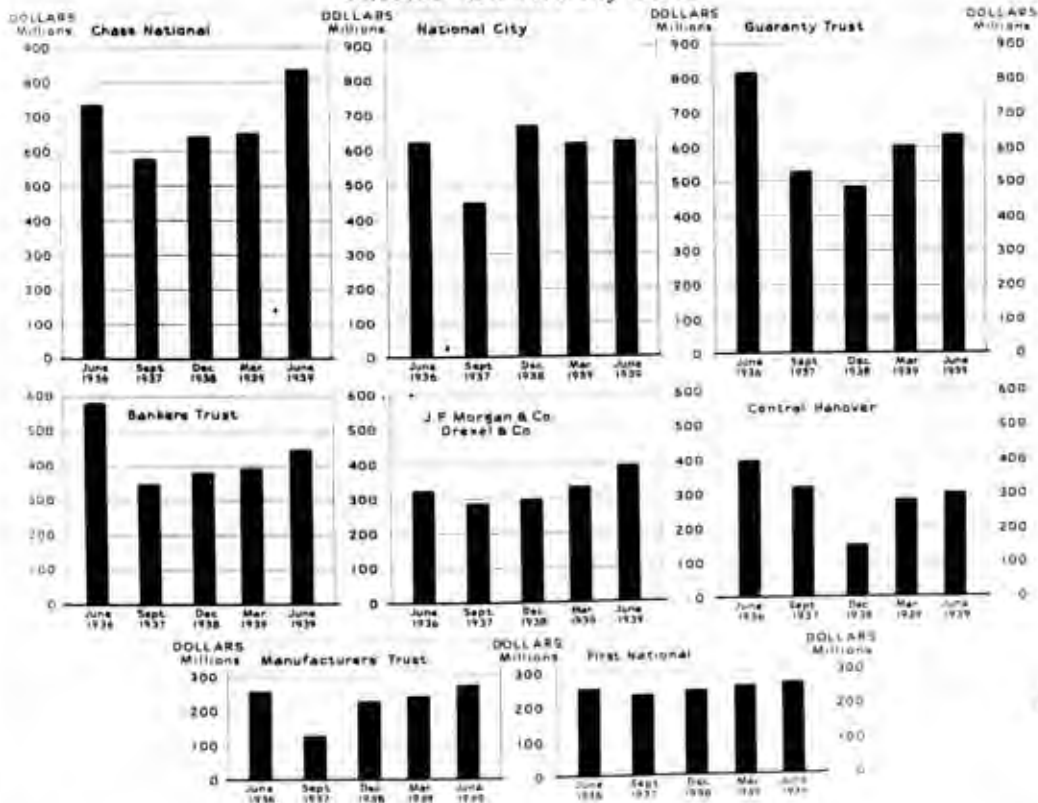
Source: Federal Reserve Bank of New York, New York, N.Y.

### Chart III

## NEW YORK CITY BANK HOLDINGS OF U.S. SECURITIES Including Guaranteed Obligations



### Selected New York City Banks



Note: Figures are not total of weekly holdings.

July 7, 1939  
11:38 a.m.

HMJr: Hello.

Jesse Jones: Hello, Henry.

HMJr: Feeling any better?

J: Yeah.

HMJr: Good!

J: Could I be over in about fifteen minutes?

HMJr: No, you know I said I had to be at the White House at twelve.

J: Yeah.

HMJr: And -- a meeting with the President.

J: Well now, can I come and talk then with Ed, or have him come over here, or what?

HMJr: Sure! Because.....

J: Well, I'm just going over this now, Henry.

HMJr: Well, all right. Because.....

J: What time were you going to -- were you coming back from the White House?

HMJr: I suppose it will last 15 minutes to half an hour.

J: Why wouldn't I come then?

HMJr: That's all right. I tell you we could save time -- supposing.....

J: I suppose I could get Ed in the meantime and then get over there with you about twelve thirty.

HMJr: I tell you what we'll do. I'll have Ed come over to see you and then when I leave the White House I'll give you a ring.

J: All right.

HMJr: How's that?



J: Fine.

HMJr: O. K.

J: O. K.

July 7, 1939  
11:48 a.m.

HMJr: Hello.

Operator: Secretary Wallace is busy talking. I'm waiting for him.

HMJr: O. K. Thank you.

11:50 a.m.

Operator: Go ahead.

HMJr: Hello.

Henry  
Wallace: Hello.

HMJr: Henry?

W: Yeah.

HMJr: I hear that you have designs on me this afternoon?

W: Well, I didn't -- at your convenience, of course.

HMJr: Would you mind saying what's in your mind?

W: Yes, I'd like very much to say. I just thought if I could bring over our Solicitor, Mr. White, we could -- maybe we could talk about this commodity credit situation.

HMJr: Oh. Well now, this is what I'm trying to do for the present, and I hope to be successful, but I'm keeping myself free. We still haven't come to an agreement with Jesse Jones on this self-liquidating thing.

W: Uh-huh.

HMJr: So Jones is coming over here at 12:30 and the President wanted it yesterday at noon, he wanted it today at noon, and I haven't got it yet, so could I get in touch with you after lunch?

W: That'll be fine.

HMJr: Could I do that?

W: It will be -- just be splendid.

HMJr: Thank you, Henry.

- 2 -

W: All right.

HMJr: That's too bad about Claude, isn't it?

W: Yes, yes that's --

(Balance of conversation not recorded.)



July 7, 1939  
1:02 p.m.

HMJr: Hello.

Operator: Mr. Jones. Go ahead.

HMJr: Hello.

Jesse  
Jones: Hello, Henry.

HMJr: How are you-all coming along?

J: Well, we're a hundred percent -- in a hundred percent agreement and the boys have gone home. I told them to write it up and send it on its way.

HMJr: Wonderful! Then we don't have to see each other.

J: No, that's right, and I've got an engagement anyway. I don't know whether I'm going to be able to keep it or not.

HMJr: Well.....

J: I doubt even if the peoples are still waiting but the boys left here about three minutes ago, Henry.

HMJr: And then it's on its way from -- to the White House then.

J: All right, we -- the boys said they'd do that. Now, I told them that Steagall is anxious to have a copy as soon as it's available.

HMJr: Right.

J: He said he would introduce it Monday and have hearings Tuesday.

HMJr: Well, what I'm going to do is to send it over to the President.

J: Yeah.

HMJr: And tell him that you and I are in agreement.

J: O. K.

HMJr: And then the rest is up to him.

J: O. K. Fine.

HMJr: Is that all right?

J: Perfectly fine.

HMJr: Well, you and I usually.....

J: .....get together.

HMJr: If they give us time enough.

J: That's right.

HMJr: Well, aren't you going to get a little rest?

J: Well, if I ever get set I am, yes, and I intended to get away the latter part of the month.

HMJr: I'll be darned!

J: But there's been damn near -- well, a lot of these things, and.....

HMJr: Well, I.....

J: .....anyway we -- I'm glad we got in entire agreement on this thing.

HMJr: Well, I'm delighted, Jesse.

J: And what I -- was just hoping we would get it so that there would be as few criticisms in the committee.

HMJr: Right.

J: Now, I've left off the Export Bank and we might want to add that on Monday.

HMJr: I see.

J: And I'll talk to Steagall about that.

HMJr: Fine.

J: I want to get up on the Hill and I'm going up there now.

HMJr: Yeah.

J: And do a little more shuffling around.

HMJr: Fine!

J: O. K.

HMJr: Thank you.



July 7, 1939  
3:15 P.M.

61

Operator: Operator.

HMJr: Ed Foley.

O: Right.

(Brief pause.)

O: Mr. Foley.

Ed  
Foley: Yes, Mr. Secretary.

HMJr: Ed, I forgot to tell you something very important. When the President was talking to Sam Rayburn about this, what I call the Recovery Bill, he -- he talked about the foreign loan and said it wasn't in, but that Jones was hopeful of getting an amendment which would add a hundred million dollars to the authority of the Export-Import Bank.

F: Yeah.

HMJr: And the President said that that's what he would like. Now, while I couldn't gather here what Rayburn said, I gathered that he acquiesced that that was possible.

F: I see.

HMJr: And so let's keep that in mind and let's push for that, you see, because I, personally, am very anxious to get the additional authority and get it open and above board, and not do it this roundabout way that Jones is talking about.

F: Well, does that mean that you want to include.....

HMJr: No.

F: .....that in this legislation?

HMJr: No, that will be separate and -- and.....

F: Yeah.

HMJr: ..... talked about getting it -- sort of an amendment in the Committee when it goes to Committee, but let's watch it.

F: Yeah.

HMJr: And let's talk to Rayburn. I just don't want to take Jesse's word for it.

F: Sure!

HMJr: I don't -- I mean by that -- I don't mean he lied to me, but.....

F: Yeah, I understand.

HMJr: But I want to do our own pushing.

F: Sure!

HMJr: And.....

F: But not make it part of this legislation.....

HMJr: No.

F: .....but try to get it after the legislation as introduced is being considered.

HMJr: Yes.

F: Um-hm.

HMJr: And then Cotton is going on as director there in place of Archie Lochhead.

F: Yeah.

HMJr: And he's sitting here now, and I'm going to ask him to push too, you see?

F: Fine.

HMJr: The two of you can work together to make sure we get the extra hundred million.

F: Sure.

HMJr: O. K.?

F: All right, sir.

HMJr: All right.

F: Goodbye.

HMJr: Good night.

July 7, 1939  
11:20 a.m.

63

HMJr: Hello.

Frank  
Murphy: Hello, Henry.

HMJr: Hello, Frank.

M: Henry, did you check up on Sam Clark?

HMJr: On who?

M: Sam Clark.

HMJr: Now.....

M: Remember I spoke to you about it.....

HMJr: Yes.

M: .....at Cabinet meeting.

HMJr: You're right. And I've got no report.

M: Uh-huh.

HMJr: But I've got my staff coming at 11:30 and I'll ask them then why they have not reported.

M: Yes, and have somebody send me a note about it.

HMJr: Ah.....

M: I'm sure it'll be all right, but I'd like to.....

HMJr: I'll -- I'll.....

M: .....-- I just want it cleared with you and your department.

HMJr: Yes, I don't understand why they didn't let me know.

M: Uh-huh.

HMJr: Is that all you've got on your mind?

M: That's all, Henry.

HMJr: How are you today?



M: I'm just fine, thanks.

HMJr: Good!

M: All right. I'll see you later, Henry. Good bye.

This is the 65  
Bill as okayed  
by President

7-7-39

When written by  
McKeen & Co  
July -

7-7-39.<sup>66</sup>66

DRAFT OF BILL FOR

SELF-LIQUIDATING PROJECTS ACT OF 1939

July 8, 1939



Summary by Sections of the Draft of Bill to Carry out the  
Self-Liquidating Program.

Section 1 provides that when enacted the bill may be cited as the "Self-Liquidating Projects Act of 1939."

Section 2 provides that the Reconstruction Finance Corporation shall issue its notes or other obligations upon the direction of the President to finance the self-liquidating improvement program to be carried on by the Department of Agriculture, the Public Roads Administration, the Public Works Administration, the Rural Electrification Administration, as well as by the Reconstruction Finance Corporation itself.

Section 3 provides that the Reconstruction Finance Corporation Act shall apply to such notes or other obligations, except that the maturity may be forty years, and increases the amount which may be outstanding under existing law to \$2,560,000,000, plus unobligated balances of present appropriations available to the Department of Agriculture and to the Rural Electrification Administration. The purpose of this latter provision is to avoid duplication of the program.

Section 4 provides for the proceeds of such notes and other obligations to be deposited with the Treasurer of the United States and disbursed to the agencies carrying out the program in amounts indicated by the President's letter to Senator Byrnes of June 21, 1939.

Section 5 authorizes the Public Roads Administration, in cooperation with state agencies, to carry out a program of highway improvements including toll roads, bridges, tunnels, express by-passes and the acquisition of adjacent land for investment purposes. This section also confers powers essential to the prompt and effective execution of the program contemplated in the report of the Bureau of Public Roads dated April 27, 1939, and published as House Document No. 272, 76th Congress, First Session. Provision is made for the Attorney General to handle all condemnation proceedings under the General Condemnation Act or under the 1931 Act permitting possession to be taken by the Government upon filing of a declaration of taking.

Section 6 provides that no further consent of Congress need be required before bridges or tunnels may be built across navigable waters notwithstanding that such waters may not be wholly within a single state, but requires that the approval of the Secretary of War to the plans and specifications be obtained in accordance with the General Bridge Act.

Section 7 authorizes the Public Works Administration to make loans for projects of the character which it has heretofore financed and contains powers deemed desirable in the light of the experience of that Administration.

Section 8 authorizes the Reconstruction Finance Corporation to enter into contracts for the construction of rolling stock and shop equipment for railroads and selling or leasing the same with or without the option to purchase. Provision is also made for the purchase of old rolling stock and equipment for scrapping or rebuilding.

Section 9 authorizes the Rural Electrification Administration to make loans to finance projects of the character it is authorized to finance under the Rural Electrification Act of 1936 and eliminates restrictive provisions in that Act which would militate against an effective program. This section preserves, however, the prohibition in the Rural Electrification Act against the financing of competitive facilities.

Section 10 relates to the \$40,000,000 appropriation made at this session of Congress for Rural Electrification projects for the fiscal year 1940, and authorizes the Secretary of the Treasury to transfer the unobligated balances of appropriations previously made to the Rural Electrification Administration. This section makes an equal amount available to the Administration for financing projects under the bill.

Section 11 authorizes the Secretary of Agriculture to make loans to farm tenants, share-croppers and migratory farmers for the purposes provided in the Bankhead-Jones Farm Tenant Act.

Section 12 authorizes the Secretary of the Treasury to transfer the unobligated balance of appropriations previously made to the Secretary of Agriculture to carry out the Bankhead-Jones Farm Tenant Act and supplemental legislation. This section makes available to the Secretary of Agriculture an equal amount for loans under the bill. This section relates to an estimated balance of \$100,000,000 presently available for loans for such purposes by the Secretary of Agriculture.

Section 13 provides that all revenues of the agencies charged with administering the bill which are derived from projects constructed or financed under the bill shall be deposited with the Treasurer of the United States to the credit of the Reconstruction Finance Corporation and requires the Corporation to use such revenues to pay the notes and other obligations issued to finance the program, together with interest thereon, except to the extent that the Corporation makes part of such revenues available as a revolving fund for further projects if there is any surplus available for such purpose.

Section 14 authorizes the Reconstruction Finance Corporation to sell securities acquired as evidence of loans made by any agency under the bill and to use such proceeds as a revolving fund for further loans after providing for the payment of the interest on and principal of its notes and other obligations issued under the bill.

Section 15 makes available funds provided by the Reconstruction Finance Corporation to the agencies charged with carrying out the self-liquidating program without any further appropriation for expenditures under the bill, and requires that all such expenditures shall be accounted for and audited by the General Accounting Office.

Section 16 provides that the Secretary of the Treasury and the Federal Loan Administrator shall make an annual examination of the status of the program and report the results to the President and to the Congress. This section also provides to the extent that it appears that the program may not be on a self-liquidating basis the Secretary of the Treasury shall pay the Reconstruction Finance Corporation any estimated deficiency, an appropriation for which is authorized.



Section 17 imposes a duty upon every agency constructing or financing projects under the program to undertake projects and make loans with a view to recovering the amount invested with interest sufficient to reimburse the Reconstruction Finance Corporation for the cost to it of the capital required for its operations under the bill. This section also places a ceiling on the interest rate at the highest yield on the longest term, direct or indirect, obligation of the United States which is outstanding.

Section 18 provides that the services of Federal, state, and local agencies may be utilized and that reimbursement may be made for such services.

Section 19 dispenses as to real property acquired under the bill with the requirement of existing law that the United States must acquire exclusive jurisdiction over real property and empowers the Attorney General to determine how much jurisdiction is desirable.

Section 20 provides that administrative expenses for the fiscal year 1940 shall be paid from the proceeds of notes and other obligations issued by the Reconstruction Finance Corporation in amounts to be fixed by the Director of the Bureau of the Budget.

Section 21 provides that the Act confers only cumulative powers and that nothing in it shall be construed to affect the operation of any reorganization plan promulgated pursuant to the Reorganization Act.

Section 22 contains the usual provision authorizing appropriations of such sums as may be necessary to carry out the provisions of the bill. Unless an impairment should be found after the annual appraisal required by section 16, none will be required except for administrative expenses.

Section 23 increases the amount of loans for financing and facilitating exports which the Export-Import Bank of Washington is authorized to have outstanding at any one time from \$100,000,000.00 to \$200,000,000.00.



A BILL

To provide for the construction and financing of self-liquidating projects, and for other purposes.

1 Be it enacted by the Senate and House of Representatives of the  
2 United States of America in Congress assembled, that this Act may be  
3 cited as the "Self-liquidating Projects Act of 1939."

4 Authorization of Bonds

5 SEC. 2. In order to provide a sound method of financing which,  
6 without burdening the national taxing power, will make it possible  
7 to increase employment through a self-liquidating improvement  
8 program, the Reconstruction Finance Corporation (herein called the  
9 "Corporation"), upon the direction of the President, shall issue from  
10 time to time notes, debentures, bonds, or other obligations to enable  
11 the Department of Agriculture, the Public Roads Administration, the  
12 Public Works Administration, the Rural Electrification Administration,  
13 and the Corporation to carry out their respective functions as herein-  
14 after provided.

15 Provisions Concerning Bonds

16 SEC. 3. The provisions contained in the Reconstruction Finance  
17 Corporation Act, approved January 22, 1932, as amended, shall apply  
18 to the notes, debentures, bonds, or other obligations issued to  
19 carry out the provisions of this Act, except that

20 (a) Such notes, debentures, bonds, or other  
21 obligations may mature at such time or times,  
22 not exceeding forty years from their date,  
23 and contain and be subject to such terms,  
24 covenants, and conditions as the Corporation,  
25 with the approval of the Secretary of the

1 Treasury, may prescribe; and

- 2 (b) The amount of notes, debentures, bonds, or  
3 other obligations which the Corporation may  
4 issue and have outstanding at any one time  
5 under existing law is hereby increased by the  
6 amount thereof directed to be issued by the  
7 President, not to exceed \$2,560,000,000, plus  
8 an amount equal to the amount of unobligated  
9 balances of appropriations transferred under  
10 sections ten and twelve of this Act.

11 Disposition of Bond Proceeds

12 SEC. 4. The Corporation is hereby authorized and directed to  
13 deposit all proceeds realized from the sale of notes, debentures,  
14 bonds, and other obligations issued for the purpose of carrying out  
15 this Act, with the Treasurer of the United States to the credit of the  
16 Corporation. The Treasurer of the United States is hereby authorized  
17 and directed to receive such moneys and hold the same in a special  
18 account or accounts to the credit of the Corporation, and to transfer  
19 from time to time such amounts as the Corporation, upon the direction  
20 of the President, shall order to such special disbursing accounts with  
21 said Treasurer as the Secretary of the Treasury shall designate, in order  
22 to provide funds for the following departments, administrations, and  
23 agencies of the Government in not to exceed the following amounts for  
24 the following purposes, in addition to sums available for such purposes  
25 from tolls and charges collected from the repayments of the interest on  
26 and principal of loans made, and from the sale of securities acquired,  
27 under this Act:

- 28 (1) To the Public Roads Administration: the sum  
29 of \$750,000,000 for post-roads, highways,  
30 parkways (in cooperation with the National

1 Park Service of the Department of the Interior),  
2 grade-crossings, underpasses, overpasses, viaducts,  
3 bridges, and tunnels, including crossings over  
4 or under navigable waters, and other transporta-  
5 tion facilities, including works, undertakings,  
6 or projects incidental thereto or to encourage  
7 the use thereof, and all or any part of any of  
8 such facilities and appurtenances thereto, such  
9 as lands, rights in lands, rights of access,  
10 easements, buildings, equipment, and machinery  
11 (herein called "highway improvements"), as  
12 provided in section five of this Act and  
13 property acquired for investment purposes as  
14 provided in said section;

15 (2) To the Public Works Administration: the sum  
16 of \$350,000,000 for projects of the character  
17 heretofore financed by loan or grant or both  
18 by the Federal Emergency Administration of  
19 Public Works under Title II of the National  
20 Industrial Recovery Act, the Emergency Relief  
21 Appropriation Act of 1935, the Emergency  
22 Relief Appropriation Act of 1936, the Public  
23 Works Administration Extension Act of 1937,  
24 and the Public Works Administration Appropriation  
25 Act of 1938 (herein called the "non-federal  
26 public works"), as provided in section seven  
27 of this Act;

28 (3) To the Corporation: the sum of \$500,000,000  
29 for engines, locomotives, tenders, freight  
30 and passenger cars of all types and classes,



- 1 and parts thereof and appurtenances thereto  
2 and other rolling stock and railway shop equip-  
3 ment (herein called "railroad equipment"),  
4 as provided in section eight of this Act;
- 5 (4) To the Rural Electrification Administrations:  
6 \$500,000,000 for projects of the character  
7 heretofore financed or authorized to be financed  
8 or carried on by the Rural Electrification  
9 Administration under the Rural Electrification  
10 Act of 1936 (herein called "rural electrification  
11 projects"), as provided in section nine of this  
12 Act;
- 13 (5) To the Department of Agriculture: \$600,000,000  
14 for facilities for farm tenants, farm laborers,  
15 share croppers, and other individuals who obtain,  
16 or who have in the past obtained, the major  
17 portion of their income from farm operations,  
18 including rural rehabilitation loans, projects  
19 for the provision of additional water facilities,  
20 and farm tenant loans as provided for in Title I  
21 of the Bankhead-Jones Farm Tenant Act, approved  
22 July 22, 1937 (herein called "rural security  
23 projects"), as provided in section eleven of  
24 this Act.

25 Highway Improvements

26 SEC. 5. Subject to the provisions of this Act, and using in such  
27 connection states, municipalities, and other public bodies to the fullest  
28 extent consistent with sound administration and economical management,  
29 the Public Roads Administration shall have power:

- 30 (a) To construct, reconstruct, alter, extend,

1 enlarge, improve, repair, and acquire highway  
2 improvements with a view to promoting interstate  
3 commerce, aiding in the national defense,  
4 facilitating the use of the mails, or promoting  
5 the general welfare;

6 (b) To maintain and operate highway improvements;

7 (c) With the approval of the Corporation, to fix,  
8 maintain, and collect tolls, and other charges  
9 for the use of highway improvements which shall  
10 be sufficient (after making reasonable allowances  
11 for operation and maintenance expenses for  
12 depreciation to the extent not provided for by  
13 amortization, and contingencies) to amortize the  
14 cost of such highway improvements with interest  
15 as hereinafter provided;

16 (d) To use for further highway improvements the  
17 revenues derived from such collections to the  
18 extent not needed in the judgment of the  
19 Corporation to meet reasonable allowances for  
20 operation and maintenance expenses or for the  
21 amortization of the cost of highway improvements  
22 with interest as hereinafter provided, or for  
23 depreciation to the extent not provided for by  
24 amortization, and contingencies;

25 (e) To acquire in the name of the United States  
26 by gift, purchase, exchange, or by the exercise  
27 of the power of eminent domain or otherwise, and  
28 to hold, lease (as lessor with or without the  
29 option to purchase, or as lessee), use, sell,  
30 exchange or otherwise dispose of real property

1                    necessary or convenient for carrying out any of  
2                    its functions hereunder in connection with  
3                    highway improvements or in connection with any  
4                    construction undertaken in accordance with the  
5                    Federal Highway Act, as amended and supplemented;

6                    (f) In connection with any sale or lease to  
7                    any state, municipality, or other public body  
8                    to enter into such contracts and agreements as  
9                    the Commissioner of Public Roads may deem de-  
10                    sirable, which contracts and agreements may in-  
11                    clude provisions for deducting from the unpaid  
12                    portion of the sale price, rental payments, or  
13                    loans, an amount equal to any profit which the  
14                    Corporation may determine to have been realized  
15                    from the sale of adjacent property acquired  
16                    pursuant to subsection (g) of this section;

17                    (g) To acquire by purchase, but not by condemnation  
18                    for investment purposes, any real property in  
19                    the vicinity of any highway improvements or  
20                    Federal-aid construction if, in the opinion of  
21                    the Commissioner of Public Roads and the  
22                    Corporation the price at which such real property  
23                    may be purchased is such as to make it probable  
24                    that the United States will, as a result of



1 appreciation in land values resulting from any  
2 highway improvement or Federal-aid construction,  
3 be able to dispose of such property, within  
4 twenty years, at such a price as to result in a  
5 profit; and to sell any such real property at  
6 public sale after advertisement and competitive  
7 bidding and upon such other terms and conditions  
8 as the Commissioner of Public Roads and the  
9 Corporation may in their judgment deem in the  
10 public interest;

- 11 (h) To expend moneys for the purpose for which any  
12 real property has been purchased, or possession  
13 thereof has been taken during the course of  
14 condemnation proceedings and in advance of final  
15 judgment thereon, in demolishing existing  
16 structures thereon, in improving such real  
17 property in any way, or in constructing any high-  
18 way improvement thereon, notwithstanding the  
19 provisions of section 355 of the Revised Statutes,  
20 or any other law restricting the expenditure  
21 of public moneys upon real property, the title  
22 to which has been acquired by the United States;
- 23 (i) To prescribe and publish such rules and regula-  
24 tions for the proper government and protection  
25 of, and maintenance of good order on, highway  
26 improvements or adjacent real property of the  
27 authority, wilful violation of which shall be  
28 punishable by a fine of not more than \$500 or  
29 imprisonment for not more than three months, or  
30 both; and to authorize employees of any department

1 of the government, with the consent of the head of  
2 such department, to make arrests for the violation  
3 of such rules and regulations, and any person so  
4 arrested shall be taken before the nearest United States  
5 Commissioner within whose jurisdiction the highway  
6 improvement is located for trial; and upon sworn in-  
7 formation by any competent person any United States  
8 Commissioner in the proper jurisdiction shall issue  
9 process for the arrest of any person charged with viola-  
10 tion of such rules and regulations; but nothing herein  
11 contained shall be construed as preventing the arrest  
12 by an officer, agent, or employee of any public body,  
13 with or without process, of any person for the viola-  
14 tion of any state or local law, ordinance, or regulation,  
15 for the government and protection of, and maintenance of  
16 good order on highway improvements, and any person so  
17 arrested shall be tried and punished according to the  
18 laws of said state;

- 19 (j) To institute and carry on, under the direction of the  
20 Attorney General, condemnation proceedings for the pur-  
21 pose of taking any real property (which term includes  
22 for purposes of this Act property devoted to another pub-  
23 lic use, lands under water, water rights, incorporeal  
24 hereditaments, chattels real, and all rights and interests  
25 in land, whether fees simple absolute or any lesser  
26 interest) in the manner or mode of procedure provided  
27 by an act entitled "An Act to authorize condemnation  
28 of land for sites of public buildings, and for other  
29 purposes", approved August 1, 1888, as amended,

1 or of an act entitled, "An Act to expedite  
2 the construction of public buildings and  
3 works outside of the District of Columbia by  
4 enabling possession and title of sites to be  
5 taken in advance of final judgment in proceed-  
6 ings for the acquisition thereof under the power  
7 of eminent domain", approved February 26, 1931,  
8 as amended;

- 9 (k) To enter on any real property for the purpose  
10 of making surveys, borings, tests, and examinations;  
11 (l) To pay all expenses in connection with the ac-  
12 quisition of real property, including all fees for  
13 abstracts, official certifications, evidences of  
14 title, and recordation, notwithstanding the  
15 proviso in section one of the Act of March 2,  
16 1899, relating to the payment of such expenses  
17 and fees.

18 Crossings on Navigable Waters

19 SEC. 6. The consent of Congress to the construction, reconstruc-  
20 tion, or acquisition by the Public Roads Administration of any bridge,  
21 tunnel, or other crossing over, under, or across any navigable waters  
22 of the United States, under this Act shall be deemed to have been  
23 obtained and affirmatively authorized by virtue of this Act within  
24 the meaning of sections nine, ten, and eleven of the Act of March 3,  
25 1899, as amended, whether or not such structures cross rivers and other  
26 waterways the navigable portions of which lie wholly within the limits  
27 of a single state; but no such structure shall be constructed, recon-  
28 structed, or maintained under this Act unless and until all the  
29 limitations, restrictions, and other provisions of an act entitled,  
30 "An Act to regulate the construction of bridges over navigable waters",



1 approved March 23, 1906, as amended, except the provisions of section  
2 six thereof, shall have been complied with by said Administration.

3 Non-Federal Public Works

4 SEC. 7. Subject to the provisions of this Act, the Public Works  
5 Administration shall have power:

- 6 (a) To make loans to finance or aid in financing  
7 the construction, reconstruction, extension, or  
8 improvement of non-federal public works; and for  
9 the temporary operation of any such non-federal  
10 public works for such period as the Commissioner  
11 of Public Works shall deem necessary;
- 12 (b) To purchase securities to evidence loans for  
13 non-federal public works, and to exchange such  
14 securities for other securities if the Commissioner  
15 of Public Works shall determine that such exchange  
16 is advisable to assure repayment of any loan made  
17 hereunder or interest thereon;
- 18 (c) To use the sums realized from repayments of the  
19 interest on and principal of loans made by it  
20 under this section and the proceeds realized from  
21 the sale of any securities acquired by it hereunder  
22 for the making of further loans for non-federal  
23 public works to the extent such proceeds are not  
24 needed, in the judgment of the Corporation, to  
25 maintain the loans for non-federal public works on  
26 a self-liquidating basis;
- 27 (d) To organize under the laws of the District of  
28 Columbia or of any state or territory a corporation  
29 or corporations to aid the Public Works Administration  
30 in carrying out its functions hereunder, and to make

1 loans and advances to any such corporation.

2 Railroad Equipment

3 SEC. 8. Subject to the provisions of this Act, and without regard  
4 to the limitations and restrictions of the Reconstruction Finance  
5 Corporation Act, approved January 22, 1932, as amended and supplemented,  
6 the Corporation shall have power:

- 7 (a) To prepare plans and designs for the construction,  
8 rebuilding, or repair of railroad equipment;
- 9 (b) To enter into contracts for the construction, re-  
10 building, repair, or scrapping of any railroad  
11 equipment upon such terms and conditions as may be  
12 agreed upon pursuant to public bidding or private  
13 negotiations;
- 14 (c) To lease, with or without the option to purchase,  
15 or to sell or rent upon such terms and conditions  
16 as it shall prescribe, any railroad equipment so  
17 acquired;
- 18 (d) To enter into contracts for the purchase of  
19 old railroad equipment for the purpose of lease  
20 or resale in its existing state or for the purpose  
21 of rebuilding, repairing, or scrapping the same  
22 for lease or resale;
- 23 (e) To use the proceeds realized from any leases,  
24 sales, or other contracts with regard to railroad  
25 equipment for carrying on further operations under  
26 this section to the extent such proceeds are not  
27 needed, in the judgment of the Corporation, to  
28 maintain its operation as to railroad equipment  
29 on a self-liquidating basis.

1 (f) To organize under the laws of the District of  
2 Columbia or of any state or territory a corporation  
3 or corporations to aid the Reconstruction Finance  
4 Corporation in carrying out its functions hereunder,  
5 and to make loans and advances to any such corporation.

6 Rural Electrification Projects

7 SEC. 9. Subject to the provisions of this Act, the Rural  
8 Electrification Administration shall have power:

- 9 (a) To make loans to finance or aid in financing rural  
10 electrification projects;
- 11 (b) To purchase securities to evidence loans made by  
12 it, and use the sums realized from repayments of  
13 the interest on and principal of loans made by it  
14 under this section and the proceeds realized from  
15 the sale of any securities acquired by it hereunder  
16 for the making of further loans for rural electrifica-  
17 tion projects to the extent such proceeds are not  
18 needed, in the judgment of the Corporation, to main-  
19 tain the loans for rural electrification on a self-  
20 liquidating basis;
- 21 (c) To exercise the powers granted by this section  
22 without regard to the provisions of subdivisions  
23 (b), (c), and (d) of section three and the last  
24 sentence of section five but subject to the require-  
25 ments of section two of the Rural Electrification  
26 Act of 1936.

27 Transfer to Rural Electrification Administration

28 SEC. 10. The Secretary of the Treasury shall pay over and transfer  
29 to such special disbursing account or accounts with the Treasurer of the



1 United States as shall be designated by the Secretary of the Treasury  
 2 under section four of this Act all or any part of any unobligated  
 3 balances of such sums heretofore appropriated or available to the  
 4 Rural Electrification Administration to enable it to carry out the  
 5 provisions of the Rural Electrification Administration Act of 1936,  
 6 and such funds shall thereupon be available to the Rural Electrifica-  
 7 tion Administration for financing or aiding in financing rural electri-  
 8 fication projects under this Act, in addition to all other moneys  
 9 available or to be available for such purpose under this Act.

#### 10 Rural Security Projects

11 SEC. 11. Subject to the provisions of this Act, the Secretary  
 12 of Agriculture shall have power:

13 (a) To undertake and make loans for rural security  
 14 projects;

15 (b) To purchase securities to evidence such loans,  
 16 and use the sums realized from repayments of  
 17 the interest on and principal of loans made  
 18 under this section and the proceeds realized  
 19 from the sale of any securities acquired by  
 20 it hereunder for the making of further loans  
 21 for rural security projects to the extent such  
 22 proceeds are not needed, in the judgment of the  
 23 Corporation, to maintain such loans on a self-  
 24 liquidating basis.

#### 25 Transfer to Secretary of Agriculture

26 SEC. 12. The Secretary of the Treasury shall pay over and  
 27 transfer to such special disbursing account or accounts with the  
 28 Treasurer of the United States as shall be designated by the Secretary  
 29 of the Treasury under section four of this Act all or any part of  
 30 unobligated balances of sums heretofore appropriated or avail-  
 31 able to the Secretary of Agriculture to enable him to carry out

1 the provisions of Title I of the Bankhead-Jones Farm Tenant Act, the  
2 Emergency Relief Appropriation Act of 1938, the Work Relief and Public  
3 Works Appropriation Act of 1939 and such funds shall thereupon be  
4 available to the Secretary of Agriculture for financing or aiding in  
5 financing rural security projects under this Act, in addition to all  
6 other moneys available or to be available for such purposes under  
7 this Act.

8 Disposition of Project Revenues

9 SEC. 13. The Department of Agriculture, the Public Roads Ad-  
10 ministration, the Public Works Administration, the Rural Electrifica-  
11 tion Administration, and the Corporation shall deposit all revenues  
12 and receipts derived from the works, projects, or undertakings con-  
13 structed, leased, rented, or sold, or repayments of the interest on,  
14 or principal of, all loans made to aid in financing works, projects,  
15 or undertakings, in carrying out their respective functions under this  
16 Act in a special account or accounts with the Treasurer of the United  
17 States to the credit of the Corporation, and all such revenues and  
18 receipts shall be used by the Corporation exclusively for the payment  
19 of interest on its notes, debentures, bonds, or other obligations issued  
20 for the purpose of carrying out the provisions of this Act, as such  
21 interest shall become due and payable, and for the purchase, retirement  
22 or redemption of such notes, debentures, bonds, or other obligations,  
23 except to the extent that the Corporation makes such revenues and  
24 receipts available for the construction and financing of further works,  
25 projects, or undertakings as provided in this Act.

26 Sale of Securities

27 SEC. 14. The Corporation shall have the power, with the approval  
28 of the Secretary of the Treasury as to the time of any such sale, to  
29 sell or otherwise dispose of any securities acquired by any department,  
30 administration, or agency in carrying out its functions under this

1 Act, and in connection with any such sale to make such contracts and  
2 agreements as seem to the Corporation advisable; and all sums  
3 realized from the sale of such securities shall be deposited by the  
4 Corporation in a special account or accounts with the Treasurer  
5 of the United States and shall be used exclusively for the payment of  
6 interest on notes, debentures, bonds, or other obligations issued for  
7 the purpose of carrying out this Act, as such interest shall become due  
8 and payable, and for the purchase, retirement, or redemption of such  
9 notes, debentures, bonds, or other obligations, except to the extent  
10 that the Corporation makes the proceeds of such sales available for the  
11 making of further loans as provided in this Act.

12 Availability and Audit of Funds

13 SEC. 15. The departments, administrations, and agencies for which  
14 funds shall be provided by the Corporation pursuant to this Act may use  
15 such funds for the purpose of carrying out their respective functions  
16 under this Act without further appropriation and such funds shall be  
17 continuously available for such purposes. Except as to the expenditures  
18 of the Corporation which shall be governed by the Reconstruction Finance  
19 Corporation Act, approved January 22, 1932, as amended and supplemented,  
20 all such expenditures shall be accounted for and audited in accordance  
21 with the terms and provisions of the Budget and Accounting Act of 1921,  
22 as amended, the same as if an appropriate appropriation account had been  
23 established therefor pursuant to an appropriation warrant or a covering  
24 warrant.

25 Appraisal of Program

26 SEC. 16. The Secretary of the Treasury and the Federal Loan  
27 Administrator shall cause an examination to be made annually of the  
28 status of the self-liquidating improvement program for the financing  
29 of which notes, debentures, bonds, or other obligations of the  
30 Corporation shall have been issued under this Act. Such examination



1 shall be made as of the last day of December in each year beginning  
2 with December 31, 1940. The Secretary of the Treasury and the  
3 Federal Loan Administrator shall submit a report of such examination  
4 to the President and to the Congress. If such examination discloses  
5 that the probable recovery of the cost of all works, projects, or  
6 undertakings carried out under this Act, and of all loans made to  
7 aid in the financing of the same, together with the cash on hand in  
8 the special account or accounts of the Corporation provided for by  
9 section four of this Act, is less than the principal amount of all  
10 notes, debentures, bonds, or other obligations issued pursuant to  
11 this Act, and interest thereon, the Secretary of the Treasury on  
12 behalf of the United States shall pay to the Corporation a sum equal  
13 to the amount of such difference. There is hereby authorized to be  
14 appropriated annually, commencing with the fiscal year 1941, out of  
15 any money in the Treasury not otherwise appropriated, a sum equal  
16 to the amount needed to enable the Secretary of the Treasury to  
17 make such payment. Whenever such examination shall disclose a surplus,  
18 the Corporation shall reimburse the Treasury to the extent of such  
19 surplus for the amounts, if any, previously paid under this section.

20 Duty of Federal Agencies

21 SEC. 17. The Department of Agriculture, the Public Roads  
22 Administration, the Public Works Administration, the Rural Electrifica-  
23 tion Administration, and the Corporation shall exercise their powers  
24 under this Act with a view to recovering the cost of the works, projects,  
25 or undertakings carried out under this Act, or loans made to aid in  
26 financing the same, with interest to be fixed by the Corporation on the  
27 date of enactment of this Act and the first day of each calendar quarter  
28 thereafter, at a rate or rates which may reasonably be expected to  
29 reimburse the Corporation for the cost to it of the capital required  
30 for its operations under this Act, having due regard to the yield on

1 obligations of the United States of comparable maturity or maturities  
2 to that of such loans and the rate and period of amortization of the  
3 cost of such works, projects, or undertakings, but not to exceed the  
4 multiple of one-eighth of one percent next higher than the highest  
5 yield to maturity (based on market prices) on the longest term out-  
6 standing issue of obligations of the United States, direct or indirect.  
7 For the purposes of this section, the yield on any callable obligation  
8 selling above par shall be computed to its earliest callable date and  
9 said date shall be deemed to be the maturity thereof. Nothing herein  
10 shall be construed to require the alteration or readjustment of any  
11 rate once the interest has been fixed for any such works, projects,  
12 undertakings, or loans.

1                   Assistance by Governmental Agencies

2           SEC. 18. Any department, administration, or agency authorized  
3 to perform any function under this Act shall have power to utilize  
4 the services of federal, state, and local agencies and their  
5 employees and, notwithstanding any other provision of law, to  
6 reimburse such agencies and their employees for services rendered  
7 for such purposes.

8                   Exclusive Federal Jurisdiction Not Required

9           SEC. 19. Notwithstanding the provisions of any other law, the  
10 obtaining of exclusive jurisdiction in the United States over real  
11 property to be acquired under this Act shall not be required; but the  
12 Attorney General may, in such cases and at such times as he may deem  
13 desirable, secure from the state in which such real property is  
14 situated, such jurisdiction, exclusive or partial, over any such real  
15 property as the Attorney General may deem desirable and accept such  
16 jurisdiction on behalf of the United States by filing a notice of  
17 such acceptance with the Governor of such state or in such other  
18 manner as may be prescribed by the laws of the state within the  
19 borders of which such real property is situated. Unless and until  
20 acceptance of such jurisdiction on behalf of the United States has  
21 been made as aforesaid, it shall be conclusively presumed that no such  
22 jurisdiction has been accepted.

23                   Administrative Expenses for the Fiscal Year 1940

24           SEC. 20. Administrative expenses of the departments, admini-  
25 strations, agencies of the Government and amounts required to reimburse  
26 states, municipalities, and other public bodies and employees thereof  
27 for services rendered in carrying out the purpose of this Act shall  
28 be paid for the fiscal year ending June 30, 1940 from such amounts  
29 as may, with the approval of the Director of the Bureau of the  
30 Budget, be reserved from the proceeds realized from the sale of



1 notes, debentures, bonds, or other obligations of the Corporation  
2 for the payment thereof, in addition to the unobligated balances of  
3 sums heretofore appropriated or authorized to be used for such  
4 administrative expenses, any provision in this or any other law to  
5 the contrary notwithstanding.

6 Saving Clause

7 SEC. 21. The powers conferred by this Act are in addition and  
8 supplemental to the powers conferred by, and shall not be affected  
9 by the limitations in, any other law; and nothing in this Act shall  
10 be construed to limit or in any way curtail the existing powers of  
11 any department, administration, or agency of the Government, or the  
12 powers conferred upon the President by the Reorganization Act of  
13 1939, approved April 3, 1939, or any reorganization plan heretofore  
14 or hereafter transmitted by the President to the Congress which has  
15 heretofore taken effect or which may hereafter take effect pursuant  
16 thereto; and the administration of the provisions of this Act shall  
17 be subject to the provisions of such reorganization plans.

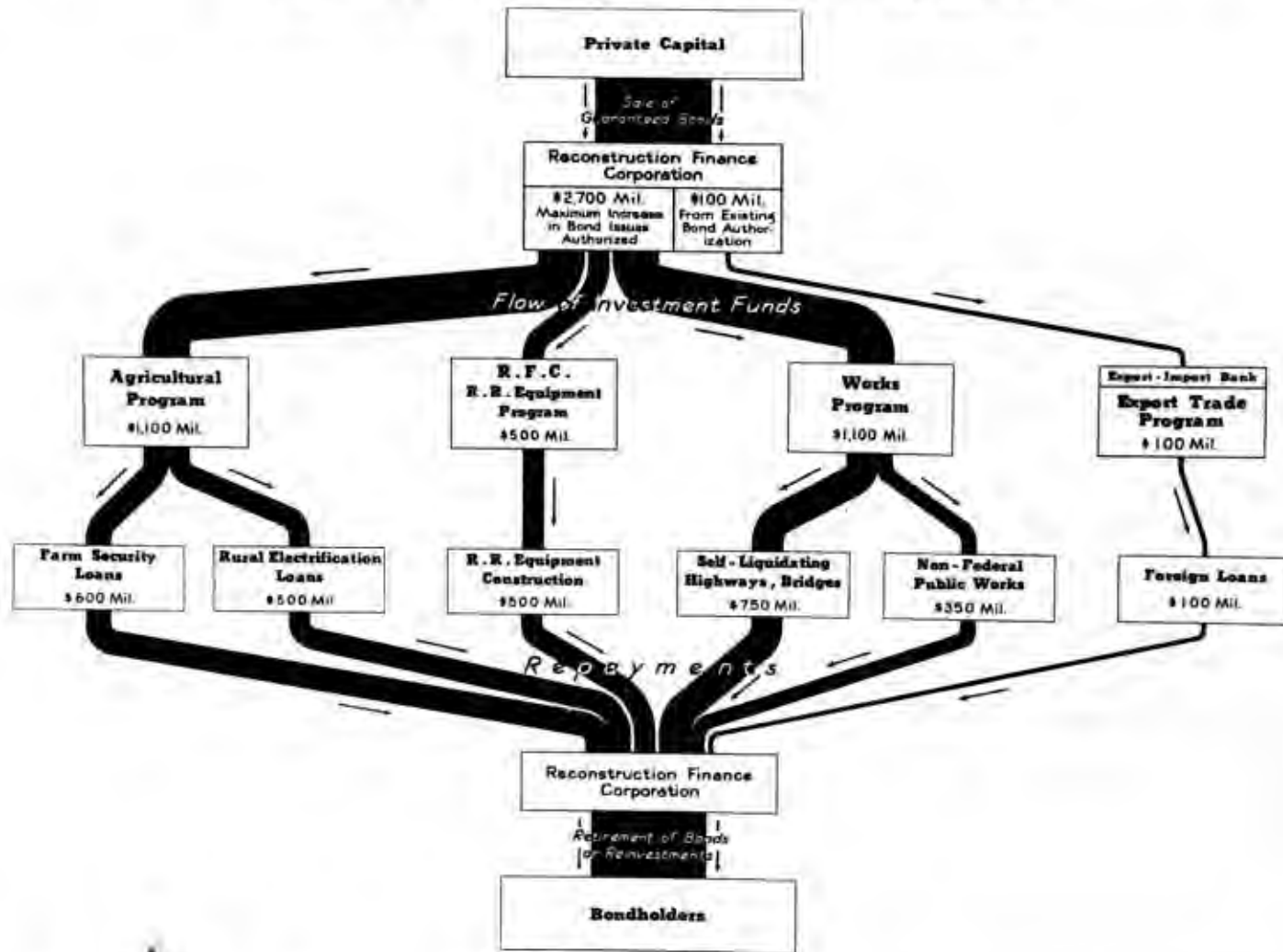
18 Appropriations

19 SEC. 22. There is hereby authorized to be appropriated from  
20 time to time such sums as may be necessary to carry out the provisions  
21 of this Act.

22 Export-Import Bank of Washington

23 Sec. 23, Section 9 of the Act approved January 31, 1935 (49  
24 Stat. 4), as amended, is hereby further amended, by striking from  
25 the proviso at the end of the last sentence thereof "\$100,000,000"  
26 and inserting in lieu thereof "\$200,000,000."

# SELF-LIQUIDATING INVESTMENT PROGRAM



The Barkley-Steagall Self-Liquidating Projects Act of 1939, introduced today, would make available the following sums for the following purposes: Non-Federal public works of a character which will return to the Federal Government its investment in them, \$350,000,000; self-liquidating express post roads and highway improvements, \$750,000,000; rolling stock and shop equipment for lease to railroads, \$500,000,000; rural electrification loans, \$460,000,000, plus \$40,000,000 already appropriated; self-liquidating farm tenancy loans, \$500,000,000, plus not more than \$100,000,000 of funds already appropriated; loans through the Export-Import Bank, \$100,000,000. Of the sums made available for the first time by this Act, the President has estimated that the following amounts would be spent in the current fiscal year: Non-Federal public works, \$150,000,000; express post roads, \$150,000,000; railroad equipment, \$100,000,000; rural electrification, \$20,000,000; farm tenancy loans, \$250,000,000. Probably all of the \$100,000,000 to finance foreign trade would be obligated if not disbursed during the current fiscal year. The purposes for which the money could be spent are set forth in more detail in section 4.

The Bill would not create any new agency or disturb any existing authority. The money made available for non-Federal public works would be handled by the Commissioner of Public Works, the money for express post roads and other highway improvements would be made available to the Commissioner of Public Roads,



money for railroad equipment would be handled by the Reconstruction Finance Corporation, the Rural Electrification Administration would receive the money for enlargement of their program, the Department of Agriculture would handle funds for the farm tenancy program, and the money for loans to facilitate exports would be made available to the Export-Import Bank.

All disbursements would be for projects which are self-liquidating in character. The Bill specifically imposes upon each operating agency the duty to undertake projects and to make loans with the aim of recovering for the Federal Government the full amount invested plus interest sufficient to reimburse the Government for the cost of the borrowing. The maximum interest rate which may be charged by any operating agency on loans under this program would be limited, however, to the highest yield on the longest term direct or indirect obligation of the United States which is then outstanding. At present, this would be approximately 2.3%. The expectation is that all money paid out will be recouped by the Federal Government through repayment of public works, rural electrification, farm tenancy and foreign trade loans, through toll and other highway revenues and through rental of railroad equipment.

The self-liquidating character of the program permits it to be financed through a mechanism which also is provided in the Bill introduced today. Because the obligations incurred under the program will be liquidated by the income from the program itself,

these obligations may properly be segregated from other public debt obligations which are in large part dependent upon the Federal taxing power for their ultimate repayment. This principal of segregating self-liquidating obligations of the Federal Government was established in the creation of the Reconstruction Finance Corporation in 1932.

Therefore, to provide the funds for the program the amount of obligations which the Reconstruction Finance Corporation is authorized to have outstanding at any one time would be increased by \$2,700,000,000. This authorization would cover the \$2,560,000,000 made available for the first time by this Bill plus not more than \$100,000,000 of the money already appropriated for farm tenancy loans and the \$40,000,000 already appropriated for rural electrification advances. These latter two appropriations, already made, would be financed through the new mechanism to avoid any artificial division between the sources of money available for these two programs.

The Reconstruction Finance Corporation also would be authorized to issue obligations having maturities up to 40 years so that the securities issued to finance the program may bear a proper relation to the life and amortization period of the improvements being financed. At present the Reconstruction Finance Corporation can not issue obligations having a maturity of more than five years.

All revenues and loan repayments collected under the program are required by the Bill to be deposited with the Treasurer of the United States for the account of the Reconstruction Finance Corporation. The Corporation can use this money to redeem the obligations which it has issued or it can use the repayments as a revolving fund to finance additional projects.

To make doubly sure that the program will be continually solvent, the Secretary of the Treasury and the Federal Loan Administrator would be instructed by the Act to appraise annually the assets acquired by the various operating agencies. To the extent, if any, that this examination indicates that the program will not be self-liquidating, the Secretary of the Treasury must secure from Congress an appropriation for the account of the Reconstruction Finance Corporation. Thus, if any losses accrue, they will be charged off currently, and the Corporation will at all times have cash, current revenues and prospective income sufficient to service the indebtedness incurred for the program and to retire that indebtedness as it matures. Conversely, if there is any surplus, it will be used to reimburse the Treasury for any advances the Treasury has made.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE 7-7-39

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

Statement for the Secretary's Diary

At the Secretary's suggestion, Foley and McReynolds "walked" to the White House the draft of the legislation approved by Jesse Jones to carry out the program outlined in the President's letter to Senator Byrnes of June 21, at 4:45 p.m., Friday, July 7. After waiting for about fifteen minutes with General Watson, Foley and McReynolds were asked to come into the President's office. Foley told the President that he was sorry to have given him so much worry in connection with the preparation of the legislation. The President remarked that it wasn't Foley's fault, and appreciated the difficulties Foley had encountered. The President asked Foley to explain the Bill. Foley pointed out that he had attempted to redraft the legislation precisely as the President had indicated on July 5, namely, to eliminate the financing corporation and substitute the RFC in its stead. Foley handed the President the section-by-section summary of the Bill, which the President read aloud, asking an occasional question. When he had concluded, the President said the Bill was in excellent shape, and was just what he wanted. The President asked Foley to get the Bill up to Senator Barkley that evening, as the Senator wanted to take it with him to Kentucky over the week-end to read. The President also requested Foley to get copies of the legislation to Congressman Steagall and Rayburn as soon as possible.

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The President chided McReynolds and Rudolph Forster about McReynolds' new duties at the White House. When the President asked Forster what he thought about Mr. McReynolds coming to the White House to help him set up the administrative procedure for the new White House assistants, Forster said that it would please him very much.

The President asked Foley what he thought the effect of Jesse Jones being the loan administrator would have on the execution of the RFC part of the proposed self-liquidating program under the management of Emil Schram. Foley informed the President that there was no reason to believe that Jesse Jones as head of the loan agency would not dominate Emil Schram as Chairman of the RFC just as much as Jesse Jones as Chairman of the RFC dominated Emil Schram as Director of the RFC. The President replied that the Federal Loan Administrator was not mentioned specifically any where in the Bill. Foley pointed out that this was not quite accurate, since the Federal Loan Administrator was mentioned along with the Secretary of the Treasury as one of the two people to make the annual appraisal of the assets of the RFC under the program. The President seemed satisfied with this explanation, and expressed the hope that Emil Schram would assert his independence.

The President seemed in good spirits, although he was quite business-like. The President thanked McReynolds and Foley for the work they had done in the preparation of the legislation.

*E. N. H.*

Conference held in the Office of the Secretary, July 7, 1939,  
at 11:00 A.M.

Present: Mr. Dickerman of the National Locomotive Works  
Mr. C. J. Hardy, President of the American Car &  
Foundry Company  
Mr. L. B. Currie and Mr. White

The Secretary stated that he was interested in getting the views of Mr. Hardy and Mr. Dickerman, as men with considerable practical experience with the railroad equipment problem, as to the most effective way of inducing the railroads to acquire more equipment. He said that on this matter there apparently were two schools of thought in Washington; one believed that more could be accomplished through leasing of equipment, and the other favored lending the railroads the funds with which to purchase equipment. The Secretary said he would like an expression of their views as to which of the two methods they thought would be the more effective.

Mr. Dickerman began by taking up in some detail the status of railroad equipment but the Secretary indicated that he was not a railroad man and didn't wish to attempt to learn the details of railroading but was simply interested in getting their views on the particular proposal being recommended in the bill.

Both Mr. Dickerman and Mr. Hardy were a little vague as to the merits of the respective methods but seemed inclined to the belief that the government could be most helpful by participating in the risk of loans to be extended by banks or by equipment companies.

When pressed for specific comments as to whether or not the railroads were in need of any new equipment, they emphatically stated that most of the railroads did need and should have more new equipment. They also admitted that theirs was one of the most depressed industries and that the government should attempt to stimulate the demand for new locomotive and freight cars.

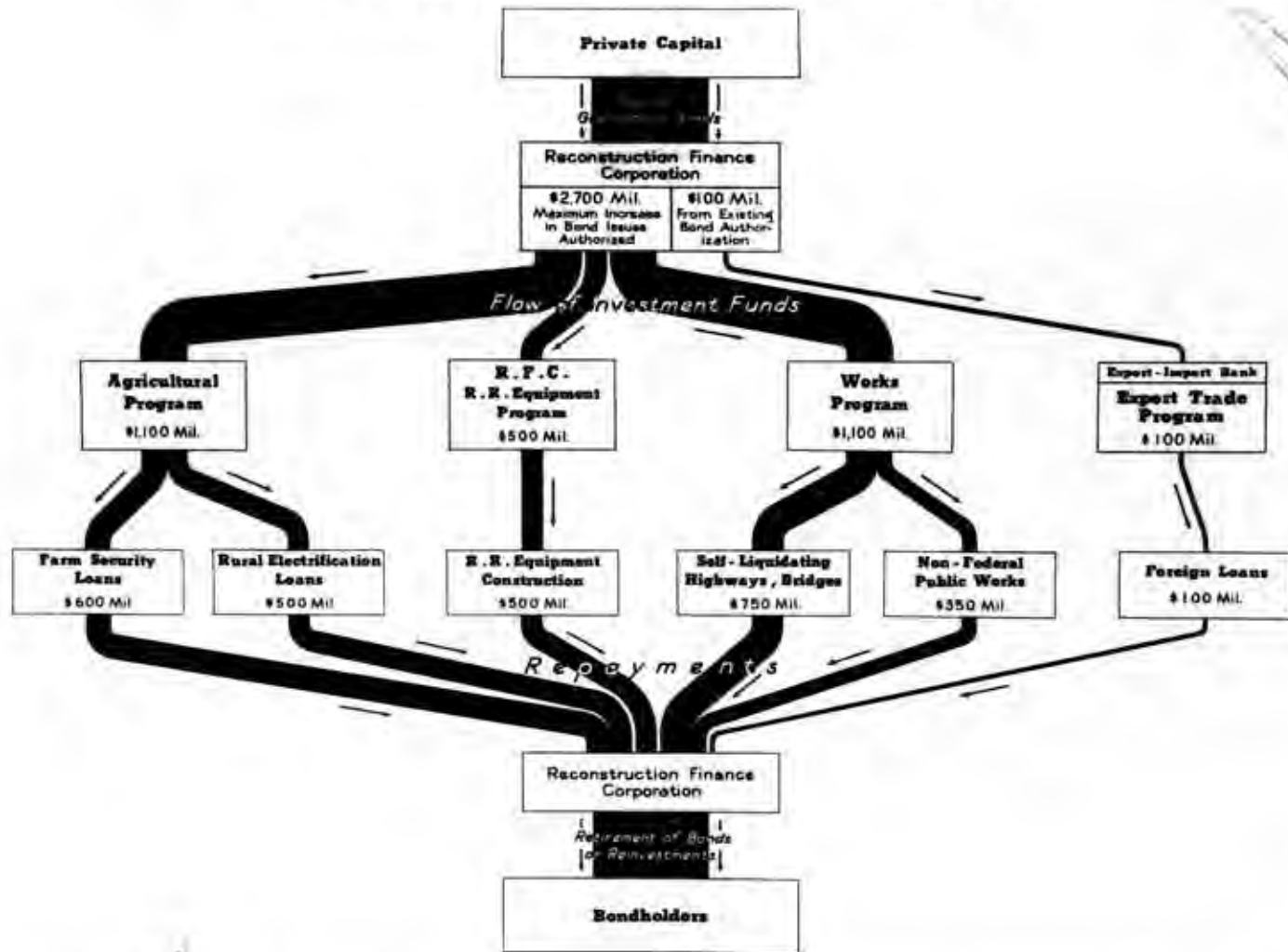
The Secretary suggested that they go to Mr. White's office and discuss the matter in further detail with Mr. Currie and Mr. White and make whatever suggestions or recommendations they felt would make the proposal effective.



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Subsequently (in Mr. White's office) they carefully went over the part of the bill that related to railroad equipment. They expressed concern lest the bill be interpreted as a device to extend the government control over railroads and wished some clause to be inserted which would assure the public that such was not the intention of the bill. They later submitted a suggestion in writing which was turned over to the Legal Department for consideration.

# SELF-LIQUIDATING INVESTMENT PROGRAM



The Barkley-Steagall Self-Liquidating Projects Act of 1939, introduced today, would make available the following sums for the following purposes: Non-Federal public works of a character which will return to the Federal Government its investment in them, \$350,000,000; self-liquidating express post roads and highway improvements, \$750,000,000; rolling stock and shop equipment for lease to railroads, \$500,000,000; rural electrification loans, \$460,000,000, plus \$40,000,000 already appropriated; self-liquidating farm tenancy loans, \$500,000,000, plus not more than \$100,000,000 of funds already appropriated; loans through the Export-Import Bank, \$100,000,000. Of the sums made available for the first time by this Act, the President has estimated that the following amounts would be spent in the current fiscal year: Non-Federal public works, \$150,000,000; express post roads, \$150,000,000; railroad equipment, \$100,000,000; rural electrification, \$20,000,000; farm tenancy loans, \$250,000,000. Probably all of the \$100,000,000 to finance foreign trade would be obligated if not disbursed during the current fiscal year. The purposes for which the money could be spent are set forth in more detail in section 4.

The Bill would not create any new agency or disturb any existing authority. The money made available for non-Federal public works would be handled by the Commissioner of Public Works, the money for express post roads and other highway improvements would be made available to the Commissioner of Public Roads,



money for railroad equipment would be handled by the Reconstruction Finance Corporation, the Rural Electrification Administration would receive the money for enlargement of their program, the Department of Agriculture would handle funds for the farm tenancy program, and the money for loans to facilitate exports would be made available to the Export-Import Bank.

All disbursements would be for projects which are self-liquidating in character. The Bill specifically imposes upon each operating agency the duty to undertake projects and to make loans with the aim of recovering for the Federal Government the full amount invested plus interest sufficient to reimburse the Government for the cost of the borrowing. The maximum interest rate which may be charged by any operating agency on loans under this program would be limited, however, to the highest yield on the longest term direct or indirect obligation of the United States which is then outstanding. At present, this would be approximately 2.3%. The expectation is that all money paid out will be recouped by the Federal Government through repayment of public works, rural electrification, farm tenancy and foreign trade loans, through toll and other highway revenues and through rental of railroad equipment.

The self-liquidating character of the program permits it to be financed through a mechanism which also is provided in the Bill introduced today. Because the obligations incurred under the program will be liquidated by the income from the program itself,

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these obligations may properly be segregated from other public debt obligations which are in large part dependent upon the Federal taxing power for their ultimate repayment. This principal of segregating self-liquidating obligations of the Federal Government was established in the creation of the Reconstruction Finance Corporation in 1932.

Therefore, to provide the funds for the program the amount of obligations which the Reconstruction Finance Corporation is authorized to have outstanding at any one time would be increased by \$2,700,000,000. This authorization would cover the \$2,560,000,000 made available for the first time by this Bill plus not more than \$100,000,000 of the money already appropriated for farm tenancy loans and the \$40,000,000 already appropriated for rural electrification advances. These latter two appropriations, already made, would be financed through the new mechanism to avoid any artificial division between the sources of money available for these two programs.

The Reconstruction Finance Corporation also would be authorized to issue obligations having maturities up to 40 years so that the securities issued to finance the program may bear a proper relation to the life and amortization period of the improvements being financed. At present the Reconstruction Finance Corporation can not issue obligations having a maturity of more than five years.

All revenues and loan repayments collected under the program are required by the Bill to be deposited with the Treasurer of the United States for the account of the Reconstruction Finance Corporation. The Corporation can use this money to redeem the obligations which it has issued or it can use the repayments as a revolving fund to finance additional projects.

To make doubly sure that the program will be continually solvent, the Secretary of the Treasury and the Federal Loan Administrator would be instructed by the Act to appraise annually the assets acquired by the various operating agencies. To the extent, if any, that this examination indicates that the program will not be self-liquidating, the Secretary of the Treasury must secure from Congress an appropriation for the account of the Reconstruction Finance Corporation. Thus, if any losses accrue, they will be charged off currently, and the Corporation will at all times have cash, current revenues and prospective income sufficient to service the indebtedness incurred for the program and to retire that indebtedness as it matures. Conversely, if there is any surplus, it will be used to reimburse the Treasury for any advances the Treasury has made.



DRAFT OF BILL FOR  
SELF-LIQUIDATING PROJECTS ACT OF 1939

July 8, 1939

Summary by Sections of the Draft of Bill to Carry out the  
Self-Liquidating Program.

Section 1 provides that when enacted the bill may be cited as the "Self-Liquidating Projects Act of 1939."

Section 2 provides that the Reconstruction Finance Corporation shall issue its notes or other obligations upon the direction of the President to finance the self-liquidating improvement program to be carried on by the Department of Agriculture, the Public Roads Administration, the Public Works Administration, the Rural Electrification Administration, as well as by the Reconstruction Finance Corporation itself.

Section 3 provides that the Reconstruction Finance Corporation Act shall apply to such notes or other obligations, except that the maturity may be forty years, and increases the amount which may be outstanding under existing law to \$2,560,000,000, plus unobligated balances of present appropriations available to the Department of Agriculture and to the Rural Electrification Administration. The purpose of this latter provision is to avoid duplication of the program.

Section 4 provides for the proceeds of such notes and other obligations to be deposited with the Treasurer of the United States and disbursed to the agencies carrying out the program in amounts indicated by the President's letter to Senator Byrnes of June 21, 1939.

Section 5 authorizes the Public Roads Administration, in cooperation with state agencies, to carry out a program of highway improvements including toll roads, bridges, tunnels, express by-passes and the acquisition of adjacent land for investment purposes. This section also confers powers essential to the prompt and effective execution of the program contemplated in the report of the Bureau of Public Roads dated April 27, 1939, and published as House Document No. 372, 76th Congress, First Session. Provision is made for the Attorney General to handle all condemnation proceedings under the General Condemnation Act or under the 1931 Act permitting possession to be taken by the Government upon filing of a declaration of taking.

Section 6 provides that no further consent of Congress need be required before bridges or tunnels may be built across navigable waters notwithstanding that such waters may not be wholly within a single state, but requires that the approval of the Secretary of War to the plans and specifications be obtained in accordance with the General Bridge Act.

Section 7 authorizes the Public Works Administration to make loans for projects of the character which it has heretofore financed and contains powers deemed desirable in the light of the experience of that Administration.

Section 8 authorizes the Reconstruction Finance Corporation to enter into contracts for the construction of rolling stock and shop equipment for railroads and selling or leasing the same with or without the option to purchase. Provision is also made for the purchase of old rolling stock and equipment for scrapping or rebuilding.

Section 9 authorizes the Rural Electrification Administration to make loans to finance projects of the character it is authorized to finance under the Rural Electrification Act of 1936 and eliminates restrictive provisions in that Act which would militate against an effective program. This section preserves, however, the prohibition in the Rural Electrification Act against the financing of competitive facilities.

Section 10 relates to the \$40,000,000 appropriation made at this session of Congress for Rural Electrification projects for the fiscal year 1940, and authorizes the Secretary of the Treasury to transfer the unobligated balances of appropriations previously made to the Rural Electrification Administration. This section makes an equal amount available to the Administration for financing projects under the bill.

Section 11 authorizes the Secretary of Agriculture to make loans to farm tenants, share-croppers and migratory farmers for the purposes provided in the Bankhead-Jones Farm Tenant Act.

Section 12 authorizes the Secretary of the Treasury to transfer the unobligated balance of appropriations previously made to the Secretary of Agriculture to carry out the Bankhead-Jones Farm Tenant Act and supplemental legislation. This section makes available to the Secretary of Agriculture an equal amount for loans under the bill. This section relates to an estimated balance of \$100,000,000 presently available for loans for such purposes by the Secretary of Agriculture.

Section 13 provides that all revenues of the agencies charged with administering the bill which are derived from projects constructed or financed under the bill shall be deposited with the Treasurer of the United States to the credit of the Reconstruction Finance Corporation and requires the Corporation to use such revenues to pay the notes and other obligations issued to finance the program, together with interest thereon, except to the extent that the Corporation makes part of such revenues available as a revolving fund for further projects if there is any surplus available for such purpose.

Section 14 authorizes the Reconstruction Finance Corporation to sell securities acquired as evidence of loans made by any agency under the bill and to use such proceeds as a revolving fund for further loans after providing for the payment of the interest on and principal of its notes and other obligations issued under the bill.

Section 15 makes available funds provided by the Reconstruction Finance Corporation to the agencies charged with carrying out the self-liquidating program without any further appropriation for expenditures under the bill, and requires that all such expenditures shall be accounted for and audited by the General Accounting Office.

Section 16 provides that the Secretary of the Treasury and the Federal Loan Administrator shall make an annual examination of the status of the program and report the results to the President and to the Congress. This section also provides to the extent that it appears that the program may not be on a self-liquidating basis the Secretary of the Treasury shall pay the Reconstruction Finance Corporation any estimated deficiency, an appropriation in which is authorized.



Section 17 imposes a duty upon every agency constructing or financing projects under the program to undertake projects and make loans with a view to recovering the amount invested with interest sufficient to reimburse the Reconstruction Finance Corporation for the cost to it of the capital required for its operations under the bill. This section also places a ceiling on the interest rate at the highest yield on the longest term, direct or indirect, obligation of the United States which is outstanding.

Section 18 provides that the services of Federal, state, and local agencies may be utilized and that reimbursement may be made for such services.

Section 19 dispenses as to real property acquired under the bill with the requirement of existing law that the United States must acquire exclusive jurisdiction over real property and empowers the Attorney General to determine how much jurisdiction is desirable.

Section 20 provides that administrative expenses for the fiscal year 1940 shall be paid from the proceeds of notes and other obligations issued by the Reconstruction Finance Corporation in amounts to be fixed by the Director of the Bureau of the Budget.

Section 21 provides that the Act confers only cumulative powers and that nothing in it shall be construed to affect the operation of any reorganization plan promulgated pursuant to the Reorganization Act.

Section 22 contains the usual provision authorizing appropriations of such sums as may be necessary to carry out the provisions of the bill. Unless an impairment should be found after the annual appraisal required by section 16, none will be required except for administrative expenses.

Section 23 increases the amount of loans for financing and facilitating exports which the Export-Import Bank of Washington is authorized to have outstanding at any one time from \$100,000,000.00 to \$200,000,000.00.

A BILL

To provide for the construction and financing of self-liquidating projects, and for other purposes.

1 Be it enacted by the Senate and House of Representatives of the  
2 United States of America in Congress assembled, that this Act may be  
3 cited as the "Self-liquidating Projects Act of 1939."

4 Authorization of Bonds

5 SEC. 2. In order to provide a sound method of financing which,  
6 without burdening the national taxing power, will make it possible  
7 to increase employment through a self-liquidating improvement  
8 program, the Reconstruction Finance Corporation (herein called the  
9 "Corporation"), upon the direction of the President, shall issue from  
10 time to time notes, debentures, bonds, or other obligations to enable  
11 the Department of Agriculture, the Public Roads Administration, the  
12 Public Works Administration, the Rural Electrification Administration,  
13 and the Corporation to carry out their respective functions as herein-  
14 after provided.

15 Provisions Concerning Bonds

16 SEC. 3. The provisions contained in the Reconstruction Finance  
17 Corporation Act, approved January 22, 1932, as amended, shall apply  
18 to the notes, debentures, bonds, or other obligations issued to  
19 carry out the provisions of this Act, except that

20 (a) Such notes, debentures, bonds, or other  
21 obligations may mature at such time or times,  
22 not exceeding forty years from their date,  
23 and contain and be subject to such terms,  
24 covenants, and conditions as the Corporation,  
25 with the approval of the Secretary of the

1 Treasury, may prescribe; and

- 2 (b) The amount of notes, debentures, bonds, or  
3 other obligations which the Corporation may  
4 issue and have outstanding at any one time  
5 under existing law is hereby increased by the  
6 amount thereof directed to be issued by the  
7 President, not to exceed \$2,560,000,000, plus  
8 an amount equal to the amount of unobligated  
9 balances of appropriations transferred under  
10 sections ten and twelve of this Act.

11 Disposition of Bond Proceeds

12 SEC. 4. The Corporation is hereby authorized and directed to  
13 deposit all proceeds realized from the sale of notes, debentures,  
14 bonds, and other obligations issued for the purpose of carrying out  
15 this Act, with the Treasurer of the United States to the credit of the  
16 Corporation. The Treasurer of the United States is hereby authorized  
17 and directed to receive such moneys and hold the same in a special  
18 account or accounts to the credit of the Corporation, and to transfer  
19 from time to time such amounts as the Corporation, upon the direction  
20 of the President, shall order to such special disbursing accounts with  
21 said Treasurer as the Secretary of the Treasury shall designate, in order  
22 to provide funds for the following departments, administrations, and  
23 agencies of the Government in not to exceed the following amounts for  
24 the following purposes, in addition to sums available for such purposes  
25 from tolls and charges collected from the repayments of the interest on  
26 and principal of loans made, and from the sale of securities acquired,  
27 under this Act:

- 28 (1) To the Public Roads Administration: the sum  
29 of \$750,000,000 for post-roads, highways,  
30 parkways (in cooperation with the National



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Park Service of the Department of the Interior),  
grade-crossings, underpasses, overpasses, viaducts,  
bridges, and tunnels, including crossings over  
or under navigable waters, and other transporta-  
tion facilities, including works, undertakings,  
or projects incidental thereto or to encourage  
the use thereof, and all or any part of any of  
such facilities and appurtenances thereto, such  
as lands, rights in lands, rights of access,  
easements, buildings, equipment, and machinery  
(herein called "highway improvements"), as  
provided in section five of this Act and  
property acquired for investment purposes as  
provided in said section;

(2) To the Public Works Administration: the sum  
of \$350,000,000 for projects of the character  
heretofore financed by loan or grant or both  
by the Federal Emergency Administration of  
Public Works under Title II of the National  
Industrial Recovery Act, the Emergency Relief  
Appropriation Act of 1935, the Emergency  
Relief Appropriation Act of 1936, the Public  
Works Administration Extension Act of 1937,  
and the Public Works Administration Appropriation  
Act of 1938 (herein called the "non-federal  
public works"), as provided in section seven  
of this Act;

(3) To the Corporation: the sum of \$500,000,000  
for engines, locomotives, tenders, freight  
and passenger cars of all types and classes,

1 and parts thereof and appurtenances thereto  
2 and other rolling stock and railway shop equip-  
3 ment (herein called "railroad equipment"),  
4 as provided in section eight of this Act;

5 (4) To the Rural Electrification Administrations:  
6 \$500,000,000 for projects of the character  
7 heretofore financed or authorized to be financed  
8 or carried on by the Rural Electrification  
9 Administration under the Rural Electrification  
10 Act of 1936 (herein called "rural electrification  
11 projects"), as provided in section nine of this  
12 Act;

13 (5) To the Department of Agriculture: \$600,000,000  
14 for facilities for farm tenants, farm laborers,  
15 share croppers, and other individuals who obtain,  
16 or who have in the past obtained, the major  
17 portion of their income from farm operations,  
18 including rural rehabilitation loans, projects  
19 for the provision of additional water facilities,  
20 and farm tenant loans as provided for in Title I  
21 of the Bankhead-Jones Farm Tenant Act, approved  
22 July 22, 1937 (herein called "rural security  
23 projects"), as provided in section eleven of  
24 this Act.

25 Highway Improvements

26 SEC. 5. Subject to the provisions of this Act, and using in such  
27 connection states, municipalities, and other public bodies to the fullest  
28 extent consistent with sound administration and economical management,  
29 the Public Roads Administration shall have power:

30 (a) To construct, reconstruct, alter, extend,

1 enlarge, improve, repair, and acquire highway  
2 improvements with a view to promoting interstate  
3 commerce, aiding in the national defense,  
4 facilitating the use of the mails, or promoting  
5 the general welfare;

- 6 (b) To maintain and operate highway improvements;
- 7 (c) With the approval of the Corporation, to fix,  
8 maintain, and collect tolls, and other charges  
9 for the use of highway improvements which shall  
10 be sufficient (after making reasonable allowances  
11 for operation and maintenance expenses for  
12 depreciation to the extent not provided for by  
13 amortization, and contingencies) to amortize the  
14 cost of such highway improvements with interest  
15 as hereinafter provided;
- 16 (d) To use for further highway improvements the  
17 revenues derived from such collections to the  
18 extent not needed in the judgment of the  
19 Corporation to meet reasonable allowances for  
20 operation and maintenance expenses or for the  
21 amortization of the cost of highway improvements  
22 with interest as hereinafter provided, or for  
23 depreciation to the extent not provided for by  
24 amortization, and contingencies;
- 25 (e) To acquire in the name of the United States  
26 by gift, purchase, exchange, or by the exercise  
27 of the power of eminent domain or otherwise, and  
28 to hold, lease (as lessor with or without the  
29 option to purchase, or as lessee), use, sell,  
30 exchange or otherwise dispose of real property



1 necessary or convenient for carrying out any of  
2 its functions hereunder in connection with  
3 highway improvements or in connection with any  
4 construction undertaken in accordance with the  
5 Federal Highway Act, as amended and supplemented;

6 (f) In connection with any sale or lease to  
7 any state, municipality, or other public body  
8 to enter into such contracts and agreements as  
9 the Commissioner of Public Roads may deem de-  
10 sirable, which contracts and agreements may in-  
11 clude provisions for deducting from the unpaid  
12 portion of the sale price, rental payments, or  
13 loans, an amount equal to any profit which the  
14 Corporation may determine to have been realized  
15 from the sale of adjacent property acquired  
16 pursuant to subsection (g) of this section;

17 (g) To acquire by purchase, but not by condemnation  
18 for investment purposes, any real property in  
19 the vicinity of any highway improvements or  
20 Federal-aid construction if, in the opinion of  
21 the Commissioner of Public Roads and the  
22 Corporation the price at which such real property  
23 may be purchased is such as to make it probable  
24 that the United States will, as a result of

1 appreciation in land values resulting from any  
2 highway improvement or Federal-aid construction,  
3 be able to dispose of such property, within  
4 twenty years, at such a price as to result in a  
5 profit; and to sell any such real property at  
6 public sale after advertisement and competitive  
7 bidding and upon such other terms and conditions  
8 as the Commissioner of Public Roads and the  
9 Corporation may in their judgment deem in the  
10 public interest;

- 11 (h) To expend moneys for the purpose for which any  
12 real property has been purchased, or possession  
13 thereof has been taken during the course of  
14 condemnation proceedings and in advance of final  
15 judgment thereon, in demolishing existing  
16 structures thereon, in improving such real  
17 property in any way, or in constructing any high-  
18 way improvement thereon, notwithstanding the  
19 provisions of section 355 of the Revised Statutes,  
20 or any other law restricting the expenditure  
21 of public moneys upon real property, the title  
22 to which has been acquired by the United States;
- 23 (i) To prescribe and publish such rules and regula-  
24 tions for the proper government and protection  
25 of, and maintenance of good order on, highway  
26 improvements or adjacent real property of the  
27 authority, wilful violation of which shall be  
28 punishable by a fine of not more than \$500 or  
29 imprisonment for not more than three months, or  
30 both; and to authorize employees of any department

1 of the government, with the consent of the head of  
2 such department, to make arrests for the violation  
3 of such rules and regulations, and any person so  
4 arrested shall be taken before the nearest United States  
5 Commissioner within whose jurisdiction the highway  
6 improvement is located for trial; and upon sworn in-  
7 formation by any competent person any United States  
8 Commissioner in the proper jurisdiction shall issue  
9 process for the arrest of any person charged with viola-  
10 tion of such rules and regulations; but nothing herein  
11 contained shall be construed as preventing the arrest  
12 by an officer, agent, or employee of any public body,  
13 with or without process, of any person for the viola-  
14 tion of any state or local law, ordinance, or regulation,  
15 for the government and protection of, and maintenance of  
16 good order on highway improvements, and any person so  
17 arrested shall be tried and punished according to the  
18 laws of said state;

- 19 (j) To institute and carry on, under the direction of the  
20 Attorney General, condemnation proceedings for the pur-  
21 pose of taking any real property (which term includes  
22 for purposes of this Act property devoted to another pub-  
23 lic use, lands under water, water rights, incorporeal  
24 hereditaments, chattels real, and all rights and interests  
25 in land, whether fees simple absolute or any lesser  
26 interest) in the manner or mode of procedure provided  
27 by an act entitled "An Act to authorize condemnation  
28 of land for sites of public buildings, and for other  
29 purposes", approved August 1, 1888, as amended,



1 or of an act entitled, "An Act to expedite  
2 the construction of public buildings and  
3 works outside of the District of Columbia by  
4 enabling possession and title of sites to be  
5 taken in advance of final judgment in proceed-  
6 ings for the acquisition thereof under the power  
7 of eminent domain", approved February 26, 1931,  
8 as amended;

- 9 (k) To enter on any real property for the purpose  
10 of making surveys, borings, tests, and examinations;
- 11 (l) To pay all expenses in connection with the ac-  
12 quisition of real property, including all fees for  
13 abstracts, official certifications, evidences of  
14 title, and recordation, notwithstanding the  
15 proviso in section one of the Act of March 2,  
16 1899, relating to the payment of such expenses  
17 and fees.

18 Crossings on Navigable Waters

19 SEC. 6. The consent of Congress to the construction, reconstruc-  
20 tion, or acquisition by the Public Roads Administration of any bridge,  
21 tunnel, or other crossing over, under, or across any navigable waters  
22 of the United States, under this Act shall be deemed to have been  
23 obtained and affirmatively authorized by virtue of this Act within  
24 the meaning of sections nine, ten, and eleven of the Act of March 3,  
25 1899, as amended, whether or not such structures cross rivers and other  
26 waterways the navigable portions of which lie wholly within the limits  
27 of a single state; but no such structure shall be constructed, recon-  
28 structed, or maintained under this Act unless and until all the  
29 limitations, restrictions, and other provisions of an act entitled,  
30 "An Act to regulate the construction of bridges over navigable waters",

1 approved March 23, 1906, as amended, except the provisions of section  
2 six thereof, shall have been complied with by said Administration.

3 Non-Federal Public Works

4 SEC. 7. Subject to the provisions of this Act, the Public Works  
5 Administration shall have power:

- 6 (a) To make loans to finance or aid in financing  
7 the construction, reconstruction, extension, or  
8 improvement of non-federal public works; and for  
9 the temporary operation of any such non-federal  
10 public works for such period as the Commissioner  
11 of Public Works shall deem necessary;
- 12 (b) To purchase securities to evidence loans for  
13 non-federal public works, and to exchange such  
14 securities for other securities if the Commissioner  
15 of Public Works shall determine that such exchange  
16 is advisable to assure repayment of any loan made  
17 hereunder or interest thereon;
- 18 (c) To use the sums realized from repayments of the  
19 interest on and principal of loans made by it  
20 under this section and the proceeds realized from  
21 the sale of any securities acquired by it hereunder  
22 for the making of further loans for non-federal  
23 public works to the extent such proceeds are not  
24 needed, in the judgment of the Corporation, to  
25 maintain the loans for non-federal public works on  
26 a self-liquidating basis;
- 27 (d) To organize under the laws of the District of  
28 Columbia or of any state or territory a corporation  
29 or corporations to aid the Public Works Administration  
30 in carrying out its functions hereunder, and to make

1 loans and advances to any such corporation.

2 Railroad Equipment

3 SEC. 8. Subject to the provisions of this Act, and without regard  
4 to the limitations and restrictions of the Reconstruction Finance  
5 Corporation Act, approved January 22, 1932, as amended and supplemented,  
6 the Corporation shall have power:

- 7 (a) To prepare plans and designs for the construction,  
8 rebuilding, or repair of railroad equipment;
- 9 (b) To enter into contracts for the construction, re-  
10 building, repair, or scrapping of any railroad  
11 equipment upon such terms and conditions as may be  
12 agreed upon pursuant to public bidding or private  
13 negotiations;
- 14 (c) To lease, with or without the option to purchase,  
15 or to sell or rent upon such terms and conditions  
16 as it shall prescribe, any railroad equipment so  
17 acquired;
- 18 (d) To enter into contracts for the purchase of  
19 old railroad equipment for the purpose of lease  
20 or resale in its existing state or for the purpose  
21 of rebuilding, repairing, or scrapping the same  
22 for lease or resale;
- 23 (e) To use the proceeds realized from any leases,  
24 sales, or other contracts with regard to railroad  
25 equipment for carrying on further operations under  
26 this section to the extent such proceeds are not  
27 needed, in the judgment of the Corporation, to  
28 maintain its operation as to railroad equipment  
29 on a self-liquidating basis.



(f) To organize under the laws of the District of Columbia or of any state or territory a corporation or corporations to aid the Reconstruction Finance Corporation in carrying out its functions hereunder, and to make loans and advances to any such corporation.

Rural Electrification Projects

SEC. 9. Subject to the provisions of this Act, the Rural Electrification Administration shall have power:

- (a) To make loans to finance or aid in financing rural electrification projects;
- (b) To purchase securities to evidence loans made by it, and use the sums realized from repayments of the interest on and principal of loans made by it under this section and the proceeds realized from the sale of any securities acquired by it hereunder for the making of further loans for rural electrification projects to the extent such proceeds are not needed, in the judgment of the Corporation, to maintain the loans for rural electrification on a self-liquidating basis;
- (c) To exercise the powers granted by this section without regard to the provisions of subdivisions (b), (c), and (d) of section three and the last sentence of section five but subject to the requirements of section two of the Rural Electrification Act of 1936.

Transfer to Rural Electrification Administration

SEC. 10. The Secretary of the Treasury shall pay over and transfer to such special disbursing account or accounts with the Treasurer of the

1 United States as shall be designated by the Secretary of the Treasury  
2 under section four of this Act all or any part of any unobligated  
3 balances of such sums heretofore appropriated or available to the  
4 Rural Electrification Administration to enable it to carry out the  
5 provisions of the Rural Electrification Administration Act of 1936,  
6 and such funds shall thereupon be available to the Rural Electrifica-  
7 tion Administration for financing or aiding in financing rural electri-  
8 fication projects under this Act, in addition to all other moneys  
9 available or to be available for such purpose under this Act.

#### 10 Rural Security Projects

11 SEC. 11. Subject to the provisions of this Act, the Secretary  
12 of Agriculture shall have power:

13 (a) To undertake and make loans for rural security  
14 projects;

15 (b) To purchase securities to evidence such loans,  
16 and use the sums realized from repayments of  
17 the interest on and principal of loans made  
18 under this section and the proceeds realized  
19 from the sale of any securities acquired by  
20 it hereunder for the making of further loans  
21 for rural security projects to the extent such  
22 proceeds are not needed, in the judgment of the  
23 Corporation, to maintain such loans on a self-  
24 liquidating basis.

#### 25 Transfer to Secretary of Agriculture

26 SEC. 12. The Secretary of the Treasury shall pay over and  
27 transfer to such special disbursing account or accounts with the  
28 Treasurer of the United States as shall be designated by the Secretary  
29 of the Treasury under section four of this Act all or any part of  
30 any unobligated balances of sums heretofore appropriated or avail-  
31 able to the Secretary of Agriculture to enable him to carry out

1 the provisions of Title I of the Bankhead-Jones Farm Tenant Act, the  
2 Emergency Relief Appropriation Act of 1938, the Work Relief and Public  
3 Works Appropriation Act of 1939 and such funds shall thereupon be  
4 available to the Secretary of Agriculture for financing or aiding in  
5 financing rural security projects under this Act, in addition to all  
6 other moneys available or to be available for such purposes under  
7 this Act.

#### 8 Disposition of Project Revenues

9 SEC. 13. The Department of Agriculture, the Public Roads Ad-  
10 ministration, the Public Works Administration, the Rural Electrifica-  
11 tion Administration, and the Corporation shall deposit all revenues  
12 and receipts derived from the works, projects, or undertakings con-  
13 structed, leased, rented, or sold, or repayments of the interest on,  
14 or principal of, all loans made to aid in financing works, projects,  
15 or undertakings, in carrying out their respective functions under this  
16 Act in a special account or accounts with the Treasurer of the United  
17 States to the credit of the Corporation, and all such revenues and  
18 receipts shall be used by the Corporation exclusively for the payment  
19 of interest on its notes, debentures, bonds, or other obligations issued  
20 for the purpose of carrying out the provisions of this Act, as such  
21 interest shall become due and payable, and for the purchase, retirement  
22 or redemption of such notes, debentures, bonds, or other obligations,  
23 except to the extent that the Corporation makes such revenues and  
24 receipts available for the construction and financing of further works,  
25 projects, or undertakings as provided in this Act.

#### 26 Sale of Securities

27 SEC. 14. The Corporation shall have the power, with the approval  
28 of the Secretary of the Treasury as to the time of any such sale, to  
29 sell or otherwise dispose of any securities acquired by any department,  
30 administration, or agency in carrying out its functions under this



1 Act, and in connection with any such sale to make such contracts and  
2 agreements as seem to the Corporation advisable; and all sums  
3 realized from the sale of such securities shall be deposited by the  
4 Corporation in a special account or accounts with the Treasurer  
5 of the United States and shall be used exclusively for the payment of  
6 interest on notes, debentures, bonds, or other obligations issued for  
7 the purpose of carrying out this Act, as such interest shall become due  
8 and payable, and for the purchase, retirement, or redemption of such  
9 notes, debentures, bonds, or other obligations, except to the extent  
10 that the Corporation makes the proceeds of such sales available for the  
11 making of further loans as provided in this Act.

#### 12 Availability and Audit of Funds

13 SEC. 15. The departments, administrations, and agencies for which  
14 funds shall be provided by the Corporation pursuant to this Act may use  
15 such funds for the purpose of carrying out their respective functions  
16 under this Act without further appropriation and such funds shall be  
17 continuously available for such purposes. Except as to the expenditures  
18 of the Corporation which shall be governed by the Reconstruction Finance  
19 Corporation Act, approved January 22, 1932, as amended and supplemented,  
20 all such expenditures shall be accounted for and audited in accordance  
21 with the terms and provisions of the Budget and Accounting Act of 1921,  
22 as amended, the same as if an appropriate appropriation account had been  
23 established therefor pursuant to an appropriation warrant or a covering  
24 warrant.

#### 25 Appraisal of Program

26 SEC. 16. The Secretary of the Treasury and the Federal Loan  
27 Administrator shall cause an examination to be made annually of the  
28 status of the self-liquidating improvement program for the financing  
29 of which notes, debentures, bonds, or other obligations of the  
30 Corporation shall have been issued under this Act. Such examination

1 shall be made as of the last day of December in each year beginning  
2 with December 31, 1940. The Secretary of the Treasury and the  
3 Federal Loan Administrator shall submit a report of such examination  
4 to the President and to the Congress. If such examination discloses  
5 that the probable recovery of the cost of all works, projects, or  
6 undertakings carried out under this Act, and of all loans made to  
7 aid in the financing of the same, together with the cash on hand in  
8 the special account or accounts of the Corporation provided for by  
9 section four of this Act, is less than the principal amount of all  
10 notes, debentures, bonds, or other obligations issued pursuant to  
11 this Act, and interest thereon, the Secretary of the Treasury on  
12 behalf of the United States shall pay to the Corporation a sum equal  
13 to the amount of such difference. There is hereby authorized to be  
14 appropriated annually, commencing with the fiscal year 1941, out of  
15 any money in the Treasury not otherwise appropriated, a sum equal  
16 to the amount needed to enable the Secretary of the Treasury to  
17 make such payment. Whenever such examination shall disclose a surplus,  
18 the Corporation shall reimburse the Treasury to the extent of such  
19 surplus for the amounts, if any, previously paid under this section.

20 Duty of Federal Agencies

21 SEC. 17. The Department of Agriculture, the Public Roads  
22 Administration, the Public Works Administration, the Rural Electrifica-  
23 tion Administration, and the Corporation shall exercise their powers  
24 under this Act with a view to recovering the cost of the works, projects,  
25 or undertakings carried out under this Act, or loans made to aid in  
26 financing the same, with interest to be fixed by the Corporation on the  
27 date of enactment of this Act and the first day of each calendar quarter  
28 thereafter, at a rate or rates which may reasonably be expected to  
29 reimburse the Corporation for the cost to it of the capital required  
30 for its operations under this Act, having due regard to the yield on

1 obligations of the United States of comparable maturity or maturities  
2 to that of such loans and the rate and period of amortization of the  
3 cost of such works, projects, or undertakings, but not to exceed the  
4 multiple of one-eighth of one percent next higher than the highest  
5 yield to maturity (based on market prices) on the longest term out-  
6 standing issue of obligations of the United States, direct or indirect.  
7 For the purposes of this section, the yield on any callable obligation  
8 selling above par shall be computed to its earliest callable date and  
9 said date shall be deemed to be the maturity thereof. Nothing herein  
10 shall be construed to require the alteration or readjustment of any  
11 rate once the interest has been fixed for any such works, projects,  
12 undertakings, or loans.



1                   Assistance by Governmental Agencies

2           SEC. 18. Any department, administration, or agency authorized  
3 to perform any function under this Act shall have power to utilize  
4 the services of federal, state, and local agencies and their  
5 employees and, notwithstanding any other provision of law, to  
6 reimburse such agencies and their employees for services rendered  
7 for such purposes.

8                   Exclusive Federal Jurisdiction Not Required

9           SEC. 19. Notwithstanding the provisions of any other law, the  
10 obtaining of exclusive jurisdiction in the United States over real  
11 property to be acquired under this Act shall not be required; but the  
12 Attorney General may, in such cases and at such times as he may deem  
13 desirable, secure from the state in which such real property is  
14 situated, such jurisdiction, exclusive or partial, over any such real  
15 property as the Attorney General may deem desirable and accept such  
16 jurisdiction on behalf of the United States by filing a notice of  
17 such acceptance with the Governor of such state or in such other  
18 manner as may be prescribed by the laws of the state within the  
19 borders of which such real property is situated. Unless and until  
20 acceptance of such jurisdiction on behalf of the United States has  
21 been made as aforesaid, it shall be conclusively presumed that no such  
22 jurisdiction has been accepted.

23                   Administrative Expenses for the Fiscal Year 1940

24           SEC. 20. Administrative expenses of the departments, admini-  
25 strations, agencies of the Government and amounts required to reimburse  
26 states, municipalities, and other public bodies and employees thereof  
27 for services rendered in carrying out the purpose of this Act shall  
28 be paid for the fiscal year ending June 30, 1940 from such amounts  
29 as may, with the approval of the Director of the Bureau of the  
30 Budget, be reserved from the proceeds realized from the sale of

1 notes, debentures, bonds, or other obligations of the Corporation  
2 for the payment thereof, in addition to the unobligated balances of  
3 sums heretofore appropriated or authorized to be used for such  
4 administrative expenses, any provision in this or any other law to  
5 the contrary notwithstanding.

6 Saving Clause

7 SEC. 21. The powers conferred by this Act are in addition and  
8 supplemental to the powers conferred by, and shall not be affected  
9 by the limitations in, any other law; and nothing in this Act shall  
10 be construed to limit or in any way curtail the existing powers of  
11 any department, administration, or agency of the Government, or the  
12 powers conferred upon the President by the Reorganization Act of  
13 1939, approved April 3, 1939, or any reorganization plan heretofore  
14 or hereafter transmitted by the President to the Congress which has  
15 heretofore taken effect or which may hereafter take effect pursuant  
16 thereto; and the administration of the provisions of this Act shall  
17 be subject to the provisions of such reorganization plans.

18 Appropriations

19 SEC. 22. There is hereby authorized to be appropriated from  
20 time to time such sums as may be necessary to carry out the provisions  
21 of this Act.

22 Export-Import Bank of Washington

23 Sec. 23. Section 9 of the Act approved January 31, 1935 (49  
24 Stat. 4), as amended, is hereby further amended, by striking from  
25 the proviso at the end of the last sentence thereof "\$100,000,000"  
26 and inserting in lieu thereof "\$200,000,000."

17

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin

NO.: 607

DATE: July 7, 1939, 3 p.m.

Reference is made to Embassy's 584 of July 3, 1939, 7 p.m.

Puhl said today in a conversation with Heath, that when he conferred with Lamont in Brussels on July 4 he made the suggestion that a possible solution might be to exchange German bonds for Austrian 1930 dollar bonds. Puhl informed Lamont that he would make an effort to get the other agencies concerned to agree to this procedure. He said that the advantage of this procedure would be that it would obviate Germany's public acceptance of responsibility for paying the debts of Austria, for which Germany argues it is not liable "in principle". He said that it would be difficult to secure German agreement to the procedure but provided there were no "further surprises in relations", he hoped to be able to do so. Puhl stated that the tentative proposal which he had made to exchange Austrian for German obligations, was based on the understanding of the Reichsbank that the bonds still remaining in the hands of Americans amounted to only \$2,000,000 or \$3,000,000 so the servicing cost would not be large. It

was



was Lamont's opinion, however, that the amount of bonds outstanding in the United States was \$10,000,000, to which Puhl replied that it would be difficult, if not impossible, for Germany to pay service on such an amount with its exchange resources in the present state. Lamont promised Puhl that he would find out the amount of Austrian 1930 bonds still owned by Americans and that he would report to him. The suggestion had been made by Lamont that an exchange might be made of Austrian bonds for Dawes plan bonds. To this Puhl answered that not enough Dawes bonds were held by the German Government to carry out the exchange. Puhl had stated that 4 percent was the maximum interest rate which would be paid by the German Government and Lamont had held out for 5 percent. It was agreed, however, that if agreement of the German Government were obtained to the bond exchange proposal, a discussion of the interest rate would be taken up again.

Please repeat to the Treasury.

KIRK

EA:EB

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE  
CONFIDENTIAL FILES

DATE July 7, 1939

TO  
J. W. McKeon

SUBJECT: TELEPHONE CONVERSATION WITH  
BANK OF ENGLAND 47E

I called Mr. Bolton at eleven o'clock this morning and, in his absence, spoke with Mr. Hawker. He was very much pleased that the Monetary Bill had been signed yesterday; I promised to send him a copy of the text of the bill as soon as I received one. Hawker was interested in knowing whether I had any idea what Mr. Roosevelt's policy would be with regard to the foreign silver price. I told him that I was in no position to venture an answer to that question.

I referred to our gold order renewal and Hawker said they had received it and were very grateful. All exchanges were quiet in London with the exception of guilders which continued weak due largely, in Hawker's opinion, to the unsettled political situation in Holland. I promised to keep in touch with him if anything new developed.

JIMCK/BOC

AC

PLAIN

London

Dated July 7, 1939

Rec'd 2:38 p.m.

Secretary of State

Washington

No. 950, July 7, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

1. With reference to my 944 July 6 2 p.m. the Overseas Trade Guarantees Bill is published today the only further interesting features revealed being (A) the fact that credits may be for as long as fifteen years and (B) the clause which empowers the Board of Trade to hold securities guaranteed by it, the financing of which is to be provided from the consolidated fund. In effect this means that long-term credits under this bill can be financed by Treasury bills. According to the City Editor of the TIMES the normal procedure for shorter credits will doubtless be the same as under the earlier act namely that the Board of Trade will guarantee foreign government bills and promissory notes which it will sell in the money market.

The fact that the limit of credits which may be granted for products not produced in the United Kingdom is increased from the £2 million provided in the old



- 2 - #950, July 7, 6 p.m., from London

old act to £6 million leaves by far the greater part of the credits as assisting British exports and since these credits are in effect to be used practically entirely for armaments and war materials the impact on the British armament industries will be important. With the June unemployment figure down to 1,349,000 and surplus labor in the engineering and armament industries rapidly disappearing especially in some important districts the question of labor

scarcity in the near future in certain sections of British industry comes the nearer. Incidentally the fact that expenditure excluding borrowed funds on "defence" services in the first quarter of the present fiscal year was £109 million as compared with £ 66 million in the corresponding period last year is an indication of the materially increased rate of armament production.

The money market and capital market implications of the new act are also important. Though all the credits will probably not be for long periods doubtless a large proportion of the total will be carried out through the new mechanism which will involve an increase in the tap issue of Treasury bills. This will not decrease the amount of tender bills but it may  
add

- 3 - #950, July 7, 6 p.m., from London

add materially to the total floating debt. In the arrangement of interest terms it appears that the Government envisages a rate of some 3-1/2 per cent a fact which indicates that it intends to fund the Treasury bills which will have to be issued at a relatively early date.

The fact that a number of trustee issues were floated during June with very varying success has on the one hand demonstrated that the capital market's digestion is delicate and very dependent on the political outlook on the day of issue, and on the other hand produced a certain amount of speculation as to whether the stage is being cleared for a Government issue in the not very distant future.

The press including the TIMES notes that most of the increase of £50 million in the credits to be granted when "in the national interest"/<sup>which</sup> will be provided for by the bill have probably already been allocated and practically the only criticism of the bill is that the total of £60 million (which after interest is included is estimated to be in effect nearer £100 million) is too small.

2. Press announcements declare that the Association

of

-4- #950, July 7, 6 p.m., from London

of Investment Trusts and the Association of Insurance Companies have circulated to their members questionnaires regarding their holdings of foreign securities as of June 30 last. A detailed list is not requested but the total value of foreign securities are to be divided into the following groups. (1) United States dollar securities, (2) Canadian dollar securities, (3) other foreign securities excluding those of British Dominions and France, (4) international securities which can be realized outside the United Kingdom, Dominions and France. Securities are to be grouped under currencies and not by countries; for example Australian dollar bonds are to be classified as United States dollar securities. Insurance Companies are also being asked to give information regarding their holdings of real estate and mortgages. The British Treasury is evidently making these preliminary investigations for preparations in the event of war as mentioned in sections 3 and 4 of my 645, May 9, 6 p.m.

3. One silver shipment was invoiced today totaling 216,057.02 standard ounces at 20 1/8d. per ounce the value being pounds 18,117.5s.8d. from Mocatta and Goldsmids for account of Baker Platinum Company to Irvington Smelting and Refining by the PRESIDENT ROOSEVELT on July 7. This shipment represents delivery of a forward contract



-5- #950, July 7, 6 p.m., from London

contract transacted two months ago.

The day-to-day basis of the official American price for foreign silver has made arbitrageurs leave the silver market alone but there was a moderate size fixing today consisting of many small speculative selling and buying orders with the price both at the fixing and thereafter at 17 3/8d. for spot and 17d. for forward.

4. The dollar was offered today on Japanese account making support by the British fund unnecessary. The forward dollar was also offered but the turnover was not large, the three months premium standing around 1 7/8. Gold was fixed at a 1/2d. premium. Samuel Montagu was the sole buyer wanting 162 bars but they reduced their requirements to 110 bars, 15 of which were married and about 50 supplied by the British fund.

KENNEDY

HPD

JR

GRAY

Paris

Dated July 7, 1939

Rec'd 1:26 p.m.

Secretary of State,  
Washington.

1268, July 7, 4 p.m. (SECTION ONE)  
FOR THE TREASURY.

Trading continues very quiet on the exchange market. The fund did not intervene today, apparently, pressure on the florin led Amsterdam to sell a substantial amount of dollars. The security market was inactive and irregular with no important changes.

The adverse foreign trade balance for the month of June 1939 is 865 million francs compared with 1,523 millions in June 1938. The adverse balance for the first six months of 1939 is therefore 6,725 millions compared with 9,300 millions for the same period of last year. During this period imports increased by 1,501 millions and exports by 4,076 millions compared with the corresponding period of 1938.

(END SECTION ONE).

BULLITT

KLP:HPD

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

NO.: 1368 (SECTION TWO)

DATE: July 7, 1939, 4 p.m.

According to information which we have received from an authorized source, discussions are now being held between German and French authorities with reference to adjusting financial questions in which the two countries are interested. We are informed that on certain questions decisions of principle have already been made. It is said, in this respect, that no modification of the August 2 agreement for the service and amortization of the Dawes and Young loans is contemplated. It appears unlikely also that any important change will be made in the provisions of the August 2 agreement relating to the old Austrian debt and to Germany's foreign debt.

EA:EB



## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

NO.: 1266 (SECTION THREE)

DATE: July 7, 1939 4 p.m.

With reference to the private credits covered by the July 10, 1937 arrangement, there will be an increase in the amounts to be provided by Germany for the transfer necessary for their settlement. There will, however, be a provision in the new arrangement to suppress the bonds which have previously been delivered by the German Government to set off the non-transferrable balance of the debt owed by Germany to certain of its creditors which could be used in Germany by holders for payments of taxes, travel and so forth.

(END OF MESSAGE)

BULLITT

EA:EB



ASSISTANT SECRETARY

TREASURY DEPARTMENT

Washington,

JUL 8 1939

88

MEMORANDUM FOR THE SECRETARY:

I sent you under date of June 18th a memorandum from W. F. Johnson of the Bureau of Customs, dated June 16, 1939, addressed to me, concerning the disposition of cameras which have been seized and forfeited by the Customs Service, which was returned with a slip signed by Miss Chauncey, reading as follows:

"Mr. Gibbons:

The Secretary would like to have furnished a list of officials and offices which have received cameras since January 15, 1936, with dates of such assignment."

In compliance with this request, I addressed a memorandum to the Commissioner of Customs under date of June 24, 1939, requesting the disposition by the Bureau of these seized cameras;- who signed for them, and under what circumstances they were assigned by the Bureau. I also asked if it were possible to secure a record which would indicate whether or not any of them were used for other than official purposes.

Under date of June 29, 1939, the Commissioner addressed a memorandum to me transmitting a list of these cameras which have been assigned "for official use in the Customs Service". He also included in the list the cameras and lenses which have been assigned by the Procurement Division under authority of section 303 of the Liquor Law Repeal and Enforcement Act to activities over which the Bureau of Customs has no administrative control.

This showed that one of the cameras had been assigned to one of the Assistant Secretaries of the Treasury. This proved to be an error, for instead of being assigned to an Assistant Secretary of the Treasury, it was assigned to Mr. Gaston, at that time Assistant to the Secretary. Mr. Gaston advises me that this camera is used for official purposes only. Five of them were also assigned to Mr. Ballinger, who likewise assures me that they are used by the men whom he has assigned to the investigation of the Customs Service for official use only.

The Commissioner's memorandum states that the assignment of these cameras to the various administrative field offices has in each instance been based on a request, supported by a statement

that the cameras or lenses would be helpful in connection with investigative, enforcement, and other customs activities. The attached list of assignments shows the number of cameras that have been assigned to each Customs Agency District, as well as each Customs Patrol District, as illustrated by the first item on the list showing that 15 cameras have been assigned to the District Superintendent of the Northeast Customs Patrol at Buffalo, New York, Mr. J. J. Mullen, District Superintendent, receipting for them, and he in turn being held responsible for their assignment to officers under him.

I have addressed a memorandum to the Commissioner of Customs, Commissioner Anslinger of the Bureau of Narcotics and Mr. Ballinger, requesting them to have specific instructions issued to the heads of all field offices that these cameras must be kept under lock and key in the office of the administrative officer responsible for them, and that a receipt should be taken each time a camera is assigned to an employee for official use, showing the date of assignment, the date when returned and for what purpose it has been used.

I am advised by Mr. W. R. Johnson, Deputy Commissioner of Customs, as well as Mr. Gaston and Mr. Ballinger, that these German cameras require a great deal of experience to successfully operate them. Mr. Gaston states that he put a roll of films in one of them and after using the entire roll he had not obtained a picture. One of Mr. Ballinger's men took a picture of what he regarded a slight infraction of rules on the part of a customs employee at Key West, with the same result. I have, therefore, also asked the Commissioners of Customs and Narcotics to secure information from the field showing results accomplished.

*Stephen B. Johnson*  
Assistant Secretary.

Enclosures.

ⓧ copy attached.



JUL 8 1939

MEMORANDUM FOR  
COMMISSIONER WOYLE  
COMMISSIONER ANGLINGER  
MR. BALLINGER:

Referring to the assignment of seized cameras and lenses to field officers for official use:

While I understand the use of these cameras for other than official use, by the officers to whom they are assigned, would not violate any Federal law, nevertheless, in my opinion, any officer making such use of Government property would be subject to a severe reprimand.

However, in order to definitely establish a code of ethics covering this particular item of Government property, will you please see to it that specific instructions are issued to the heads of all field offices that these cameras must be kept under lock and key in the office of the administrative officer responsible for them when they are not in official use and that a receipt should be taken each time a camera is assigned to an employee for official use, showing the date of assignment, for what purpose it is to be used, and the date of its return.

Both Mr. Gaston and Mr. Ballinger have advised me that the German cameras require special training to successfully operate. Mr. Gaston claims to have used an entire roll of film without producing a photograph. I would suggest, therefore, that you make inquiry of the various field offices covering results obtained.

Assistant Secretary.

EBG:da:hkh

ASSIGNED FOR OFFICIAL USE IN THE CUSTOMS SERVICE

<u>To Whom Assigned</u>	<u>Quantity</u>	<u>Cameras</u>	<u>Extra Lenses</u>	<u>Date B/L Authority</u>	<u>Seizing Office (Collector)</u>
J. J. Mullen, District Superintendent, Northeast Customs Patrol. Buffalo, New York	1	Leica	2	3/6/39	Chicago, Ill.
	2	Kodak Retina	6	3/7/39	New York,
	10	Leica		"	"
	1	Robot		"	"
	1	Super Balbina		"	"
	<u>15</u>			<u>8</u>	
P. G. Fraser, District Superintendent, Northwest Customs Patrol. Havre, Montana.			1	11/30/38	Chicago, Ill
			1	5/1/39	"
			1	3/6/39	"
	4	Leica	2	10/12/37	New York, N.Y.
	3	"		11/11/37	"
	3	"	9	4/1/39	"
	8	Contax		"	"
	1	Robot		"	"
	1	Kine-Erakta		6/10/38	Portland, Ore.
	1	Rolleiflex-Compur		"	"
	4	Contax	1	3/7/39	New York, N.Y.
1	Kodak Retina		"	"	
<u>26</u>			<u>15</u>		

ASSIGNED FOR OFFICIAL USE IN THE CUSTOMS SERVICE

<u>To Whom Assigned</u>	<u>Quantity</u>	<u>Cameras</u>	<u>Extra Lenses</u>	<u>Date B/L Authority</u>	<u>Seizing Office (Collector)</u>
Grover C. Webb, District Superintendent, Southwest Customs Patrol El Paso, Texas			2	11/30/38	Chicago, Ill.
	1	Leica		2/13/39	Galveston
	1	Welta- Perle		5/4/38	Los Angeles
	1	Ikon		11/29/38	"
	1	Leica	2	3/6/39	Chicago, Ill.
	1	Contaflex		4/1/39	New York
	1	Reflex- Korelle		"	"
	8	Contax	1	"	"
	5	Leica		"	"
	3	Contaflex		"	"
	4	Contax	6	"	"
	1	Contax	12	2/5/39	"
	3	Leica		3/7/39	"
2	Rolleiflex		"	"	
	<u>32</u>		<u>25</u>		
G. C. O'Donoghue, District Superintendent, Southeast Customs Patrol Jacksonville, Florida.	5	Leica		3/7/39	New York
	2 8	Contax		"	"



To Whom Assigned	Quantity	Cameras	Extra Lenses	Date B/L Authority	Seizing Office (Collector)
F. R. Proctor, Supervising Customs Agent, Baltimore, Maryland.	1	Leica		3/7/39	New York
	2	"		3/29/38	Baltimore
			1	3/7/39	Chicago
J. J. Flynn, Supervising Customs Agent, -Boston, Massachusetts.	1	Leica		3/7/39	New York
W. H. Tidwell, Supervising Customs Agent, Chicago, Illinois	1	Contax		3/7/39	Chicago
G. E. Wyatt, Supervising Customs Agent, Detroit, Michigan.	2	Leica		3/7/39	New York
Edward A. Gleason, Supervising Customs Agent, Jacksonville, Florida.	1	Leica	1	5/1/39	Seattle
J. W. Roberts, Supervising Customs Agent, New York, New York.	2	Leica		10/12/37	New York
	1	"		4/1/38	"
	1	Contaflex	4	3/29/38	"
J. B. Morgan, Supervising Customs Agent, St. Paul, Minnesota.	1	Contax		3/7/39	New York
H. S. Creighton, Supervising Customs Agent, Houston, Texas.	3	Leica		6/10/38	Galveston
	1	"		7/6/38	"
Fred'k H. Gardner, Supervising Customs Agent, San Francisco, California.	4	Leica	1	3/7/39	Chicago
	3	"		4/28/39	San Francisco

## ASSIGNED FOR OFFICIAL USE IN THE CUSTOMS SERVICE

<u>To Whom Assigned</u>	<u>Quantity</u>	<u>Cameras</u>	<u>Extra Lenses</u>	<u>Date B/L Authority</u>	<u>Seizing Office (Collector)</u>
C. A. Emerick, Customs Agent in Charge, Los Angeles, California.	1	Leica		12/9/38	New York
	1	Contax		9/11/37	Los Angeles
Frank D. Henry, Customs Agent in Charge, Ogdensburg, New York.	1	Contaflex		3/29/38	New York
David L. MacFarlane, Customs Agent in Charge, Philadelphia, Pennsylvania.	1	Leica		7/8/38	Baltimore
H. R. Gillis, Customs Agent in Charge, Portland, Maine.	1	Leica		3/7/39	New York
Hector C. Lende, Customs Agent in Charge, Portland, Oregon.	1	Contax		3/7/39	Chicago

To Whom Assigned	Quantity	Cameras	Extra Lenses	Date B/L Authority	Seizing Office (Collector)
A. A. McPhetres, Customs Agent in Charge, St. Albans, Vermont.	1	Leica		3/7/39	New York
Howard E. Moore, Customs Agent in Charge, San Juan, Puerto Rico.	1	Contax		2/24/39	San Juan
V. C. Zeluff, Customs Agent in Charge, Tampa, Florida.	1	Contax		3/7/39	New York
Mrs. D. D. Greene, Chief Chemist, Boston, Massachusetts.	1	Leica		4/3/39	New York
Mr. John W. Custer, Chief Chemist, Los Angeles, California	1	Leica		5/5/39	San Francisco
L. B. McSorley, Chief Chemist, New York, New York	10	Contax	14	12/9/38	New York
William Hannan, Appraiser of Merchandise, Chicago, Illinois	1	Contax		8/3/38	Chicago
A. C. McQueen, Appraiser of Merchandise, Philadelphia, Pennsylvania.	1	Contax		1/17/39	Philadelphia
J. Walter Doyle, Collector of Customs, Honolulu, T. H.	1	Ikon		2/28/39	Honolulu



To Whom Assigned	Quantity	Cameras	Extra Lenses	Date B/L Authority	Seizing Office (Collector)
Harry M. Durning, Collector of Customs, New York, New York.	2	Contax		3/18/38	New York
Bureau of Customs, Washington, D. C. (For Bureau stock and issuance to field officers as required)	3 1 1	Contax Leica Contax	1	1/9/39 " 4/10/39	Chicago " "
Fred W. Gast, Chief, Division of Engineering and Weighing, Bureau of Customs, Washington, D. C.	7 1	Leica Contax	3	8/11/38 1/3/39	St. Louis New York
Mr. E. J. Shambart, In Charge of Enforcement, Bureau of Customs, Washington, D. C.	1	Leica		1/9/39	Chicago

AUTHORITY TO OTHER FEDERAL AGENCIES

<u>To Whom Transferred</u>	<u>Quantity</u>	<u>Cameras</u>	<u>Extra Lenses</u>	<u>Date B/L Authority</u>	<u>Seizing Office (Collector)</u>
Office of the Assistant to the Secretary of the Treasury	1	Contax		6/10/38	Baltimore
Ballinger Committee, Treasury Department, Washington, D. C.	3	Contax		1/3/39	New York
	1	Leica		"	"
	1	Contax	1	2/7/39	"
	1	Leica		"	"
W. J. Keester, Commander, U. S. Coast Guard.	2	Leica		1/3/39	"
Stewart Berkshire, Deputy Commissioner, Internal Revenue, Treasury Department.	1	Leica	3	2/13/39	Chicago
	1	Contax	1	10/17/38	"
	1	Pronto	1	4/19/39	New York
	1	Kodak			"
	1	Deckel-Vergil		"	"
	2	Gauthier-Certix		"	"
	1	Zeiss Ikon		"	"
	1	Gauthier-Pronto		"	"
Frank J. Wilson, U. S. Secret Service, Treasury Department.	1	Contaflex		12/29/38	"
	1	Contax		"	"
	1	Leica		6/2/39	"
	1	Contax		1/31/39	Boston
H. J. Anslinger, Bureau of Narcotics, Treasury Department.	2	Leica		3/22/39	Chicago
	2	"		4/1/38	New York
	1	"		12/21/38	"
	2	Contax		12/8/38	Cleveland

AUTHORITY TO OTHER FEDERAL AGENCIES

<u>To Whom Transferred</u>	<u>Quantity</u>	<u>Cameras</u>	<u>Extra Lenses</u>	<u>Date B/L Authority</u>	<u>Seizing Office (Collector)</u>
Thomas Parran, Surgeon General, U. S. Public Health Service, Treasury Department.			2	4/20/39	New York
W. S. Erwin, Chief, Division Purchase and Sales, Department of Commerce.	2	small \$18 each		11/9/37	"
W. H. Wagner, Assistant, Immigration and Naturalization Ser., Labor Department.	1	small \$18.80		11/7/36	"
	1	small \$18		6/2/38	San Francisco



July 8, 1939

FOR THE SECRETARY'S FILES:

At 12:15 I called the White House and asked for Mr. Early. His office explained that he was out of town with the President. I then talked to Mr. Hassock telling him that Senator Barkley had asked the Treasury to prepare a press release which the Senator would give out explaining the Self-Liquidating Projects Act. I asked Mr. Hassock whether the White House would like to see the statement we had prepared. He replied that he would not, but would trust our discretion.

ESD

*Berkley Steagall*

The Self-Liquidating Projects Act of 1939, introduced today, would make available the following sums for the following purposes: Non-Federal public works of a character which will return to the Federal Government its investment in them, \$350,000,000; self-liquidating express post roads and highway improvements, \$750,000,000; rolling stock and shop equipment for lease to railroads, \$500,000,000; rural electrification loans, \$480,000,000, plus \$40,000,000 already appropriated; self-liquidating farm tenancy loans, \$500,000,000, plus <sup>not more than</sup> \$100,000,000 <sup>of funds</sup> already appropriated; loans through the Export-Import Bank, \$100,000,000. Of the sums made available for the first time by this Act, the President has estimated that the following amounts would be spent in the current fiscal year: Non-Federal public works, \$180,000,000; express post roads, \$150,000,000; railroad equipment, \$100,000,000; rural electrification, \$20,000,000; farm tenancy loans, \$250,000,000. Probably all of the \$100,000,000 to finance foreign trade would be obligated if not disbursed during the current fiscal year. The purposes for which the money could be spent are set forth in more detail in section 4.

The Bill would not create any new agency or disturb any existing authority. The money made

- 2 -

available for ~~non-Federal~~ public works would be handled by the <sup>Commissioner</sup> Public Works, ~~Administration~~ the money for express post roads and other highway improvements would be made available to the Commissioner of Public Roads, money for railroad equipment would be handled by the Reconstruction Finance Corporation, the Rural Electrification Administration would receive the money for enlargement of their program, the Department of Agriculture would handle funds for the farm tenancy program, and the money for loans to facilitate exports would be made available to the Export-Import Bank.

All disbursements would be for projects which are self-liquidating in character. The Bill specifically imposes upon each operating agency the duty to undertake projects and to make loans with the aim of recovering for the Federal Government the full amount invested plus interest sufficient to reimburse the Government for the cost of the borrowing. The maximum interest rate which may be charged by any operating agency on loans under this program would be limited, however, to the highest yield on the longest term direct or indirect obligation of the United States which is then outstanding. *At present this would be approximately 2.5%*  
The expectation is that all money paid out will be recouped by the Federal Government through repayment of public works, rural



electrification, farm tenancy and foreign trade loans, through toll and other highway revenues and through rental of railroad equipment.

The self-liquidating character of the program permits it to be financed through a mechanism which also is provided in the bill introduced today. Because the obligations incurred under the program will be liquidated by the income from the program itself, these obligations may properly be segregated from other public debt obligations which are in large part dependent upon the *Federal* taxing power for their ultimate repayment. This principle of segregating self-liquidating obligations of the Federal Government was established ~~first~~ in the creation of the Reconstruction Finance Corporation in 1932.

Therefore, to provide the funds for the program the amount of obligations which the Reconstruction Finance Corporation is authorized to have outstanding at any one time would be increased by \$2,700,000,000. This authorization would cover the \$2,560,000,000 made available for the first time by this Bill plus ~~the~~ *not more than* \$100,000,000 <sup>of the money</sup> already appropriated for farm tenancy loans and the \$40,000,000 already appropriated for rural <sup>operating, already made,</sup> electrification advances. These latter two ~~items~~ would be financed through the new mechanism to avoid any

- 4 -

artificial division between the sources of money available for these two programs.

The Reconstruction Finance Corporation also would be authorized to issue obligations having maturities up to 40 years so that the securities issued to finance the program may bear a proper relation to the life and amortization period of the improvements being financed. At present the Reconstruction Finance Corporation can not issue obligations having a maturity of more than five years.

All revenues and loan repayments collected under the program are required by the bill to be deposited with the Treasurer of the United States for the account of the Reconstruction Finance Corporation. The Corporation can use this money to redeem the obligations which it has issued or it can use the repayments as a revolving fund to finance additional projects.

To make doubly sure that the program will be continually solvent, the Secretary of the Treasury and the Federal Loan Administrator would be instructed by the Act to appraise annually the assets acquired by the various operating agencies. To the extent, if any, that this examination indicates that the program will not be self-liquidating, the Secretary of the Treasury must secure from Congress an appropriation for the account of the Reconstruction Finance Corporation. Thus, if any

losses accrue, they will be charged off currently, and the Corporation will at all times have cash, current revenues and prospective income sufficient to service the indebtedness incurred for the program and to retire that indebtedness as it matures. Conversely, if there is any surplus, it will be used to reimburse the Treasury for any advances the Treasury has made.



TREASURY DEPARTMENT

105

INTER OFFICE COMMUNICATION

DATE July 8, 1939

TO The Secretary

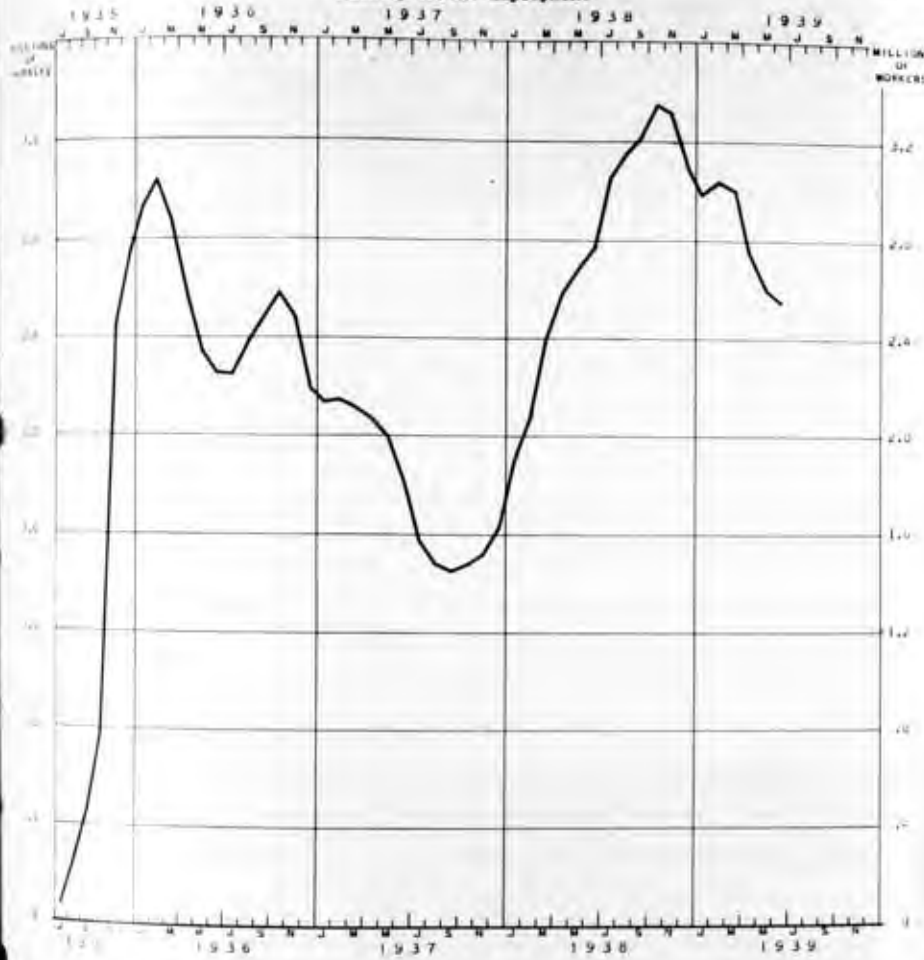
FROM Miss Lonigan *el*

The total number of WPA workers on June 28, 1939  
is 2,550,501.

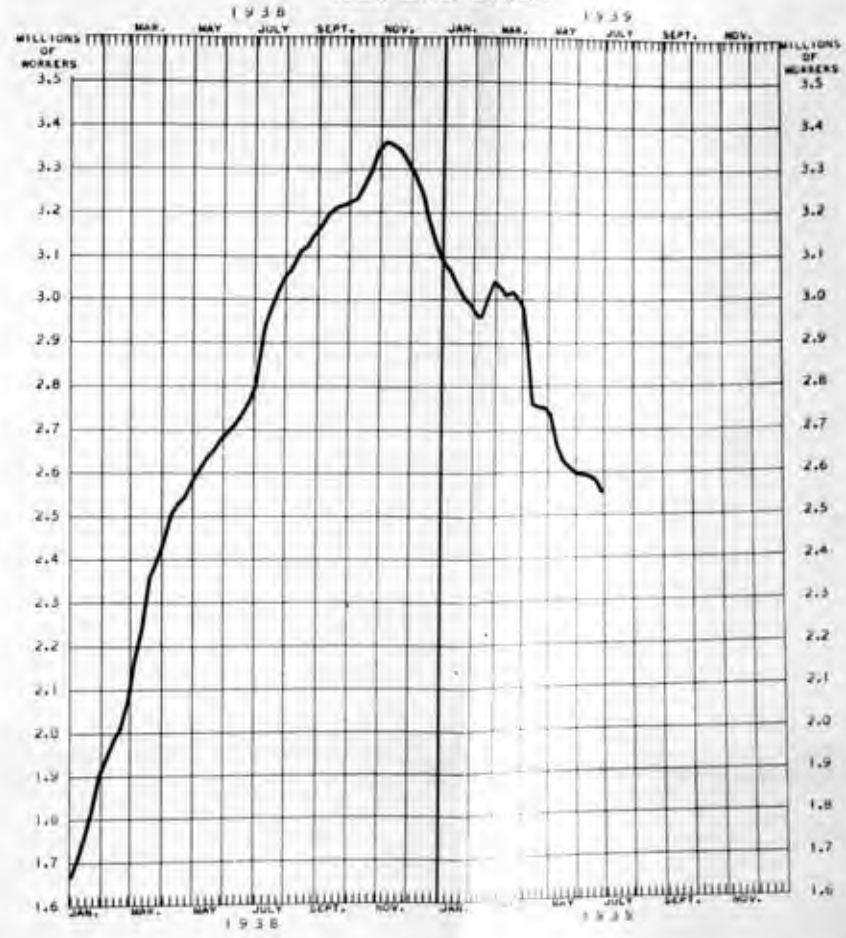
The decrease from the week ending June 21 to the  
week ending June 28 was 26,005 workers.

WORKS PROGRESS ADMINISTRATION  
Number of Workers Employed  
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORKS PROGRESS ADMINISTRATION

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

WORKS PROGRESS ADMINISTRATION  
Number of Workers Employed - Weekly  
United States

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Week ending	Number of Workers (In thousands)
1938	
October 1	3,228
October 8	3,224
October 15	3,266
October 22	3,300
October 29	3,346
November 5	3,364
November 12	3,359
November 19	3,345
November 26	3,319
December 3	3,287
December 10	3,241
December 17	3,186
December 24	3,124
December 31	3,094
1939	
January 7	3,070
January 14	3,030
January 21	3,001
January 28	2,986
February 4	2,966
February 11	2,966
February 18	3,011
February 25	3,043
March 4	3,032
March 11	3,009
March 18	3,015
March 25	3,009
April 1	2,980
April 5	2,906
April 12	2,761
April 19	2,752
April 26	2,751
May 3	2,734
May 10	2,660
May 17	2,622
May 24	2,609
May 31	2,598
June 7	2,594
June 14	2,590
June 21	2,577
June 28	2,551 <sup>a/</sup>

Source: Works Progress Administration.

<sup>a/</sup> Confidential.



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WORKS PROGRESS ADMINISTRATION  
Number of Workers Employed - Monthly  
United States

	Number of Workers (In thousands)
1936	
June	2,256
July	2,249
August	2,377
September	2,482
October	2,581
November	2,483
December	2,192
1937	
January	2,138
February	2,146
March	2,115
April	2,070
May	1,999
June	1,821
July	1,569
August	1,480
September	1,451
October	1,476
November	1,520
December	1,629
1938	
January	1,901
February	2,075
March	2,395
April	2,582
May	2,678
June	2,767
July	3,053
August	3,153
September	3,219
October	3,346
November	3,319
December	3,094
1939	
January	2,986
February	3,043
March	3,009
April	2,751
May	2,598
June	2,551 <sup>a/</sup>

Source: Works Progress Administration.

<sup>a/</sup> Confidential.

Monthly figures are weekly figures for the latest week of the month.

They include certified and non-certified workers.

AC

GRAY

Habana

Dated July 9, 1939

Rec'd 1:40 p.m.

Secretary of State

Washington

74~~4~~, July 9, 1 p.m.

I saw the President Saturday afternoon and in answer to my specific inquiries he said as follows:

(One) The measure was retroactive but not as regards contracts calling for payment in dollars (he was unable to clarify this).

(Two). All banks were free to accept or decline transactions but that continued refusal to deal in exchange might lead to their being considered guilty of conspiring to depress the peso.

(Three) Every consideration had been given to the provisions of Article 11 of the reciprocal trade agreement and that they would be observed.

(Four) The provisions of Article No. 1170 of the Civil Code would also be observed

The bill was passed by the House of Representatives Saturday afternoon but he had not yet received it and would study it with his advisers Sunday and

Monday

- 2 - #741, July 9, 1 p.m., from Habana

Monday. All proper consideration would be given banks of good reputation but not to others which he considered in large part to blame for fluctuations in exchange and to have profited thereby mentioning confidentially the National City and several Cuban banks.

I asked him to give careful consideration to the points that I had brought to his attention which might have serious effect upon our pending negotiations. He said that regulations would be published with the law which would clothe the executive with the fullest discretion in its enforcement but that the measure might be amended when the emergency had passed.

WRIGHT

RR



EG

GRAY

Habana

Dated July 10, 1939

Rec'd 2 p.m.

Secretary of State,  
Washington.

75, July 10, 1 p.m.

My No. 74, July 9, 1 p.m.

Embassy is unofficially informed that the bill has been signed by the President and is being printed in the official gazette.

The President told clearing house members yesterday that in addition to exemptions provided in Article One of the bill the regulations under the law would provide that the following transactions would be exempted:

- (one) dollar drafts and dollar collections for imports
- (two) letters of credit
- (three) exchange transactions in general with the United States
- (four) dollar debts collateralated by Cuban Government obligations.

Since

-2- #75, July 10, 1 p.m. from Habana

Since such exemptions are not specifically authorized in the law bankers and their attorneys consider that they would be illegal though the Cuban Government might be in a position to enforce them.

The immediate results of the passage of the bill so constituted have been:

- (one) all dollar loans have stopped
- (two) banks are reluctant to make loans in pesos
- (three) purchases and sales of commodities have been reduced to a minimum
- (four) a complete lack of confidence regarding security of property and capital exists.
- (five) Article II of bill together with Article VII of Presidential decree of July 6 (see Commercial Attache's e and t note number 18 of July 8) has been interpreted to mean that the government intends to control the actions of bankers and businessmen through continued threat of imprisonment.
- (six) Although the dollar remains legal tender in Cuba it has in practice been eliminated as a part of Cuba's monetary system insofar as future domestic transactions are concerned and to that extent the  
elasticity

-3- #75, July 10, 1 p.m. from Habana

elasticity which has characterized the monetary system of Cuba has disappeared and the Cuban Government lacks any mechanism to restore it.

The Embassy has made no formal representations.

WRIGHT

KLP:WWC

RECEIVED  
JUL 11 1958  
U.S. DEPARTMENT OF STATE  
WASHINGTON, D.C.



HR

GRAY

Habana

Dated July 10, 1939

Rec'd 3:25 p.m.

Secretary of State

Washington

76, July 10, 3 p.m.

CONFIDENTIAL

My telegram No. 75, July 10, 1 p.m.

Law published in Official Gazette today.

I am reliably informed that President has now inquired of former Secretary of the Treasury Garcia Montes what would be the effect if all dollar bank deposits were made payable in pesos. He was told it would be disastrous.

WRIGHT

ALC:KLP

0347301

DIT

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

115  


DATE July 10, 1939

TO Secretary Morgenthau  
FROM W. H. Hadley

Review of the Government Market

Week ending July 8, 1939

The government market turned around sharply during the week just ended and showed substantial gains. Improved investor sentiment in regard to the European situation brought about buying in bonds by banks both in New York City and outside. Treasury bonds callable after ten years gained about  $3/4$  point compared with losses of about  $1\ 1/8$  points the previous week. Treasury notes were firm but the gains were not large, amounting to only  $1\ 2/32$ nds for the week. Guaranteed issues showed gains up to  $8/32$ nds, RFC and HOLC bonds showing the greatest strength.

Dealers' Portfolios

The only significant change in dealers' portfolios was a reduction of about \$17 million in bond holdings. Total portfolios were reduced about \$20 million. Dealers' holdings are now at about their lowest level since the end of March.

Dealers' Portfolios

(in millions)

	<u>Week ended</u> <u>July 1</u>	<u>Week ended</u> <u>July 8</u>	<u>Net Change</u>
Treasury bonds	31.1	14.4	- 16.7
Treasury notes (1 year)	19.7	22.6	+ 2.9
Treasury notes (1-5 yrs.)	23.0	20.4	- 2.6
Treasury bills	0.4	0.5	+ 0.1
H.O.L.C. Bonds	21.0	19.9	- 1.1
F.F.M.C. bonds	<u>4.8</u>	<u>2.4</u>	<u>- 2.4</u>
	100.0	80.2	- 19.8

After the holiday, volume increased over the previous week with total daily figures running about \$130 million, of which about \$100 million was in bonds.

New Security Issues

There were no new security issues of any consequence during the week just ended.

Corporate Bond Market

The corporate market moved higher with high grade issues reaching new record levels for a gain of more than 3 1/2 points in the last three months. Second grade bonds recovered practically all of the losses of the previous week and, as reflected by Moody's average, are now only about 1/4 point below the high reached the first part of June. However, second grade issues are lagging somewhat behind higher grade issues in attaining levels reached in March. Because of the July 4th holiday, activity in the bond market was comparatively light.



-3-

Treasury Investment Accounts

There were no purchases or sales in the New York market for Treasury investment account during the week ended July 8.

HOLC Bonds

Including sales today, (Monday, July 10), \$3,750,000 1-1/2% bonds were sold in New York, bringing the total sold to date to \$49,650,000. The balance unsold amounts to \$50,350,000.

Federal Reserve System Account

The only transaction by the Federal Reserve Bank was the replacement of \$18,913,000 maturing Treasury bills.

Memorandum of Conference in the Secretary's  
Office at 3 p.m., July 10, 1939.

Present: Secretary Morgenthau  
D. W. Bell  
Mr. Foley  
Mr. McReynolds  
Secretary Wallace  
Mr. Mastin G. White, Solicitor for Agriculture.

Secretary Wallace stated that under the President's Reorganization Plan #1, the Commodity Credit Corporation was transferred to the jurisdiction of the Department of Agriculture, and that there appears to be conflict between the purposes of that Order and the existing terms of the Certificate of Incorporation and By-Laws of the Corporation which vest in the stockholders (Secretary of the Treasury holds all of the stock), ultimate control over the Corporation. He pointed out that while the Reorganization Plan made no specific reference to the Executive Order of March 1938, placing the stock of the Corporation in the hands of the Secretary of the Treasury, he felt it was desirable to eliminate what he considers a conflict between the two orders by a supplemental order of the President. Secretary Wallace stated that he had initiated such an order, which he believed now to be in the hands of the Treasury, and he therefore inquired what action was contemplated. Mr. Bell informed him that the Order in question was not now in the hands of the Treasury but in the Budget.

After some discussion in which Secretary Wallace expressed his objection to having Jesse Jones represented on the Board of Directors of the Commodity Credit Corporation, and also to having the majority of the Board composed of individuals not under his control as Secretary of Agriculture, he was informed by Secretary Morgenthau that he (Secretary Morgenthau) would discuss the matter with the President at the first opportunity and ascertain what his wishes were with respect to the control of the capital stock of the Corporation.

Secretary Morgenthau stated that he had no desire to be represented on the Board of Directors - in fact, he declined to have such representation on the Board. Secretary Wallace stated that he would welcome Treasury representation if the Secretary was willing to permit it, but that he felt it was necessary that the majority representation should be under his control. He stated, in any

- 2 -

event he would like, as a matter of protection to himself. Secretary Morgenthau to designate someone to sit at the meetings of the Board of the Commodity Credit Corporation. Secretary Morgenthau stated that while he would not consent to formal representation on this or any other administrative board, he would be willing to designate someone to sit at the various meetings as an observer.

Secretary Morgenthau stated that he was entirely uninformed with respect to the Cotton-Rubber deal recently agreed upon and would like to know the details of that deal and the negotiations leading up to it. Secretary Wallace stated that he would be delighted to see that such information as the Secretary desired was furnished him in the necessary detail.

Secretary Wallace suggested that Dr. Haas would be a very satisfactory contact to sit at the meetings and through him the Department of Agriculture could keep Secretary Morgenthau informed on such matters as might be of interest to him. It was agreed that Dr. Haas would call on Mr. Carl Robbins, of the Department of Agriculture, for detailed information on the Cotton-Rubber deal and that he would subsequently make such contacts as seemed desirable for the purpose of keeping Treasury informed on Agriculture activities.

\* \* \*



TREASURY DEPARTMENT

320

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE July 10, 1939

TO Secretary Morgenthau  
FROM Mr. Haas *JA*  
Subject: The Business Situation,  
Week ending July 8, 1939.

Conclusions

(1) The business trend apparently continues upward, following a setback during the holiday period. Stock prices here and abroad turned somewhat stronger last week. Automobile sales and construction awards increased sharply during the final periods of June. The New York Times index of cotton mill activity has reached the highest level in nearly two years.

(2) Political uncertainties abroad continue to dampen business confidence and to hold down stock and commodity prices. While current thought centers on the possibilities of war, there remains in the background the possibility of a very favorable turn for world business, and for recovery in the United States, if the menace of war could be removed. The rapid advance in re-armament by Great Britain and her allies raises the question whether the issue between war and world business revival may not be decided within the next few months.

-----  
Current business trends

Business activity in the United States, as represented by the New York Times index, declined slightly during the week ended July 1, the combined index dropping 0.5 to 90.8. A substantial decline in automobile production featured the week, while the adjusted index of cotton mill activity rose to the highest level in nearly two years.

During the following week, which includes the 4th of July holiday, the indexes of steel production and automobile production will show substantial setbacks. Evidence that the underlying trend is improving, and that the business index is likely to continue upward, is provided by various indications. Construction awards improved sharply in the last period of June, for both total and residential data. This raises the daily average residential awards for the month as a whole to \$4,304,000, as compared with only \$3,747,000 during the first half of the month. It is still substantially below the May average of \$5,147,000.

New automobile sales during the last 10 days of June, according to the Wall Street Journal, improved so sharply that the month as a whole made the best gain over 1938 of any previous month this year. General Motors' new car sales rose to a daily average of 4,500 units in the last period of June, versus 3,900 and 4,000, respectively, in the two preceding periods.

The improvement in cotton mill activity is aided by rising cotton prices, and by an increasing amount of cotton which the price rise has released from Government loan stocks. It is reported by the Commodity Credit Corporation that 231,696 bales had been repossessed by growers through June 29, which does not include some quantity on which reports have not yet been received.

In Great Britain, the upward trend of business activity has been resumed following the Whitsuntide holidays. (See Chart 1.) The Economist monthly index for May shows a further gain of one-half point to 109½, comparing with a low of 101 in December. Iron and steel activity and foreign trade have contributed most to the improvement. It is of note that exports have increased markedly along with improvements in other indexes.

A comparison of commodity prices in Great Britain with those in the United States, using indexes of 15 comparable basic commodities published by the Bank of England, shows that British prices substantially widened their margin over prices in the United States during the last quarter of 1937 and early 1938, preceding the marked decline in sterling exchange. (See Chart 2.) Since that time the margin has remained about steady. British prices last week declined somewhat more than prices in this country.



Our new orders index (shown in Chart 3, in comparison with the New York Times business index) has sagged slightly during June, while holding within the range of the previous month. During the past week the index has improved with upturns in steel and textile orders. New orders reported by the U. S. Steel Corporation has risen to the equivalent of 49 per cent of capacity, continuing a gradual rise for the third successive week. This seems to indicate that specifications for delivery on automobile steel, which are expected to raise the level of steel activity during July, are being received in increasing volume.

Stock market situation

A firm undertone in the stock markets here and abroad was revealed in the failure of selling to develop in any volume on the recent Danzig incidents, which suggests the possibility of a strong recovery in the markets if war is avoided. Stock prices in New York, London, and Paris have improved during the past week.

The extent to which stock prices may already have discounted war possibilities is reflected in a comparison of yields on high grade common stocks with those on high grade bonds, to which attention has been called by Moody's Investors Service. The present yield ratio shows stock prices to be approximately as low, relative to bonds, as in June 1932, when prices were about at their depression lows.

A comparison of industrial stock prices with industrial production, and with earnings of industrial corporations, is shown in Chart 4. It will be noted, in the upper section of the chart, that stock prices during the past several months have declined more than would normally be expected in view of the moderate setback in industrial production, and have scarcely reflected the vigorous business upturn in June.

While the present low interest rates would tend to raise stock prices as compared with earlier years, this factor has apparently been offset in part by a lower current level of corporation earnings in relation to industrial production. (Indicated in lower section of chart.)



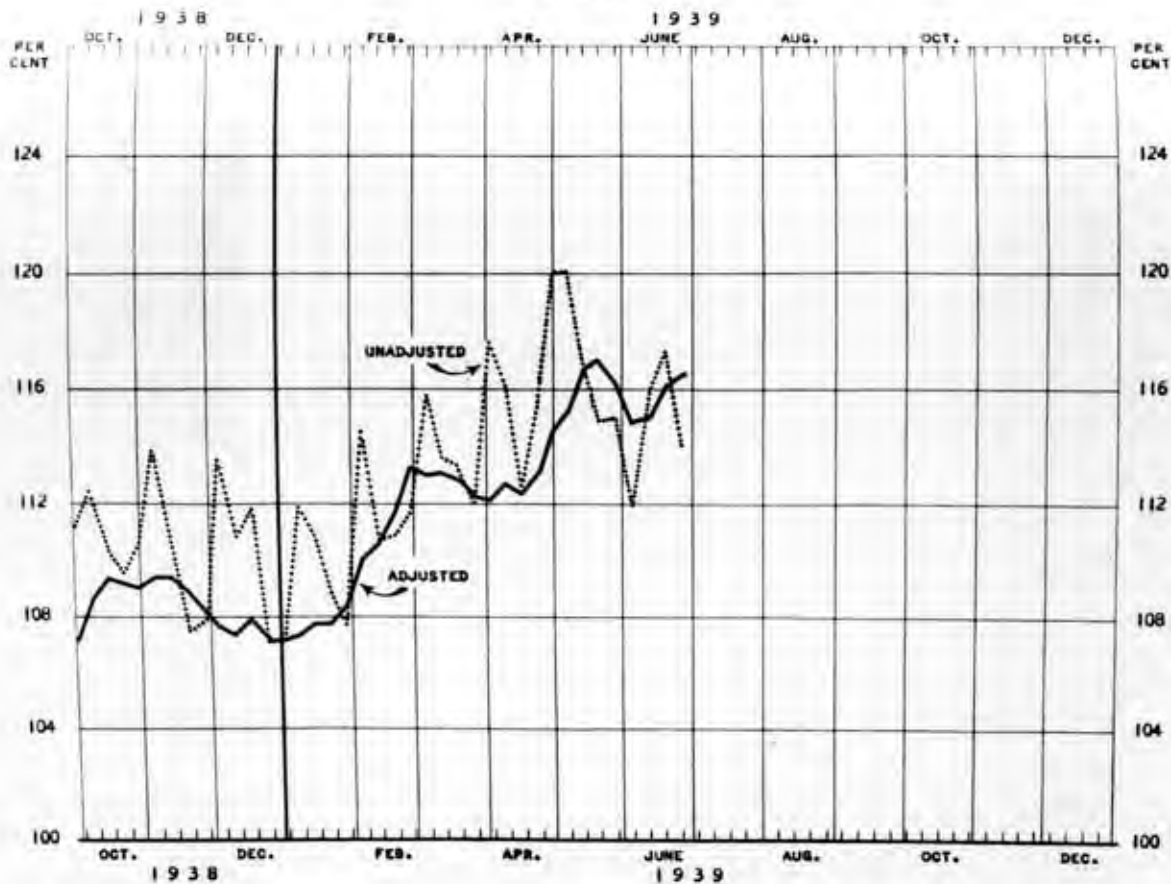
The foreign handicap

While attention continues to be centered on foreign uncertainties and the possibility of war as the most important handicaps to business recovery, there remains in the background the possibility that developments in Europe may turn in a direction strongly favorable to business revival throughout the world, if the menace of war can be removed. The United States would be favorably situated to share in such a revival, in view of the present low inventory levels, well-deflated speculative positions, high excess reserves, and a business trend that is beginning to improve in spite of foreign handicaps.

In such an event, the industrial activity generated by renewed world confidence would compete with armament activity -- which would doubtless be continued by the democracies until the menace of war was completely eliminated -- creating a heavy demand for raw materials, labor, and factory capacity. The present pitch of armament activity is indicated by the fact that steel production during May established a new high record in England, and rose to the highest level in more than eight years in France.

Considering the rapid advance being made by Great Britain and her allies in war preparation, which month by month increases the odds against Germany in a European war, the question may be raised whether the issue between war and a world business revival may not be decided in the next few months.

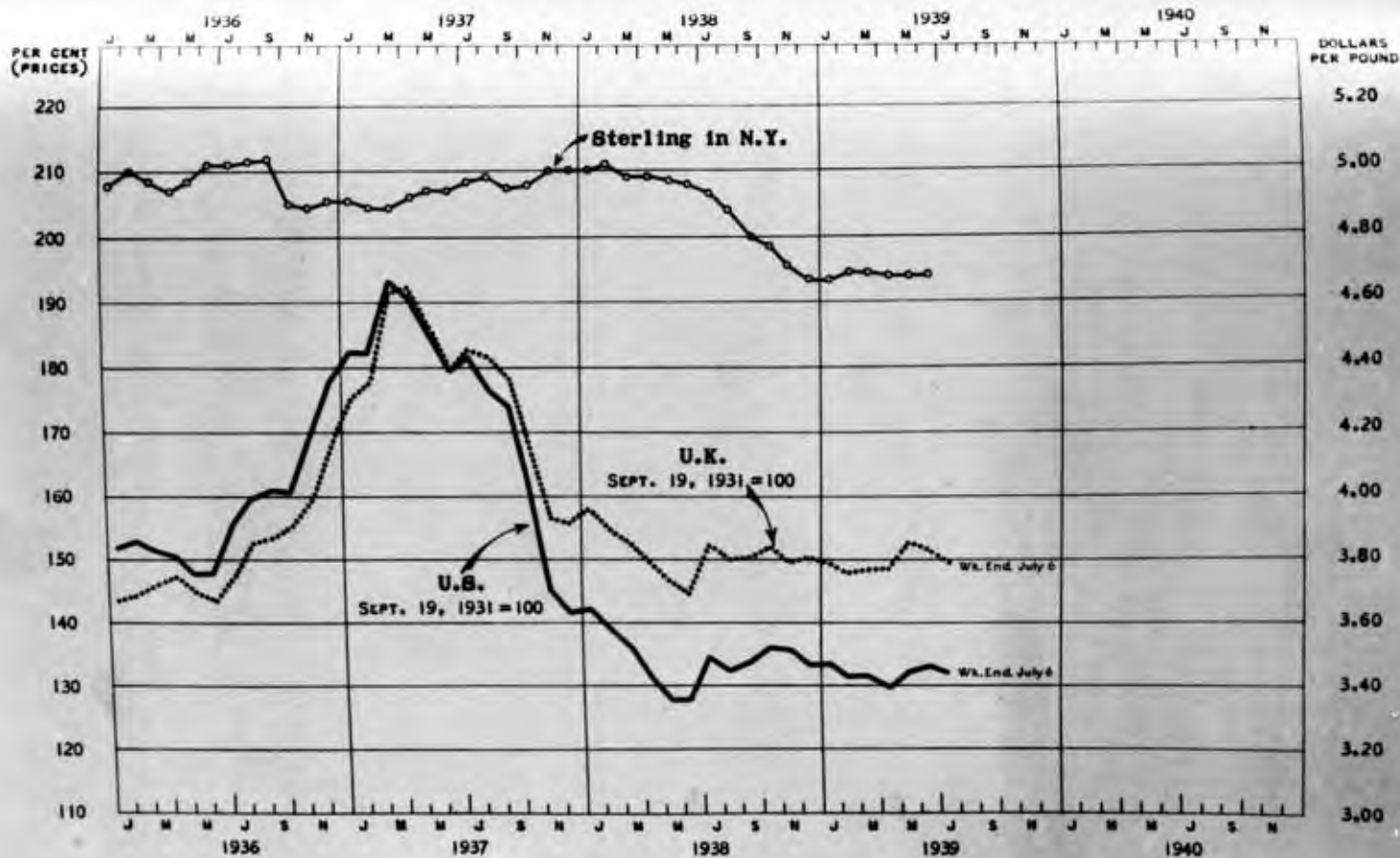
INDICES OF UNITED KINGDOM BUSINESS ACTIVITY,  
LONDON FINANCIAL TIMES  
Weekly



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COMMODITY PRICES IN U.S. AND U.K. AND STERLING EXCHANGE

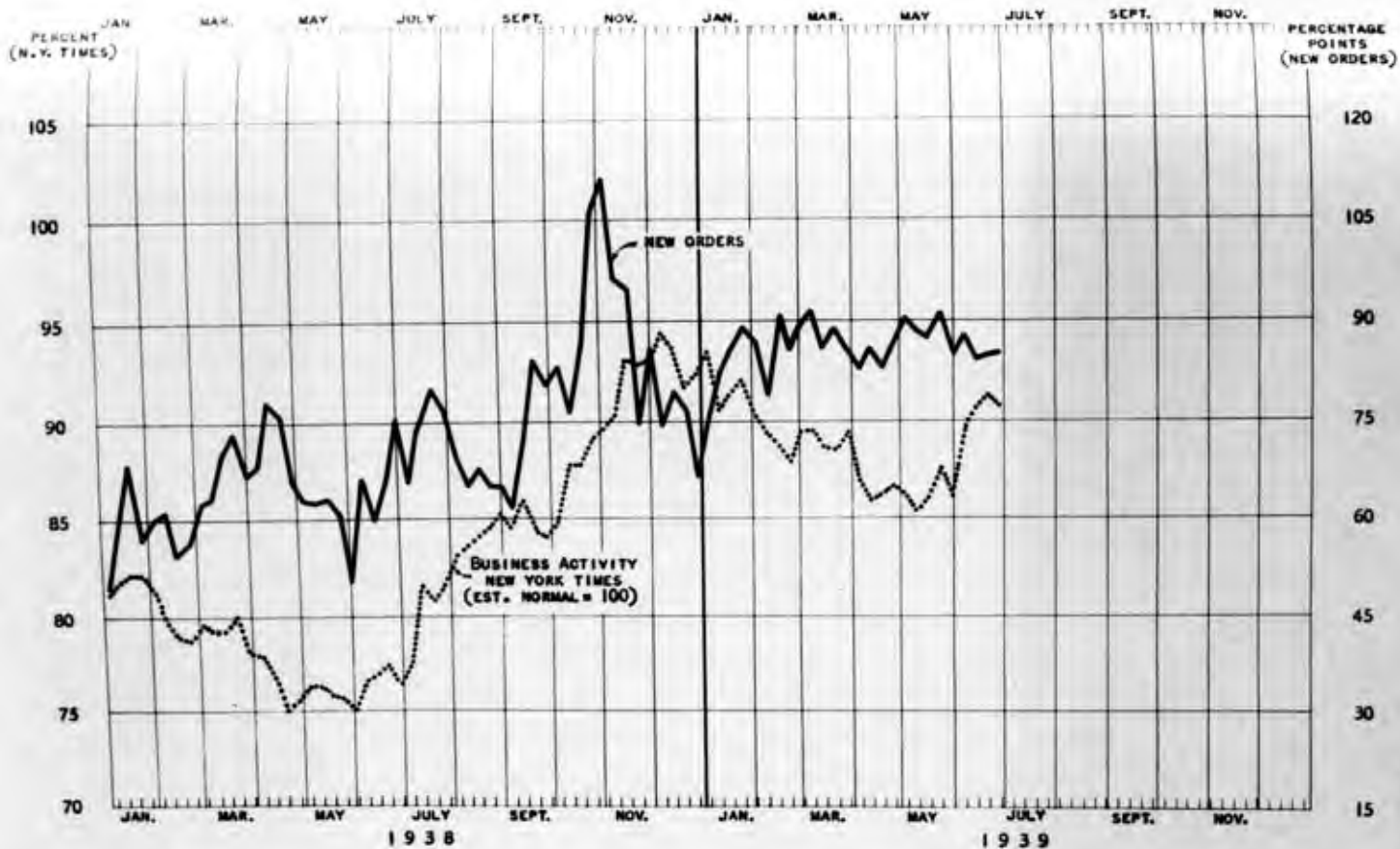
Prices of 15 Comparable Basic Commodities



\* MAY AND JUNE 1939, PRELIMINARY



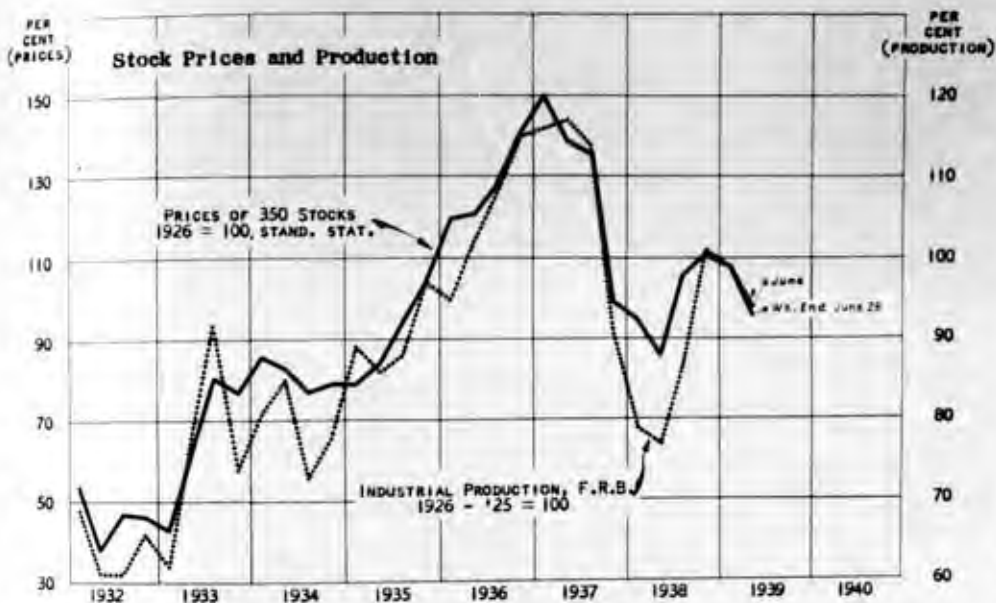
WEEKLY NEW ORDERS AND BUSINESS ACTIVITY



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

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Chart 3  
CONFIDENTIAL

**INDUSTRIAL STOCK PRICES AND CORPORATE EARNINGS  
 COMPARED WITH INDUSTRIAL PRODUCTION**  
 Quarterly, 1932 to Date



## GROUP MEETING

July 10, 1939.  
11:30 a.m.

Present: Mr. Gaston  
Mr. McNeynolds  
Mrs Klotz  
Mr. Duffield  
Mr. Haas  
Mr. White  
Mr. Gibbons  
Mr. Bell  
Mr. Lochhead  
Mr. Graves  
Mr. Hanes

H.M.Jr: How's everybody?

Gaston: They all look well.

White: Present and accounted for.

H.M.Jr: Isn't Foley here?

Duffield: He may be on the Hill, Mr. Secretary, because Mr. Barkley wanted to see him this morning.

H.M.Jr: Mac, between you and Foley, I was to let the Attorney General know about Sam Clark - somebody ....

McA: Nobody said anything to me about Sam.

H.M.Jr: (On phone) Mr. Foley or Miss McGuire.

Didn't you (Graves) make an investigation?

Graves: No one spoke to me about it.

H.M.Jr: (On phone) Hello. - Hello. - Hello. - Miss McGuire, I think ten days ago I asked - at least ten days ago, I asked Mr. Foley to have an investigation made of Sam Clark for head of the Tax Bureau over at the Attorney General's office. The Attorney General just called up and said why don't I let him know. I want to ask the same question of Mr. Foley. - - I want an answer this afternoon, without fail. - - Thank you.

Graves: Mr. Morgenthau, I didn't understand your question. We are - Mr. Irey is making an investigation, I mean.



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H.A.Jr: On my God - I don't like to have the Attorney General calling up, saying, "Why don't you come through?" It's at least ten days. I sent him a special thing.

Graves: Mr. Foley called me right after you called him.

H.E.Jr: Isn't it ten days? Well, come through this afternoon, will you please?

Graves: All right.

H.E.Jr: Mac, will you see that I get a report this afternoon on Sam Clark?

Mac: Yes, sir.

H.A.Jr: For the - he's over in S.E.C. now - for head of the Tax Division.

Graves: Mr. Irey called a man down, put him right on that.

H.A.Jr: I like to think you're efficient.

(Bell comes in)

Hello, Dan.

Bell: Good morning.

H.A.Jr: George.

Mac: Yes, sir.

H.E.Jr: Take a pencil and paper. I'd like to go back, if you can, oh, say maybe three or four years, if you can, and: what proportion of the steel sold by the steel industry goes to private industry and what proportion goes to governmental units; and if you could get it for me up to the first six months of this calendar year, I'd like to have it. And I'd like to have it damn quick, too, if it's going to do any good. I read in the New York Times a report - there's a Steel Institute of Pittsburgh, isn't there?

Mac: Steel Institute.

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- H.M.Jr: Every order they received last week went to a publicly financed outfit - I mean to some unit of government. Every single order. They didn't have an order except .... I want the same thing for cement. See? And when you get it on the government thing, if you could break it down a little bit - the Federal, state and county, if they have it.
- Haas: Uh-huh.
- H.M.Jr: See? Also on the private side. Huh?
- Haas: Yes. If we - shall we work first - we'll work on both of them simultaneously, but get the steel - the cement thing is more difficult than the steel.
- H.M.Jr: Well, you can have the cement figure - now, Procurement ought to help you. Procurement once gave me a cement figure for one year when the Government bought 75 percent of all cement manufactured.
- Haas: That's right, yes.
- H.M.Jr: What I have in mind is for this legislation, see? If the Government wasn't doing so and so, where would your cement industry be, where would your steel industry be? You know where your railroad industry ....
- White: Does the Procurement buy for the U.S.H.A. program?
- McR: No.
- H.M.Jr: Excuse me, Mr. McReynolds, they buy, I know, the coal after the things are finished, because I had a complaint it was lousy coal.
- McR: Well, that's when they're operating; but they're done on private contracts.
- H.M.Jr: What?
- McR: The U.S.H.A. ...
- H.M.Jr: But they do buy their coal when the thing is finished.

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Bell: I think that must have been the old Public Works Housing outfit, because they're operating those units.

H.M.Jr: Well, the one I have in mind is the one completed in Chicago.

Bell: That was a Public Works. I don't believe any have been completed under the United States Housing program, the 800 million.

H.M.Jr: What? Anyway, George, if you'll go to town on this - and I want something in a day or two.

Haas: Fine.

H.M.Jr: Huh?

Haas: I'll have something.

Bell: Had some of this when you made up those charts a year ago.

Haas: Yes, we had a figure on steel and we had a figure on ....

White: Supposing the Government buys battleships that are made from steel which private companies produce.

H.M.Jr: Well, that's included.

Haas: That should be in it.

H.M.Jr: Sure, sure. Definitely. Or the Shipping Board - Maritime Commission now. Huh?

McR: Sure, those are Government-owned.

H.M.Jr: It would be a very interesting figure.

Mr. Gaston?

Gaston: Mr. Delano wanted me to let you know that he's communicated with the three bankers. Mr. Spencer will be able to be here on Thursday. Mr. Ottley and Mr. Smith are both uncertain. Mr. Smith has to



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cancel some engagements that he has. But they - all of them expect to be here by Thursday or Friday.

H.M.Jr: Good.

Gaston: And it depends on Tom's plans.

H.M.Jr: O.K.

Gaston: The boys have gotten up a draft on tax-exempts for Mr. Hanes, and we're working on it this morning, will work with Mr. Hanes during the day.

H.M.Jr: Good.

Gaston: The New York Herald-Tribune continues to print in its Sunday papers attacks on Customs apparently inspired by this broker, Ben Leavett. They had another one yesterday which is rather mild.

H.M.Jr: Well, the worst thing about yesterday's was the headlines.

Gaston: Yes, yes.

H.M.Jr: When you read the article, there was nothing to it.

Gaston: There's not much in the article to substantiate the head.

(Hanes comes in)

H.M.Jr: Hello.

Hanes: Hello. Too late to get in?

H.M.Jr: I made it late thinking you would get in about this time. Heard you missed your plane.

Hanes: Missed it by about five minutes. (Et cetera....)

Gibbons: Is the Coast Guard taking good care of you?

Hanes: Yes, fine, couldn't be better.

H.M.Jr: Is that all, Herbert?

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Gaston: That's all.

Duffield: Nothing.

Haas: Here's the letter on the "Time" article.

H.M.Jr: What's that?

Haas: The reply.

H.M.Jr: Yes.

Haas: You've got good material to reply on, it seems to me. I put it in there. It's just a draft.

H.M.Jr: Well, if I have time I'll read it after I've gone around. I'd like to read it aloud.

Anything else?

Haas: That's all.

H.M.Jr: Harry, here are two things I cut out of this morning's paper that I'd like you to look at.

Anything else?

White: The inflow of capital has been resumed. This is the second week running.

H.M.Jr: Inflow.

White: Inflow, yes. It's running about 15 million - last reported week.

We have here a memorandum on the Japanese currency war in China, which, if you want to review it and see what its significance is ....

H.M.Jr: How long is it?

White: Oh, just three pages. There's nothing you can do about it.

H.M.Jr: Thanks. Anything else?

White: No. We have that silver stuff ready for tonight in

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case anything does happen that you might ...

- H.M.Jr: Well, I see the papers insist that Mr. Hull is going to go up and testify to defend the purchase of foreign silver. By some rare accident they got the idea that it's a State Department matter and the Treasury wasn't interested.
- Hanes: You sorry?
- H.M.Jr: Well, I'm still laughing, and I told Barkley - just now long I can keep on laughing I don't know, but I told Barkley when he asked me to go up and testify - I said, "On what basis?" He said, "Well, they want it for Mexico and Canada."
- "On," I said, "it's a matter of foreign affairs; you better call up the State Department." Which he proceeded to do.
- White: Is there going to be any attempt here to prepare any material for defending the recovery bill, the new lending bill?
- H.M.Jr: No, but there should be.
- White: I'm wondering whether we couldn't prepare a couple speeches for the House and the Senate.
- H.M.Jr: Fine. Swell. Get your friend Lauch to collaborate with you.
- White: All right. Or they can prepare several. There can be - more than one Senator can give a speech in favor of it.
- H.M.Jr: Fine. Anything else?
- White: No, that's all.
- H.M.Jr: I think that would be appreciated.
- White: Danny?
- Hell: Nothing.
- H.M.Jr: Wonderful.



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- Lochhead: You notice the rates are holding very quiet; and England said they didn't have to do anything this morning.
- H.M.Jr: George, on that thought - I gave you steel and cement; you might have some other ideas and expand it, see? Will you?
- Haas: Uh-huh.
- H.M.Jr: If there's anything else. I can't think of anything else. There might be something else.
- White: There's something else that I had forgotten. On this silver, I think that we ought to consider sending one or possibly two men around to some of the important leading silver mines in the country; we ought to be prepared next time with a more intimate acquaintance. This problem will crop up again. It takes a long time to get it and prepare it - as to the exact situation in the mines. We have to depend upon the Bureau of Mines, which is rather distorted. And after this thing dies down, I think we ought to send somebody around.
- H.M.Jr: I'm sure my successor will appreciate it. The bill runs for two years, doesn't it?
- White: Well, if you'll assure me that you won't be the successor, we can stop working on it.
- Lochhead: Go sit in the corner, Harry.  
(Hearty laughter)
- White: Very good idea.
- H.M.Jr: O.K. These week-ends are good.
- Gibbons: On this Leavett stuff, we're sending two agents from outside New York in to see what we can find out about it. And Leavett at my request two years ago wrote one of the - promised to give me specifications, you know. He wrote a letter of generalities; I replied and asked him to give me some specific cases, and he's never replied to that letter. More or less of a racketeer.

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H.M.Jr: Well, I hope he gets something.

Gibbons: That memorandum I spoke to you about on "ait....

H.M.Jr: Yes, I'm taking care of that.

Gibbons: You're taking care of that.

H.M.Jr: Yes, I'm taking care of that. I'm O.K. on that.

Gibbons: Will you let me know if it's ....

H.M.Jr: Yes, I'm going to....

Gibbons: You know, Offie told me he was a very sick man.

H.M.Jr: O.K.

Graves: Last Wednesday you phoned me to have for you today a report on Section 102 of the Revenue Code.

H.M.Jr: Yes. Will you give a copy to Mr. Hanes?

Graves: Yes, indeed.

H.M.Jr: The President asked for a report on 102. I won't read it now.

Graves: That's entirely prospective, stating what we purpose doing from now on in the application of that section.

H.M.Jr: I'll read it. Anything else?

Graves: That's all.

H.M.Jr: Mac?

McR: No. My daughter beat me playing golf yesterday, so I'm kind of low.

H.M.Jr: Your daughter what?

McR: Beat me playing golf yesterday.

H.M.Jr: I'd like to meet her. Well, that's very good. Did she really?

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McR: Yes, she ...

H.M.Jr: She must be good.

McR: Well, she started at - the pro started her out when she was seven years old. I know I didn't teach her, or she wouldn't be any good.

There is one little piece of gossip. Corry Gill called me this morning and after some conversation ....

H.M.Jr: I can't hear very well.

McR: Corry Gill called me this morning and after some conversation told me he was giving us another \$750,000 to take care of the statistical project, the white collar project.

H.M.Jr: Is that Alcohol?

McR: No, that's this statistical project on the income tax returns.

H.M.Jr: Oh.

McR: What he called up for was to get the consent to withdraw the Alcohol Tax and Miscellaneous Tax projects and give the money to this statistical ....

Gaston: Senator Guffey, in other words.

McR: Said we wouldn't do it; sorry, we wouldn't ....

H.M.Jr: Why Guffey?

Gaston: It's in Philadelphia.

McR: Couldn't get the Revenue projects away, so he gave us the additional money.

H.M.Jr: Now, which has got it?

Gaston: Both.

McR: Well, he originally gave us ....

H.M.Jr: I mean from now on how will it be, Mac?



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- McR: Both. He originally gave us \$750,000, with discretion definitely in the Treasury to decide which one of the projects we'd apply it to, but advising us very definitely to abandon the Revenue projects and take the statistical projects.
- H.M.Jr: I see.
- McR: Well, we told him "No" and we went ahead with the discretion they gave us and allotted it definitely to the Revenue projects and turned it over and then went ahead and told him we wouldn't use any of it for the statistical projects. This morning he called and wanted us to change our mind. I told him we wouldn't change our mind.
- H.M.Jr: Where is it now, after you've had your conversation?
- McR: We've still got the 750 in Revenue, refused to take it away from them; and they gave us another 750 to go ahead with the statistical.
- H.M.Jr: That's what I was trying to get. In other words, congratulations are in order.
- McR: Another \$750,000 we've got.
- H.M.Jr: That's swell.
- Anything else, Mac?
- McR: That's all.
- H.M.Jr: Let me read this letter. They had what I thought was an unnecessarily mean article in Time about my forecasting revenue, and I thought it was inaccurate, because if my memory served me right, the Department of Commerce shifted their base this year, didn't they?
- Haas: This didn't involve that. This was just a dirty crack.
- H.M.Jr: Let me read this thing. Did you write this, George?
- Haas: Yes.

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H.M.Jr: "Dear Mr. Luce:

"I have read with a natural, if somewhat surprised, interest the article on page 51 of the issue of 'Time' for July 10, 1939, referring to my opinion last December as to 1939 business prospects. After stating it as my opinion that prosperity would be back in 1939, the article continued 'By prosperity he meant something much closer to 1937's \$69 billion national income than to 1938's recession income of less than \$65 billions. Last week, while H.M. was waving out the old fiscal year, the Commerce Department issued its figures on national income for the first five months of calendar 1939: it showed national income running at the rate of \$65.4 billions, only 3 percent above the rate of 1938.'

"Here is no statement in which I recall forecasting a figure of national income, but I should like to call to your attention certain statements around the beginning of the year which reflect any forecast of mine at that time regarding 1939 business.

"In hearings on the Treasury Department..." - and so forth - "In reply to a question by Representative Ludlow, I said, 'Ever since last Decoration Day, business has had a remarkable recovery, and has gone forward at a very rapid rate; but right now, I would say, we seem to be in a sort of resting period. The recovery has been so rapid that it is not surprising that it seems to have reached what I would call a temporary halt. Conditions right now are very much better than they were twelve months ago. I think that the country as a whole is in very much better shape. While I never like to make predictions, I think we can expect during this calendar year a slow but steady continuance of improved conditions.'"

Haas: That's a perfect ....

H.M.Jr: Perfect.

"A statement referring specifically to taxable incomes was contained in my Annual Report for the fiscal year 1938, prepared in December and transmitted to Congress on January 5, 1939. I stated 'Receipts from income taxes in the fiscal year 1940 are estimated at

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\$1,903 millions as compared with an estimate of \$2,086 millions for the fiscal year 1939. The fiscal year 1940 ...!" - and so forth.

"Neither of these statements ...."

Haas: "here is one important sentence in that, Mr. Secretary.

H.M.Jr: "The fiscal year 1940 income tax receipts represent a portion of the tax liabilities of each of the two relatively low income years, calendar years 1938 and 1939. Although higher incomes are expected in the calendar year 1939 than in the calendar year 1938, it is anticipated that they will not reach the calendar year 1937 level."

Haas: That's right.

H.M.Jr: Again we're right.

Quastant: You say just definitely the opposite of what he points to.

H.M.Jr: "Neither of these statements seems to indicate an expectation on my part that business activity in 1939 would approximate the 1937 level. Experience so far during the year bears out the opinion contained in my statements referred to above rather than the opinion imputed to me by the article published in your magazine. Just what measure of 'prosperity' you may have had in mind is not clear, but I should like to point out that the Federal Reserve Board index of industrial production for June of this year has been estimated on a preliminary basis at 97-98. This compares with 102, 99, and 98 in the first three months of the year, 92 in April and May, and annual averages of 86 in 1938 and 110 in 1937."

Now, why do you throw that in?

Haas: That's thrown in to show that this statement - both those statements which you made correlate exactly with the course which business has taken, if you assume that's your course of business, as represented by the Federal Reserve Board index of industrial production.

H.M.Jr: You don't mind if I add on the bottom - make it not



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so official - say, "With all due modesty, I think I'm a pretty good forecaster." "What? Huh?"

Haas: Yes, I think you're entitled to that, but I don't think it's ...

H.M.Jr: I don't want to make it so terribly formal.

Hanes: You know him quite well; I'd put something like that in.

H.M.Jr: "With my usual modesty, may I be permitted to say..." - something like that.

Duffield: If this is a personal letter to Mr. Luce, I think that it ought to be a little bit more clear right in the first paragraph, because my fear about this is that it will show up in the letter column of Time. I don't have any fear about the letter, I think it's a good letter, but the crack they may put underneath it is what I was worried about.

H.M.Jr: What's the crack?

Duffield: They always put some editor's note under a letter criticizing them, and it would ....

H.M.Jr: How - do you want to take a look at it?

Duffield: I think this is a good letter, but I just think that before you send the letter you ought to make it very clearly a personal letter to Luce and not a ...

H.M.Jr: Well, just as long as it can go air mail this afternoon, I'm satisfied.

Duffield: Yes.

H.M.Jr: I want it to be on a personal basis, see?

Duffield: On a personal basis.

H.M.Jr: Yes, I think if you could make it strictly personal - yes, I'd like to make it personal. I don't want to make it - I'd like to make it personal.

O.K., gents.

July 10, 1939  
10:50 a.m.

Geo. C. Marshall: Good morning, Mr. Secretary. General Marshall.

HMJr: How are you? General, I wondered whether you could do this for me. I'm very much interested in this fight that's going on in outer Mongolia.

M: Outer Mongolia?

HMJr: Yes, between the Russians and the Japanese.

M: Yes.

HMJr: And I wondered if you could send some officer over to my office at three-thirty.....

M: Yes.

HMJr: .....with a little map.....

M: Yes.

HMJr: .....of that area.

M: All right, sir.

HMJr: And what are the objectives and just what -- what is going on.

M: Yes, sir. Three-thirty this afternoon at your office on the outer Mongolia situation.

HMJr: Please.

M: Just one minute, Mr. Secretary.

HMJr: What's that?

M: (Talks aside.) I'll have that done.

HMJr: Thank you.

M: All right, sir.

July 10, 1939  
2:40 p.m.

Lowell Mellett: Hello.

HMJr: Hello, Lowell.

M: I see, Henry, the bills have been sent up.

HMJr: Yeah.

M: Now, that's going to obviate the press conference we talked about?

HMJr: Well, I don't know, Lowell. Ah -- we were acting under orders here and I tell you what we were told. I sent the stuff over Friday night. See?

M: Yeah.

HMJr: And then McReynolds and Ed Foley took it over, and they saw the President; I had left. And he asked them to prepare a press release to give to Barkley, which they did.

M: Yeah.

HMJr: And then they went up and explained it.

M: Uh-huh.

HMJr: Now, whether he wants to do it or not, I don't know, but this was what I was thinking. When is his next press conference?

M: Wednesday, isn't it?

HMJr: What's that?

M: His next press conference is Wednesday, I think.

HMJr: Hello?

M: Wednesday -- Wednesday, I think.

HMJr: Well, this is what I was thinking of doing. I -- I was thinking of writing him a note now and suggesting that he call on Tuesday, the way he used to, this Cabinet plus the heads of the agencies, for tomorrow afternoon and have this thing explained. And then on Wednesday have a press conference and do it there. See?



- 2 -

M: I tell you, I didn't know -- maybe I didn't quite understand you.

HMJr: You remember on Tuesdays he used to have the heads of all the independent agencies together -- every Tuesday?

M: Yes.

HMJr: Well, I'm suggesting -- going to write him a note, if you think well of it, suggesting that tomorrow afternoon he have the 35 heads of the independent agencies together, plus the Cabinet.

M: Yeah.

HMJr: And sell this program to them then.

M: Yeah.

HMJr: And then follow that on Wednesday and at his press conference have it repeated again.

M: Uh-huh.

HMJr: See?

M: And in that case, you go through <sup>with</sup> the idea of having McDonald and the others tell their stories?

HMJr: Yeah, tell it twice. Once to the Cabinet and the independent agencies, and once to the press.

M: Yeah. Well, that might be pretty good. <sup>It</sup> would -- it would put the heads of the agencies and the Cabinet members in a -- in a position, if they wanted to, to sell the story.....

HMJr: Well, if the...

M: .....on their own.

HMJr: Right! Well, if the President will talk to them the way he talked to Jesse Jones he'll get results.

M: Yeah.

HMJr: And he's just got to do it if he wants to be successful.

M: Yeah.

- 3 -

- HMJr: And everybody now is saying there are just two things that he has to get through - one is this self-liquidating program and the other is neutrality.
- M: Yeah.
- HMJr: And he certainly went to town last week with Jesse, now he ought to do the whole thing with the rest of them at one time.
- M: Yeah.
- HMJr: Then -- whether it's Wallace, or Hull, or anybody, they ought to all get -- or Farley -- they ought to all get behind the program.
- M: Or McNutt.
- HMJr: What.
- M: Or McNutt.
- HMJr: I don't hear you.
- M: Or McNutt, I say.
- HMJr: Yeah, I hear that's your appointment.
- M: Oh, yes. Those Indiana boys look out for one another.
- HMJr: Well, how in the hell do you explain McNutt?
- M: Oh, I never have been able to. (Laughs)
- HMJr: Well, is the Indiana delegation worth that?
- M: I wouldn't think so.
- HMJr: What?
- M: I wouldn't think so.
- HMJr: Well, I was riding with Harry, he says he can't understand that.
- M: I haven't seen -- I haven't heard anybody that does understand it. (Laughs)
- HMJr: Well, Harold Ickes, he says he can't understand it.

M: No. Well, maybe he's smarter than any of us.

HMJr: Well, he usually is.

M: Yeah.

HMJr: Well, I'm going to write this note and get it over to him and this will be in the form of a memorandum, and then I -- it's up to him to make the next move. See?

M: Yeah. Righto!

HMJr: But I -- I'm just -- I'm glad you called and if I know anything I'll let you know and vice versa.

M: Righto! You bet.

HMJr: Thank you.



July 10, 1939 147  
3:57 p.m.

Otto  
Wadsted: Yes, but in order to definitely reserve places he would like to -- that I sent them a little cable about the number of rooms that you desire and if possible the time you desire coming home. Do you want me to write a little.....

HMJr: Well.....

W: ..... -- a little letter for you so that you will have it easier for you and not have to be bothered with remembering these things here, I'll be very glad to do so.

HMJr: Well, I'd like to first.....

W: .....have a talk with your.....

HMJr: .....wife.

W: .....general staff about it, Mrs. Morgenthau.

HMJr: That's right.

W: (Laughs)

HMJr: Could -- could you tell me the name of the hotel?

W: Marienlyst, M-A-R-I-E-N -- Marien.....

HMJr: Yeah.

W: L-Y-S-T.

HMJr: I see, and that has.....

W: You can see that easily if -- the idea -- I'm sure in any of those pamphlets there. It's something like five minutes outside of Elsinore.

HMJr: Is it on the water?

W: Oh, yes. Very much. Rather.

HMJr: Is it?

W: It's on the water where you have a -- a lovely view. I think it's one of the prettiest -- the waves, one of the prettiest typical spots of Denmark. You have -- you -- you remember the configuration of the water,

don't you, where the two coasts go together there into this very narrow entrance of the sound.

HMJr: Yeah.

W: The one going down to Copenhagen.

HMJr: Yeah.

W: It's very near there and you have the Kronborg on the one side and you have the Swedish fortress on the other side and then they have some falls.

HMJr: Well now, I'll -- I'll talk to Mrs. Morgenthau.....

W: Yes.

HMJr: .....and as soon as I get an answer, I would love to take advantage of your offer. You'll be -- you'll be.....

W: When do you think you can get away?

HMJr: I don't know.

W: You don't.

HMJr: But you'll be here all week, won't you?

W: Well, I'm not sure, but Mr. Eickhoff will be here anyway and he knows all about it.

HMJr: Well.....

W: Our Counselor. Because I may go Wednesday with my wife out to -- I promised her to see the west of this beautiful country, and I may go to Yellowstone Park and to San Francisco and Grand Canyon. Just a -- sort of a flying round trip, don't you know.

HMJr: I -- well, I'm ever so much obliged and I -- as soon as we know, I'll get in touch with your Counselor.

W: All right. Righto. And then -- simply to tell how many rooms you would want to have and then make your reservations from about the -- something like what would be the 9th of August, or something like that.

HMJr: Thank you so much.

W: You already have your reservations on the Normandy,  
as I understand?

HMJr: That's right.

W: All right.

HMJr: Thank you so much.

W: Very good, and thank you. Good bye.

HMJr: Good bye.



July 10, 1939  
5:03 p.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Robert  
Wagner: Henry?

HMJr: Hello, Bob.

W: Yeah.

HMJr: How's the world?

W: Oh, I don't know. How -- what do you think of the world?

HMJr: Well, I'm going on a strike because I -- I'll be damned if I've got to work 130 hours.

W: No, damnit I.....

HMJr: It's too little; it's too little!

W: That's it. It isn't enough, is it?

HMJr: No, you and I work 260 hours.

W: Yeah, I know, but we shouldn't.

HMJr: No.

W: But our work is a little more interesting than that poor guy that's just digging a ditch.

HMJr: You're right.

W: Ah -- Henry, I wanted to ask you. Do you want to be the first witness on this lending program?

HMJr: What a pal! What a pal!

W: Huh?

HMJr: I don't know.

W: Well, I mean, you're the spearhead, and I should think you ought to be the first witness, but I'm going to make you decide that.

HMJr: When do your witnesses start?

W: Well, I'm going to start on Wednesday because I don't -- you know -- you know, people -- they're beginning to get stale up here a little bit, Henry. Really, I mean, men are tired; I'm tired. You know, you get a -- you get of things.

HMJr: Yes, well now.....

W: And then.....

HMJr: .....let me -- let me -- I wouldn't have done it that -- I mean, I wouldn't -- I appreciate the compliment and I -- I am ready to testify, but I just wondered whether I should lead off. That's a new thought.

W: Well, who -- who would you say?

HMJr: Ah -- well.....

W: But think it over over night.

HMJr: Well, if you push me, I'd say right now, Jesse Jones.

W: Yeah.

HMJr: And then, the fellows that are going to handle the money, you see. That's what I was thinking about.

W: I see.

HMJr: But let -- let me sleep on it, see?

W: Sleep on it and I'll call you in the morning, because I must arrange the program tomorrow, because it's for Wednesday, you see?

HMJr: Yeah.

W: And you decide that first.

HMJr: Well, I - I'm going to decide it by asking the President.

W: Well, whichever way -- I don't care. I want to get your decision.

HMJr: . No, but I mean, whatever I tell you will be his decision.

- 3 -

W: Yeah. All right.

HMJr: See what I mean?

W: Yeah.

HMJr: But thanks for giving me a little notice.

W: All right, Henry. But then, I'll hear from you tomorrow?

HMJr: Positively!

W: In the morning, Henry, so I can notify the other guys, you know.

HMJr: You will hear from me in the morning.

W: Thank you, Henry. Good bye.



*Send to Mrs. M.*

Pennsylvania Hotel,  
New York, New York,  
July 10, 1939.

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

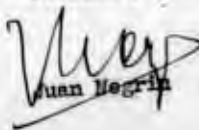
Dear Mr. Secretary:

Before sailing I should like to thank you for the enjoyable evening at your home on Saturday. It was most kind of you and Mrs. Morgenthau to invite me and I shall count the visit as one of the personal pleasures I most enjoyed during my stay in your country.

I am enclosing a letter referring to the cotton credit of which you may, of course, make whatever use you like.

With kindest regards to yourself and Mrs. Morgenthau,

Cordially yours,

  
Juan Negrin

copy sent to Mrs. M. 7/12/39

Pennsylvania Hotel,  
New York, New York,  
July 10, 1939.

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

Dear Mr. Secretary:

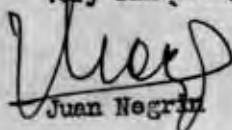
With regard to the proposed cotton credit to be extended by the Export-Import Bank to General Franco, I should like to point out that under the Constitution of the Republic, a loan of this kind must be ratified by Parliament and would be illegal without such ratification.

I am enclosing a copy of the Spanish Constitution (1931) of which the relevant articles are paragraphs, 112, 117 and 118.

It is our position, of course, that the war and its temporary result have not changed the laws of Spain. A military rebellion accompanied by the invasion of foreign states, has no power to alter the legal status as provided by the Constitution of the Republic.

I am sure that the Constitutional Republic will be reestablished and in that case no convention or obligation or agreement entered into by the present regime will be honored by us.

Very sincerely yours,

  
Juan Negrin

TREASURY DEPARTMENT

*Form*

155

INTER OFFICE COMMUNICATION

DATE July 10, 1939

TO Secretary Morgenthau

FROM Mr. White

Subject: Japanese Currency War in China and the Tientsin Incident

1. The foreign concessions in China, now being threatened by the Tientsin blockade, are vital in protecting the Chinese national currency. The Japanese have been trying hard to drive that currency out of use in the occupied areas but find they cannot do so unless they control the concession areas. Not only does the continued existence of these foreign concessions prevent the Japanese from obtaining the full economic benefits of their military occupation but they have been a source of important aid to the Chinese guerilla forces now fighting behind the Japanese lines.

2. The technique which the Japanese have used to attack the Chinese currency has varied from time to time, and city to city, but the basic principle has always been the same, that of forcibly substituting a fiat currency subject to strict exchange control for the Chinese currency which in practice is freely convertible into foreign exchange.

3. The Japanese through their currency maneuvers have already partly succeeded in (a) breaking down the stability of Chinese currency, and (b) obtaining a substantial trade advantage for their nationals.

(a) The Japanese substitute their fiat notes for Chinese notes and then buy foreign exchange with Chinese currency. This practice gives them a considerable amount of foreign exchange and weakens the Chinese currency. Japanese sales of Chinese currency are generally considered to have been a very important factor in driving down the Chinese currency from 29¢ to 16¢ during 1938, and from 16¢ to 12¢ in June 1939. The Chinese Government on July 5 prohibited the import of 237 non-essential commodities, in an effort to reduce the drain of foreign exchange and to strengthen the yuan.

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Prepared by Mr. Glasser and Mr. Hooker



Secretary Morgenthau - 2

(b) Japanese currency in China (F.R.B. notes) is freely exchangeable only for yen, and circulates at a discount with the Chinese currency. This gives the Japanese exporter a large exchange advantage over exporters of third countries. The use of this currency has the effect of excluding third countries from trading in North China.

4. The Japanese have, however, been only partly successful. They have not been able to prevent the circulation of the Chinese currency in large sections of the occupied areas of China. The most important reason is the fact that the foreign and Chinese banks operating in the foreign concessions have refused to cooperate with the Japanese authorities and continue to transact business with Chinese currency.

The residents of the occupied areas carry on business with the Chinese currency and utilize banks operating in the foreign concessions for conversion of Chinese currency into foreign exchange. A substantial volume of foreign trade escapes Japanese control by being cleared through the banks in the foreign concessions, and as a consequence the Japanese are unable to obtain the full benefit of the foreign exchange proceeds derived from exports from the occupied areas.

(The Chinese have been able also to utilize the foreign concessions as bases for their guerilla forces fighting behind the Japanese lines and to buy supplies, both foreign and domestic, using Chinese currency issued by the Chungking government.)

5. Continued autonomy of the foreign concessions is of very great importance to China in resisting the Japanese. If the Tientsin blockade is successful and the Japanese gain their objective of controlling the banks operating in the foreign concessions in Tientsin, Shanghai and elsewhere, then:

(a) The Japanese will have such a large quantity of Chinese currency as to be able to either destroy the international value of the currency or to force the Chinese Government to establish strict exchange control and thus restrict the use of Chinese currency to those areas which are still under Chinese control.

(b) The guerilla forces of the Chinese army will lose the purchasing power which they have been able to obtain from the Central Government and be forced to resort to confiscation to obtain needed supplies.

(c) Banks in the foreign concessions which have purchased large amounts of Chinese bonds will no longer be a source of funds for China and will, no doubt, be a source of funds for Japan.

Secretary Morgenthau - 3

(d) The Japanese will obtain the assets of the Chinese banks and the hoarded Chinese money, art objects, jewelry, etc., now being safeguarded in the foreign concessions. The Japanese would acquire a considerable amount of silver which eventually would be offered for sale to the United States.

(e) Obtain the full foreign exchange proceeds derived from the exports of Chinese areas under her control.

(f) The Japanese will be in a position to enforce the complete exclusion of third countries from trade in the occupied areas.

**Order of Services at the Funeral**

**of**

**Claude Augustus Swanson**

**Late Secretary of the Navy and former Senator  
from the State of Virginia**



**Order of Services at the Funeral**

of

**Claude Augustus Swanson**

**Late Secretary of the Navy and former Senator  
from the State of Virginia**

---

The services will be held at 1:00 o'clock p. m., Monday, July the tenth, Nineteen Hundred and Thirty-nine.

The body of the late Secretary will be placed in the Senate Chamber prior to the services.

The President of the United States and his Cabinet, the Chief Justice and Associate Justices of the Supreme Court, the Diplomatic Corps, the Members of the House of Representatives, the Chief of Staff of the Army, the Chief of Naval Operations of the Navy, the Major General Commandant of the Marine Corps, and the Commandant of the Coast Guard have been invited to attend the services in the Chamber and will occupy the seats on the floor of the Senate assigned them by the Sergeant-at-Arms.

The President and his Cabinet will meet in the President's Room.

The Supreme Court will meet in its former chambers in the Capitol.

The Diplomatic Corps, the Chief of Staff of the Army, the Chief of Naval Operations of the Navy, the Major General Commandant of the Marine Corps, and the Commandant of the Coast Guard will meet in the Senate Reception Room.

The Vice President's Room will be reserved for the members of the family of the late Secretary and the officiating clergy, whence they will be escorted to seats on the Senate floor.

Seats will be reserved for those entitled to them upon the floor, to which they will be shown by the attachés of the Senate.

July 10, 1939

My dear Mr. President:

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

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

Yours sincerely,

The President,  
The White House.

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Yours sincerely,

The President,  
The White House.

See 101  
101

7:10

Memorandum for the Secretary:

Complying with your request of Wednesday, July 5, I submit the following information with respect to the steps to be taken by the Bureau of Internal Revenue in the application of the provisions of section 102 of the Internal Revenue Code:

Section 102 of the Revenue Act of 1938 contains a new provision, namely, that the existence of an accumulation of earnings or profits beyond the reasonable needs of the business is determinative of the purpose on the part of the corporation to avoid the surtax on shareholders unless the taxpayer proves the contrary by the clear preponderance of the evidence. The effect of this new provision is to shift the burden of proof to the taxpayer and thus materially strengthen the position of the Bureau in undertaking to defeat efforts to avoid surtax upon individual shareholders by failure to distribute corporate earnings.

With this change in the law, revised instructions will be issued to all internal revenue agents in charge and other officers and employees of the Bureau concerned, requiring that close attention shall be given to all corporation returns to determine whether section 102 is applicable. The types of corporation returns to which the instructions will require attention include the followings:

1. Corporations which have not distributed at least 70 percent of their earnings as taxable dividends.
2. Corporations which have invested earnings in unlisted securities or other properties unrelated to their normal business activities and not readily convertible into cash.
3. Corporations which have advanced sums to officers or stockholders in the form of loans out of undistributed profits or surplus from which taxable dividends might have been declared.
4. Corporations, a majority of whose stock is held by a family group or other small group of individuals, or by a trust or trusts for the benefit of such groups.

Instructions for the Secretary.

5. Corporations, the distributions of which, while exceeding 70 percent of their earnings appear to be taxable, should when considered in connection with the nature of the business or of the financial position of the corporation, or with accumulations of cash or other liquid assets which appear to be beyond the reasonable needs of the business.

In so far as cases of the first four types are concerned, the instructions will provide that in every instance the examining officer's report shall contain a specific recommendation for the application or nonapplication of section 102.

Employees will be designated in each field office to specialize on the application of section 102, whose responsibility it will be to pass personally upon each case in which recommendations have been made by examining or reviewing officers with respect to the application or nonapplication of that section. Special attention will also be given to those types of cases in the past review of returns in Washington, and detailed data will be maintained currently in Washington in respect of all cases in which liability under section 102 is suggested so that the officers of the Department and interested consultants of Congress may be kept appropriately informed.

It will be remembered that personal holding companies are now taxed under section 561 of the Revenue Act of 1954 and corresponding sections of the Revenue Acts of 1950 and 1952 and the Internal Revenue Code. The provisions of the statute establishing high tax rates on earnings held in such corporations have stimulated the largest group of cases which previously fell within the provisions of section 102, and that section now has application only to corporations other than personal holding companies.

It is believed that under the plan which is in mind, as outlined above, the Bureau will be able to provide an adequate arrangement to insure that unresizable accumulations of current earnings in corporate structure will be taxed as directed by section 102.

Signed Harold N. Graves

Acting Comptroller.

27 (Rev. 7-1-57)



CJ

PLAIN

LONDON

Dated July 10, 1939

Rec'd 2:35 p.m.

Secretary of State,  
Washington.

965, July 10, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

With no further international news of significance the stock market and the foreign exchange market were quiet today but silver again slumped in value, the fixing price for spot being 16 1/16 and for forward 15 5/8. The fixing was not large, such buying as there was being on Indian account. After fixing, the price was steady on limited Indian buying but a further fall in the price is expected tomorrow unless the price fixed in Washington today should be such as to promote steadiness.

72 of the 131 bars of gold dealt in at the fixing were supplied by the Bank of England. 19 bars were married and Samuel Montagu was the sole buyer.

KENNEDY

KLP:WWC

JR

GRAY

Paris

Dated July 11, 1939

Rec'd 1:25 p.m.

Secretary of State,  
Washington.

1284, July 11, 5 p.m.  
FOR THE TREASURY.

Accounts published in the French press of the monthly board meeting of the B.I.S. held yesterday indicate that Dr. Funk explained the new organization of the Reichsbank and remarked that the change will in no way interfere in the relations between the Reichsbank and the B.I.S. Furthermore the statement is made by the bank that suggestions which have appeared in certain newspapers regarding the possible consequences for the B.I.S. of the transfer of the Czech gold have no foundation and that no steps have been taken to withdraw any government funds deposited with the bank. On account of the "holidays" the next board meeting will be held on October 9.

The uncertainty of the international situation and the approach of the holiday season has brought transactions on the exchange and security markets to a low ebb.

Business

-2- #1284, July 11, 5 p.m., from Paris.

Business was again on a restricted scale today and changes in rates were unimportant.

BULLITT

CSB

RECEIVED

JUL 12 1942

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



## RE LENDING BILL STRATEGY

July 11, 1939.  
12:40 p.m.

Present: Mr. Foley  
Mr. Gaston  
Mr. White  
Mr. Duffield

Foley: Now, Larry - Wagner went right from the Foreign Relations Committee hearing to the floor, because this change in the WPA law to meet the strike situation is up. Through his clerk, Larry got to Wagner on the floor about Wallace appearing first and then Carmody and then Jones; and then you would come down if the Committee wanted you to. And that was satisfactory to Wagner, to handle it that way.

Now, he - Larry wasn't able to see Barkley either, because Barkley was at the same meeting and went directly to the floor for the same purpose, and we haven't been able to talk to Barkley. I put in a call for Barkley after I left your office.

H. J. Jr.: (On phone) Just leave word - I don't want to - register with Senator Wagner's office that I am available to talk; call up his office. I won't try to get him off the floor.

He called me back.

Foley: Now, I talked to Steagall and Steagall told me that he'd know a little bit more tomorrow about how the situation looked. He wants to get reported out the Straus housing bill before he takes this up, but he says if he hasn't got the votes he's going to continue to talk about the Straus housing bill and hold hearings on this at the same time. In other words, he'll hold hearings on Straus in the morning and on this in the afternoon. And he would rather have had you come down first and as the principal member of the Cabinet to outline the financial aspects and the financial soundness of the program; but he said that he saw the strategy in having Wallace explain the Farm Security and the Rural Electrification side of the program first, which is the most popular part of it, and get it off to a good start, and then have Carmody come down on Public Roads and on Public Works, then Jones on the railroads and the Export-Import Bank; then, if necessary, call you to clean up. And he said that that was agreeable to him; that he'd call me tomorrow noon after he'd had a chance to survey the situation.

-2-

- H.M.Jr: The only thing I want to say is, Harry, you and Puffield better get busy on a statement for me.
- White: Well, I'd already asked me to prepare one.
- H.M.Jr: Well, and Puffield, too.
- White: I'll get to work.
- H.M.Jr: It better be painted with kind of a broad brush - the unemployment situation and what we've been trying to do. Now, that - of course, I'd like to say what I think, and what I think is this, and you can boil it down into one sentence or you can make a thousand words out of it if you want to. And that is this; this is the way I feel about it: that just as long as the world is in the present situation - I'm using these figures that half of the world is putting three quarters or more of its stuff into non-productive purposes, and consequently our outlets in the world market shrink as the world trade shrinks; and until we have peace or war, we've got to take care of our own internal situation, and the way we've got to take care of our own internal situation is through supplying work for people. Now, just as soon as the world sanity returns, I hope by peace that we can go back into exchange of goods on a normal basis, and then we won't have to do this sort of thing we're doing now; and until the thing is settled one way or the other we've just got to do something, and this is the best way, the sanest way, we know.
- That's what I believe. You fellows can build that up so that my figures and my statements are accurate, and so forth and so on; I don't know just how much the world trade is shrinking.
- White: That wouldn't be enough of a basis, but that would be one of the ingredients.
- H.M.Jr: Well, that's one.
- White: I think it's a good opportunity to make a clear, forceful statement of your position on that. Doesn't have to be very long; can be as long as - a little shorter than your tax statement.
- H.M.Jr: Well, anyway - but you better have something tomorrow

-3-

morning in rough form, gents.

White: I thought you (Foley) said Monday, Tuesday, we were going to be called.

Foley: Well, I don't think you'll be called in the House before Monday or Tuesday and in the Senate before Friday.

White: A week from Friday.

Foley: No, no, this Friday. He's going to start tomorrow.

White: I see.

H.M.Jr: If Lauch Currie is not busy, maybe he can help. But I don't want to be caught short without a statement.

Foley: That's right.

H.M.Jr: Because if worst came to worst, Ed Foley would have to go up there and do it ad lib.

Foley: That would be terrible.

H.M.Jr: I wonder why they don't make these fellows go up that really write the thing.

White: No, there's a good deal of sense in that, because after all, who does ....

H.M.Jr: Just a second, just a second. I've got this call from the White House. (Goes out to take call)

(Secretary returns)

One other chore, then I ...

(On phone) John Carmody, please. - What? -  
O.K.

(Has conversation with Senator Wagner)



RE SET-UP OF COMMODITY CREDIT  
CORPORATION

July 11, 1939.  
2:35 p.m.

Present: Mr. Gaston  
Mr. Foley  
Mr. McKeynolds  
Mr. Bell

H.M.Jr: Gents, here's a tough one. I need a little advice. In talking with the President of the United States this morning, I was very frank with him about this agricultural matter, and I told him I held the stock by his direction in Commodity Credit and Wallace was over here looking daggers at me; that I personally thought the President should, the first of January, have another reorganization plan and create a new farm lending agency which would have everything in it that has to do with farming from every standpoint. It was smart, the President agreed with me; he's going to do it. Now ...

McK: Grand.

H.M.Jr: What?

McK: Perfect.

H.M.Jr: Now, I said, "From every angle - the farmer's angle, and from the angle of Governor McNutt."

Gaston: Uh-huh.

H.M.Jr: Now, Mr. Henry Wallace just called me up. He has an alternative proposal to make. He is willing that I should certify who the directors should be, but I've got to let him know right away, because he just has to do something about his organization. So I said I had to talk it over with my associates, and would let him know.

Oh, I told the President - I said Danny got by the pipe-line that he told Jones to continue the organization, or something like that; but he said that wasn't so. But he wants me to sit.

"Now," I said, "I think..." - oh, another thing I said to the President - I said, "Jesse Jones has two directors; I think he'd be willing to give up one." See?

-2-

Now, I'm not very good on these arguments, and I was just - it was running through my head to write Wallace a letter and simply say, "Now, I have - since our meeting on May 10, I have had an opportunity to discuss with the President the matter of trusteeship of the stock of Commodity Credit, and the President wishes the Secretary of the Treasury to continue to hold it." Period.

Now, I'm open to argument. I didn't ask - you fellows are in here to give me your advice. Now, we know what the President wants.

But I promised Jesse whatever I'd do on directorships, you see, I'd talk to him first. I had a call in, and he's not in. I think Jesse's willing to withdraw one director.

- Foley: But that won't satisfy Wallace, because he still controls the Export-Import Bank representation.
- H.M.Jr: You mean Commodity Credit.
- Bell: No, Pierson.
- Foley: Pierson. You see, he's got - Jesse has two from the R.F.C. and Pierson, so he's got three.
- Bell: And also Goodloe. As a matter of fact, he's ...
- H.M.Jr: Who are the directors on this thing? Do you know them off-hand? Who in your office would know?
- Bell: They're in my file.
- Gaston: Aren't they in the Directory?
- Bell: They may be in the Directory. Wells in Farm Credit. And that fellow Robbins is one - he talked about yesterday.
- H.M.Jr: Who is Robbins?
- Bell: He's a new man.
- Foley: Jesse's got four votes - either has or controls - and that's what Wallace is kicking about. He can control the Board.

-3-

Bell: I raised the question ...

Gaston: The directors are J. E. Wells - that's Farm Credit; Lynn Talley, R.F.C.; Wilford Johnson ...

Foley: R.F.C.

Gaston: Warren Lee Pierson.

Foley: R.F.C.

Gaston: Clifford Durr.

Foley: R.F.C. - Assistant General Counsel. That's four.

Gaston: John Goodloe.

Foley: Five.

Gaston: Albert Black.

Foley: I don't know him. Who's he?

Bell: He's Agriculture.

Gaston: R. M. Evans.

Bell: Agriculture.

Gaston: That's all.

Foley: Jesse's got five votes.

McA: Five to two.

Bell: There ought to be ten.

Gaston: Wells, Talley, Johnson, Pierson, Durr, Goodloe, Black, Evans.

Bell: May be a couple vacancies.

H.M.Jr: Well, I - this is - who has an alternative suggestion?

Bell: I was going to ask a question: if you shouldn't give consideration to maybe reducing the number of the Board of Directors and giving Wallace maybe three out of seven, giving Farm Credit two and Jesse a



-4-

couple, and giving him at least more than any other one.

- H.M.Jr: Well, what I thought I would do - first I'd write this letter, then let him go through the ceiling and then let him come back; then, as my second shot, I'll ....
- Foley: Then he'll ask you to certify the Board.
- Bell: Well, I was going to suggest as a part of your letter that you ask for nominations to be elected to the Board.
- Gaston: You ought to have five directors, two from R.F.C. - one from R.F.C. direct, one from Export-Import Bank - one from Farm Credit, one from Agriculture, and the fifth man holding the balance of power, from Treasury.
- H.M.Jr: No, I don't agree. I think that Wallace ought to have the ...
- Foley: Balance of power.
- H.M.Jr: ... the majority.
- Foley: Just let him have three.
- Gaston: Three - two from Agriculture, one from Farm Credit.
- H.M.Jr: Two from Agriculture, one from Farm Credit.
- Bell: I don't know why Export-Import Bank is on there.
- H.M.Jr: I would say three from Agriculture, one from ...
- Foley: Farm Credit.
- H.M.Jr: ... Farm Credit, and one from Jones.
- Bell: That's enough.
- H.M.Jr: Huh?
- Bell: That's O.K.
- H.M.Jr: I'm willing to do that.
- Bell: And then let the thing go along as it is until January, and then change it.

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H.M.Jr: Yes.

Gaston: Uh-huh.

Foley: Well, that will satisfy Wallace ...

H.M.Jr: What?

Foley: That will satisfy Wallace, it won't satisfy Jones.

H.M.Jr: I think so.

Bell: I think it will if you explain to Jones what you've said here.

H.M.Jr: Yes. I'll just tell Jones the truth.

McR: What can Wallace do in the meantime?

H.M.Jr: That's why I was going to shoot this thing over. When when he gets all real excited I say, "You haven't given me a chance. I'm willing to give you a majority of the Board. What are you kicking about?" I mean give him the worst first and then - "Well, the President called me - 'Well, why did you do this?' - 'Well, he never gave me a chance.'"

If I give it to him all at once, I have nothing left to trade with. What do you think, Mac?

McA: That's all right.

H.M.Jr: What?

McA: It's all right, providing you're not putting him in the position so he can ball the thing all up until January.

H.M.Jr: Well, how can he? Let's just see what happens. I just - if he wants to know ... What he came over here yesterday for - he wants to know - he asked for the stock, didn't he?

McA: Yes.

H.M.Jr: Then I said, "I've talked to the President... " - well, I have - "... and the President told me to hang on to the stock."

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Foley: Sure. And in the meantime he anticipated that's what would happen and the President would say you should hang on to the stock, so he said, "Now, you certify the directors that you're willing to nominate and I'll tell you whether that will be satisfactory with me." So you've turned it around and you've just given him a letter and let him come back with the alternative proposition and say, "That's all right with me." He'll come back with this proposition; let him make it instead of you.

H.M.Jr: Exactly. Let me just try a letter.

(On phone) Hello. - That's all right. Fine. - 3:30 for Carmody.

Let me just try a letter. Secretary Wallace.

"My dear Mr. Secretary:

"I had an opportunity today to discuss with the President the question of the trusteeship ..." - is that what it is, is that the correct language?

Gaston: That's all right.

H.M.Jr: "... the trusteeship..." - what?

Bell: Isn't exactly trusteeship, it's the powers and functions ...

H.M.Jr: Let me just give you the idea, and then supposing, can, you write a letter, then we can take a look at it.

You needn't take this. Just something like this.

"My dear Wallace:

"I had an opportunity today to discuss with the President the question ..." - I'll use the word "trusteeship," you can use whatever you want - " .... of the stock of the Commodity Credit. It is the President's wish that the Treasury continue to hold this stock in his behalf."

Bell: Uh-huh.



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H.M.Jr: Paragraph.

"I am ready to call an annual meeting any time that suits your convenience." See?

Bell: That's good.

H.M.Jr: What?

Bell: That's good.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

*File*

177

DATE July 11, 1939

TO Secretary Morgenthau

FROM Mr. White

Subject: Treasury Position With Respect to Continued Purchases of Foreign Silver

An evaluation of the economic advantages and disadvantages resulting from continued purchases of foreign silver could reasonably lead to any of the following three conclusions:

1. The net economic gain or net economic loss resulting from the purchase of foreign silver is so small that the decision as to whether or not the purchase of foreign silver should be continued should be decided on the basis of considerations other than economic,

or

2. A continuation of the purchases of foreign silver yields on the whole a net economic gain to the people of the United States though the net gain is of small dimension,

or

3. The chief economic advantage which results from the purchases of foreign silver is that it keeps some 15,000 to 25,000 more persons employed in the United States during the year than would be the case were the program dropped. In view of the fact that there are better methods of increasing employment than additions of silver to our monetary stock, the purchases of foreign silver should be discontinued.

TREASURY DEPARTMENT

*File* 278

INTER OFFICE COMMUNICATION

DATE July 11, 1939.

TO Secretary Morgenthau  
FROM Mr. White  
Subject: Treasury Position with Respect to Continued Purchases of Foreign Silver.

During the first half of 1939 the Treasury has been purchasing about 25 million ounces of foreign silver a month. The continued purchase of foreign silver has both economic and political consequences. This memorandum is confined to a discussion of the economic consequences.

Certain minor economic advantages ensue from the American purchase of this foreign silver and certain minor disadvantages.

1. The purchase of foreign silver results in an addition to our excess reserves of from \$50 to \$150 million a year - depending upon the amount of silver certificates issued against the seigniorage.

Inasmuch as our excess reserves already amount to \$4.2 billion an increase of \$100 or so a year would have a negligible influence on the credit situation.

2. The silver which we acquire is useless in making payments to other countries.

This is a consideration which deserves no weight because we have far more gold with which to settle our international balance of payments than we can possibly use in the foreseeable future. Therefore, even though some of our silver imports are obtained at the expense of gold no economic loss is now sustained by that substitution nor can any loss possibly be sustained in the foreseeable future.

3. Serves to increase the price which industrial users of silver have to pay for silver by possibly from 5¢ to 10¢ an ounce.



Secretary Morgenthau - 7/11/39 - 2

If we cease purchasing our foreign silver the price would eventually settle probably in the neighborhood of 25¢ an ounce. We consume about 50 million ounces of silver a year in the arts. Presumably a large part of the \$5 to \$10 millions saving from the lower cost of industrial silver would be passed on to the consumer in favor of lower prices for the finished product.

4. Additions to our monetary stock of a metal having a potential market value which is only a fraction of its monetary value represent a threat to the future stability of our monetary system.

In view of the fact that our monetary stock of gold amounts to \$16 billions and that our annual purchases of silver have a monetary value of \$250 millions, any threat to the soundness of the dollar is too remote to be significant.

5. Employment in the United States is increased as a consequence of our purchases of foreign silver by some 15,000 to 25,000 persons per year. This increase in employment results from the increase in our exports consequent upon our purchases of foreign silver. The foreign countries selling silver acquire dollar balances, and most of these dollar balances are expended in obtaining increased imports. The bulk of additional imports come directly or indirectly from the United States.

Though there are better ways of reducing unemployment than the purchase of foreign silver, the latter does not prevent the better ways from being adopted.

6. The purchases of foreign silver cost the United States Treasury nothing. On the contrary, for every dollar's worth of foreign silver purchased the Treasury obtains a seigniorage equal to approximately \$2.50.

Seigniorage profit is not simply "bookkeeping" profit. It is just as real a source of revenue to the Treasury as an increase in taxes. It can be spent or it can be used to redeem obligations just as any other source of revenue. Unlike taxes, seigniorage if spent does not in times of a large amount of idle labor and capital deprive citizens of real purchasing power but adds to that purchasing power.

7. Purchases of foreign silver by replacing in our monetary stock each year from \$10 to \$25 millions of gold with silver serves to increase gold holdings of other countries by that amount. Other countries need gold more than we do and therefore the redistribution is an economic benefit to the United States as well as to foreign countries.

The sums involved, however, are so small as to be quite unimportant.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 11, 1939

TO Secretary Morgenthau  
FROM Joseph P. Cotton, Jr.

Interview with Judge Moore  
re: Spanish Cotton - Cuba.

1. Judge Moore was not very communicative as regards the Spanish cotton credit situation. However, he did indicate that the deal might be set up in such a way that the Spanish Government would receive the credit. Under these circumstances, he agreed that your point, about a provision in the Spanish constitution requiring Parliamentary approval of the assumption of obligations by the government, is well founded. He is going to try to get information on this point in the State Department.

On the question of assurances against assertion of counter-claim arising out of purchases of Spanish silver by the United States Government, you will recall that we originally took the position that it would be desirable to have assurances both from the Spanish Finance Minister and the Bank of Spain, whereas Warren Pierson is taking the position that assurances from the Spanish Ambassador here would be sufficient. I got the impression that Judge Moore was doubtful in his own mind whether assurances from the Ambassador alone should be considered satisfactory.

2. I presented your letter about my replacing Mr. Lochhead on the Export-Import Bank. Judge Moore is referring it to Warren Pierson for the necessary arrangements to be made.

3. Relative to Cuba, within the last few days the State Department has become aroused about the situation in Cuba -- i. e., the peso discount and the adoption of a law making certain dollar obligations payable in pesos, which it is feared may have a discriminatory effect on American interests -- and is at present formulating a program for immediate action as opposed to somewhat extended studies, with a view to recommendations on the Cuban proposals for revision of banking laws, which have been in progress for some time. Accordingly, it is probable that the State Department will have some program to put up to us on the Cuban situation within the next few days.

Our Ambassador in Cuba has been recalled by the State Department for consultation.

J.P.C.

July 11, 1939

HM,Jr spoke to Mr. Hull at about 11:20.

HM,Jr: At 12:30 I am having a meeting in regard to dumping from the City of Danzig. I wonder if you could send somebody over at 12 o'clock to Ed Foley so that they could talk it over before the meeting. They say that we have to do something about it today as a shipment of amber is on its way to Florida. It's damn bad luck that it had to be Danzig of all places in the world.

(Mr. Hull agreed to send somebody over.)

HM,Jr: While I am on the telephone, I was talking to the President this morning about foreign silver and he asked me to think over the possibility of making separate treaties with each silver mining country and treat it like any other commodity. I would like you to think about it and would like to have your ideas. I think it is fraught with danger.

oOo-oOo



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Prepared by Wesley Lindow,  
Division of Research and Statistics

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE July 11, 1939

TO Secretary Morgenthau  
 FROM Mr. Haas *HA*  
 Subject: Reduced average size of mortgages on new homes accepted for insurance\*

1. The average size of mortgages on new 1-4 family homes accepted for insurance by the Federal Housing Administration has been decreasing steadily year by year. The figures for 1936 to date are as follows:

1936	\$4,711
1937	4,638
1938	4,601
1939 (first 5 months)	4,504

2. These reductions have taken place notwithstanding the fact that the average ratio of loan to appraised value on new homes has been increasing year by year. The figures for 1936 to 1938 are as follows: (Data for 1939 are not available.)

1936	73.2
1937	75.3
1938	82.4

The large increase in the 1938 ratio over 1937 is mainly the result of increasing the maximum permissible loan from 80 percent to 90 percent of appraised value in the case of mortgages on small new owner-occupied homes. This liberalization was provided in the 1938 amendments to the National Housing Act. For the year 1938, almost 63 percent of new home mortgages accepted for insurance were for amounts between 81 and 90 percent of appraised value.

3. The explanation for the fact that the average mortgage has been decreasing while the average ratio of loan to value has been increasing is that there has been a steady decrease in the average value of property covering mortgages on new homes accepted for insurance, as follows: (Single family homes)

\*Prepared in response to your request for a report covering points raised in the attached letter from Stewart McDonald dated June 24, 1939.

## Secretary Morgenthau - 2

1936	\$6,255
1937	5,978
1938	5,530

The successive reductions are due mainly to the increasing importance of small homes as compared with more expensive ones. In 1938, only 16.8 percent of new homes accepted for mortgage insurance were valued at more than \$7,000, as compared with 26.3 percent in 1937, and 30.5 percent in 1936. The following table shows the distribution of the property valuations for new single family homes accepted for mortgage insurance in the last three years:

Property valuation	Distribution (percent)		
	1936	1937	1938
Less than \$5,000	38.8	39.7	42.5
\$5,000 to 6,999	30.7	34.0	40.7
7,000 to 9,999	19.7	18.3	13.2
Over 10,000	10.8	8.0	3.6
	100.0	100.0	100.0



## MR. MORGENTHAU'S OFFICE TO-

Mr. Hanes                    Mr. Gaston  
 Mr. Gibbons                Mr. McReynolds

• • • • •

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

Mr. Haas:

For study and report.

N.M. Chauncey

FEDERAL HOUSING ADMINISTRATION  
WASHINGTONSTEWART McDONALD  
ADMINISTRATOR

June 24, 1939

17382

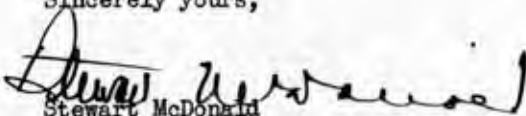
Honorable Henry Morgenthau, Jr.,  
Secretary of the Treasury  
Washington, D. C.*To be ans.  
11/24/39*

Dear Mr. Secretary:

I discussed this subject with you the other  
day.

It is interesting to note that our average mortgage on new construction has dropped during the past four years, notwithstanding the fact that for the past year 65% of our mortgages have been 90% mortgages as against 80% heretofore. Also the average mortgage on existing construction remains practically identical with what it was when we started in 1936.

Sincerely yours,

  
Stewart McDonald  
Administrator

FEDERAL HOUSING ADMINISTRATION  
MEMORANDUM

DATE June 22, 1939

TO: Mr. Stewart McDonald, Administrator  
FROM: Raymond T. Cahill  
SUBJECT: Average Amount of Mortgage Under Title II

	<u>1936</u>	<u>1937</u>	<u>1938</u>	<u>1939</u>
Average Amount of Mortgage for both New and Existing Construction	\$3,973	\$4,122	\$4,344	\$4,265
Average Amount of Mortgage on New Construction	4,711	4,638	4,601	4,493
Average Amount of Mortgage on Existing Construction	3,756	3,864	3,825	3,796

Raymond T. Cahill



TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE July 11, 1938

TO Secretary Morgenthau  
 FROM Mr. Haas *MA*  
 Subject: Per cent of steel production and production of certain other products attributable to governmental activity.

Conclusions

(1) Steel

While accurate estimates are difficult, calculations we have made as explained below indicate that governmental activity accounted for approximately 11 per cent of total steel production in 1936, for 7 per cent in 1937 and for 12 per cent in 1938. Data for 1939 are not yet available. The Bureau of Labor Statistics believes these figures are not far wrong, but perhaps a trifle high. A round figure of 10 per cent would probably be a usable figure.

The Bureau of Labor Statistics estimates that construction steel used in Federal-financed projects accounted for approximately 55 per cent of the total production of this steel in 1936, for 33 per cent in 1937, and for 48 per cent in 1938.

(2) Other products

Calculations made by the Bureau of Labor Statistics, Division of Construction and Public Employment, show the following percentages for certain other products:

Per cent of total production used in Federal-financed projects

	<u>1936</u>	<u>1937</u>	<u>1938</u>
Cement . . . . .	58	45	57
Sand and gravel (commercial production) . . . . .	44	33	50
Brick and other structural clay products . . . . .	47	29	38

(3) State and local projects

No data are available on the amounts of steel and other materials involved in State and local projects. The total sums spent on such projects, in fact, are not yet known, though a WPA project is now under way to compile these figures.

Steel products

Estimates of the proportion of steel products used in Federal-financed projects may be derived from calculations made by the Bureau of Labor Statistics, Division of Construction and Public Employment, showing the percentage of the total production of structural steel (fabricated structural steel plus reinforcing bars) used in Federal-financed projects, combined with data on the total value of steel products used in these projects, as compiled by the same Bureau.

The Bureau of Labor Statistics estimates that Federal-financed projects accounted for 55.5 per cent of structural steel production in 1936, 33.3 per cent in 1937, and 47.9 per cent in 1938. The Iron Age estimated in January that during the early part of 1939 the proportion would continue at about the same rate as in 1938.

As a percentage of total steel output, the Government use of structural steel alone accounted for 4.6 per cent in 1936, for 2.7 per cent in 1937, and for 4.5 per cent in 1938.

The proportion which structural steel formed of all iron and steel products (excluding machinery) involved in construction projects financed by Federal funds, as compiled by the Bureau of Labor Statistics, is indicated by the following figures in dollar values:

	<u>Structural steel</u>	<u>Total iron and steel products</u>	<u>Per cent of total</u>
1936	\$113,684,435	\$275,995,812	41.2
1937	84,040,196	209,481,242	40.1
1938	74,508,147	204,117,250	36.5
1939 (1st quarter)	25,444,610	59,741,863	42.6

Secretary Morgenthau - 3

The percentages given above are doubtless somewhat low, if used to represent proportionate tonnage, since the construction steel has a lower average value per ton than the other steel products used on Federal projects. However, one may estimate the total tonnage roughly from the dollar values given above, if it be assumed that the discrepancy would be offset by the additional steel contained in machinery and transportation equipment used in these projects (totalling \$179,145,185 in 1938). Estimated in this manner, the percentage of total steel production accounted for by Federal activities in each year is approximately as follows:

	<u>Per cent</u>
1936 . . . . .	11
1937 . . . . .	7
1938 . . . . .	12

Data for 1939 are not yet available.





HEADQUARTERS

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

191

TREASURY DEPARTMENT  
UNITED STATES COAST GUARD

WASHINGTON 11 July, 1939

Memorandum for The Secretary of the Treasury.

This memorandum has reference to your recent informal request to be furnished with a statement as to the economies and estimated savings for the current fiscal year to be brought about by the merger of the former Lighthouse Service with the Coast Guard.

Two estimates are submitted. The first is based on the assumption that no immediate discharge of personnel will be made and that savings will be effected by a gradual reduction of personnel through attrition. This was the method proposed in a letter to the Bureau of the Budget from the Treasury Department concerning the merger of the Coast Guard and Lighthouse Service, wherein it was stated:

"The plan does not call for the immediate discharge of any personnel and the savings will be effected by the non-filling of vacancies as they occur through attrition. After one year of operation of the consolidated services, during which the details of the consolidation will be perfected, it is estimated that the plan will result in a reduction of about 5% of the present annual cost of operation and maintenance of the Lighthouse Service." \* \* \*

This will result in annual savings of about \$500,000.

It is to be recognized that major savings can be realized only by replacement of the present civilian administrative and operational personnel of the Lighthouse Service with corresponding grades and ratings in the regular Coast Guard (which will require legislation), and by the performance of Lighthouse Service duties by regular units of the Coast Guard as additional duty.

During the first year necessary details will be worked out and practical economies investigated, bearing in mind that essential work shall not be reduced or interrupted by such changes. Steps already have been taken to this end. Lighthouse and Coast Guard districts and their administrative staffs are being merged, like functions of operations, communications and engineering are being

Memorandum for The  
Secretary of the Treasury,  
PB-020-62,  
11 July, 1939,

amalgamated; investigations are being made as to the advisability of decommissioning certain units of the Lighthouse Service and replacing them with those of the Coast Guard, and arrangements are being made for the general unification of the Service. Legislation has been drafted to authorize, (1) consolidation of appropriations, (2) induction into commissioned, warrant and enlisted grades of the Coast Guard certain of the civilian personnel of the Lighthouse Service, and (3) provision for the retirement of such of this civilian personnel, not so inducted, whose services will not be required, and the replacement of retired civilian personnel with Coast Guard personnel.

Inasmuch as Reorganization Plan No. 2 transfers all Lighthouse Service personnel to the Coast Guard without change in classification or compensation, the only economies that can be effected pending legislative action, except through discharge, will be:

- (1) The difference between the active pay and retired pay of personnel of the Lighthouse Service who are retired in 1940 and not replaced.
- (2) Lapses of positions during 1940 and not replaced.
- (3) Replacement of Lighthouse Service personnel by Coast Guard personnel.
- (4) Savings in rentals where offices are combined.
- (5) Economies resulting from utilization of Lighthouse Repair depots for effecting certain ship repairs with ship's forces.
- (6) Using Coast Guard equipment and men wherever possible in performing Lighthouse duties.

There can be no assurance of the value of any estimate which may be made at this time as to the savings that will be made the first year. The very act of consolidation introduces some expense. If pending legislation, referred to above, is authorized by Congress during the present session, it is hoped that one or two percent of the appropriation of the Lighthouse appropriation for the current fiscal year will be saved. Under this plan the annual savings will be between \$100,000 and \$200,000.

The second estimate calls for discharge of civilian personnel, including administrative personnel in key positions. In addition to the savings enumerated under the first estimate, the following amounts would be saved:


	<u>Saving,</u>
(1) Consolidation of administrative offices in Washington.....	\$ 20,500
(2) Reducing the number of districts in the field.....	24,300
(3) Consolidation of field personnel with district forces.....	20,800

Memorandum for The  
 Secretary of the Treasury,  
 PB-020-62,  
 11 July, 1939

(4) Discharge of certain civilians in the field forces and replacing them with Coast Guard personnel (estimated).....	<u>Saving</u> \$ 100,000
Total.....	\$ 165,600

Under this plan the annual savings will be from \$265,000 to \$365,000.

If savings are to be effected as outlined in the second estimate, it will be necessary to discharge outright persons in the former Lighthouse Service who otherwise would be retired under their own retirement provisions. Such procedure would entail curtailment of work until such time as the regular personnel of the Coast Guard became skilled in the new duties. Because of this, and because of the manifest injustice of discharging men approaching retirement age, I do not recommend that the second plan be adopted.



R. R. WAESCHE,  
 Commandant.

JUL 15 1939



July 11, 1939  
9:17 a.m.

HMJr: Hello.

Harold  
Ickes: Hello.

HMJr: Hello, Harold.

I: Hello, Henry. I'm awfully sorry I can't come Thursday night.

HMJr: Oh, I'm sorry too.

I: I'd love to come.

HMJr: We'll miss you and your money.

I: All right.

HMJr: Another time.

I: Thanks, Henry.

HMJr: Good bye.

I: Good bye.

July 11, 1939  
10:43 a.m.

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HMJr: Hello.

Operator: Judge Moore.

HMJr: Hello.

R. Walton Moore; Good morning, Mr. Secretary.

HMJr: How's the great traveler?

M: Pretty -- pretty good. (Chuckling). He's been going too strong though recently. I had to go down to Richmond in addition to everything else yesterday afternoon to Claude Swanson's funeral.

HMJr: Oh, for heavens sakes! Judge, at your convenience, could you see Mr. Joe Cotton who is with us looking after Export-Import Bank? I'd like him to talk to you on some new angles on the proposed.....

M: Yes.

HMJr: .....loans to cotton states, and legal matters.

M: Yes.

HMJr: When would it be convenient -- could you see him sometime this afternoon?

M: Yes. Supposing you let him come up here, we'll say, anytime this afternoon he thinks now.

HMJr: Well, you name it and he'll be there.

M: I'll be there.

HMJr: Well now, what time would you like to see him?

M: Well, suppose we say about 3:30?

HMJr: He'll be at your office at 3:30.

M: Yes, and glad to see him.

HMJr: Thank you.

M: How are you?

HMJr: Oh, I'm fine.

M: And how is Mrs. Morgenthau?

HMJr: She's very well.

M: Is she here now?

HMJr: No, unfortunately, no.

M: Well, I -- I think it's fortunate because it's been dreadfully hot here until this morning.

HMJr: Yeah. Well, she's sensible.

M: Yes.

HMJr: Well, he'll be there at 3:30.

M: Yes, sir.

HMJr: Thank you.

M: All right.



July 11, 1939  
11:01 a.m.

Operator: Miss Callaway.

Gladys  
Callaway: Yes.

HMJr: Miss Callaway.

C: Yes, Mr. Morgenthau.

HMJr: Will you tell Mr. McReynolds that this <sup>that</sup> man, / Congressman  
Robert Doughton wants a job -- I'm afraid we'll have to  
do it.

C: Yes.

HMJr: And whether McReynolds will talk to me about it this  
afternoon.

C: Uh-huh. All right.

HMJr: See?

C: Fine! I know what it is.

HMJr: Yes, Johnny Hanes said that.....

C: Yeah.

HMJr: .....it's a matter of life and death.....

C: Um-hm.

HMJr: .....more or less.

C: All right.

HMJr: Thank you.

July 11, 1939  
12:46 p.m.

HMJr: Hello.

Operator: Go ahead.

Robert  
Wagner: Hello.

HMJr: Hello, Bob.

W: Yes, Henry.

HMJr: Well, where do we go from here now with that vote on  
Neutrality?

W: Yeah -- well, I don't know.

HMJr: What?

W: I guess we were lucky to get our bill through.

HMJr: I'll say so.

W: I -- well, you know, it was by one vote.

HMJr: You mean that it's held in Committee.

W: Yeah.

HMJr: Yeah, we got it on the ticker here.

W: Yeah. Well, I don't know. I don't know what the  
President is going to do.

HMJr: No.

W: That -- I mean -- I'm not so -- I wasn't sure yet just  
what I was going to vote for, but I certainly am  
against evading responsibility by just ducking it.

HMJr: Yeah.

W: I think that's a mistake.

HMJr: Yeah.

W: Just as I say I don't think that McNutt appointment is  
so hot either.

HMJr: Well, you know -- I don't.....

W: I can't help.....

HMJr: I don't get in on that stuff, you know.

W: I know, but I -- I -- I've -- I'm a sponsor of three of the matters that are right under him and God I don't want any politics in them.

HMJr: Yeah. Well, I can't argue with you, Bob.

W: What?

HMJr: I can't argue with you.

W: No, I know, and I tried to talk to our friend and I think he ducked me because he was in a conference all evening. I wanted to tell him it wasn't so hot. Well, I -- but I'm -- I'm a good sport.

HMJr: Yeah.

W: Maybe I'm wrong about it.

HMJr: No.

W: Well, Henry, what about tomorrow?

HMJr: Well, here's the thing. I went to see the President this morning and he said he thought it would be much better to put the fellows on first that have to do with the funning of it, and let me go on last.

W: I see.

HMJr: I mean, now there's -- for instance, Wallace is going to have the roads with McDonald; he's going to have Rural Electrification and I don't know where roads are -- wherever it is. Mc.....

W: Yeah.

HMJr: .....Carmody.

W: Yeah.

HMJr: And then Jones has got the other stuff. It'll put some of those boys on first.....



W: Yeah.

HMJr: .....and then if you still want me I'll come up and be delighted to give a statement.

W: All right. Well now, who do you suppose ought to go first? I -- this is tomorrow morning so I can.....

HMJr: Well, I think that Carmody or -- or Wallace, either one.

W: Suppose I put Wallace and Carmody on tomorrow?

HMJr: That would be all right. Then put Jones on next and then I.....

W: Yeah. Yeah. All right, fine.

HMJr: But that -- he said -- I explained -- you know how jealous everybody is. If I go up first why then these fellows kind of lay down.

W: Yeah. Yeah.

HMJr: So.....

W: Well, I'll take your judgment on it, Henry.

HMJr: Well that's the judgment of the President.

W: Yeah. All right.

HMJr: Yeah, I -- I went over just especially to see him.

W: Yeah.

HMJr: And he said that he thought it would be better this way.

W: The guy's a tough man sometimes, you know. Jesus, I stand by him like a soldier, I'm not even a Colonel, don't you know?

HMJr: Yeah.

W: And by God when you want to talk to him about something he -- he kind of ducks you and then tells you the next day he forgets about it. Cheer up. Well, you know, it's only a friend can talk that way.

HMJr: Yeah.

W: (Laughs.)

HMJr: I guess he must love you, otherwise he wouldn't talk to you like that.

W: Yeah, well I tell him -- I'm pretty frank with him sometimes.

HMJr: Yeah.

W: All right.

HMJr: O. K.

W: Fine.

HMJr: Thank you.

W: Goodbye.

HMJr: Goodbye.

July 11, 1939  
12:51 p.m.

Operator: Go ahead.

HMJr: Hello. Morgenthau talking.

John M.  
Carmody: How do you do, sir.

HMJr: How are you? Carmody, I'd like to, if you are not too busy this afternoon, to see you about the following things: A week or ten days ago I took up with the President and Mrs. Roosevelt the idea of starting on a national basis this self-help co-op. like we have in Washington and Richmond.

C: Yes?

HMJr: And I spoke to Colonel Harrington about it and he said he'd call me back, but I guess he's forgotten about it. Now, I -- I'd like to -- if you had some time this afternoon, tell you what I have in my mind and I -- and both the President and Mrs. Roosevelt are keenly interested in it. So is Mrs. Morgenthau.

C: Yes.

HMJr: How are you fixed this afternoon?

C: Well, I'm -- just a minute, I'm fairly well crowded, but .....

HMJr: Well, we can do it tomorrow.

C: Well, tomorrow I'll be out of town. I've got to go away. I -- I'll be with Harrington tomorrow.

HMJr: Oh.

C: Well, better do it this afternoon, two-thirty -- three -- three o'clock?

HMJr: Yeah, would you bring Harrington with you?

C: No, I don't think I would to start, although I might.

HMJr: Well.....

C: I don't know. I don't know where he is today. He's going away himself, you know, too. He's.....



HMJr: Well, it won't take -- if you -- if you wouldn't mind coming over, it wouldn't take me to say what I have on my chest five minutes.

C: Yeah, well I -- I think I.....

HMJr: .....want to come alone.

C: I think -- well, I think so. Then -- then I'll talk to him and perhaps we'll talk about it on the way out and he can talk to you when he comes back. I -- I think I know what it is. Yeah.

HMJr: Three o'clock?

C: I say, I think I -- I have an idea what -- what it is. I -- I'm aware of what they're doing here and in Richmond and.....

HMJr: Well, could you come at three o'clock?

C: I'll try to do that, yes.

HMJr: Well, is that definite?

C: Well, yes. Let's put down three o'clock. Three o'clock.

HMJr: You'll be over here.

C: Yes, and if I change it -- if I have to change it because I'm tied up, I'll call you in advance.

HMJr: O. K.

C: I may drop in earlier than that, you see?

HMJr: Well, if you -- well, do you want to make it earlier?

C: Well, I can't do it because I don't know how long it'll take. I'm having luncheon with Harry Hopkins and some other people and I can't -- I don't know what their -- what their business is.

HMJr: Well, I'll be working and if you drop by, I'll stop what I'm doing.

C: I'll try to do that, yeah.

HMJr: If you drop.....

C: But if I don't do that, I'll be there at three o'clock.  
HMJr: O. K.  
C: Yeah.

July 11, 1939  
2:24 p.m.

HMJr: Hello.

Henry  
Wallace: Hello, Henry.

HMJr: Yeah.

W: Henry, in order to avoid bothering the President unduly, I -- another alternative has occurred to me which, if it meets with your approval, I think may handle the situation.

HMJr: Yeah.

W: The matter we were talking about yesterday.

HMJr: Yes.

W: This would mean that an agreement between you and me that you, as holder of the stock, would certify the folks we would nominate as directors.

HMJr: Well, I'll take that up with my people this afternoon and see what they think and -- I just don't know how to answer you. Let me think about it, Henry, will you?

W: Would you let me know as soon as you arrive at a view, because I think we've -- we've got -- we have some definite organization problems here and we can't take ahold of them unless we know.....

HMJr: O. K. I'll try.....

W: .....where we are.

HMJr: .....yes, I'll talk to the -- I'll try and let you know just as soon as I can.

W: Yeah.

HMJr: Thank you.

W: All right. Good bye.



July 11, 1939  
3:27 p.m.

HMJr: Jesse.....

Jesse  
Jones: Yes, Henry.

HMJr: .....how are you?

J: Pretty good. How are you?

HMJr: I'm all right. Jesse, the reason I'm calling you, you remember I talked to you about Wallace and Commodity Credit and.....

J: Yeah, I remember that.

HMJr: Now, I'd like to let you know what I'm doing. I mean -- I'm sitting tight, but I'd like you -- to let you know the whole story, see?

J: All right.

HMJr: And it -- it's getting to be quite a fight.

J: Yeah.

HMJr: Now, you wouldn't want to stop by here in the morning, would you?

J: I'd be glad to.

HMJr: What time would suit you?

J: What time would suit you?

HMJr: Any time at all. I.....

J: Nine thirty?

HMJr: Ah.....

J: Is that too early for you? Ten o'clock?

HMJr: No, well, I was going to suggest -- is nine too early for you? I don't want to rush you. Ten o'clock is all right.

J: Well.....

HMJr: I usually have a staff meeting at nine thirty, you see.  
J: I see. Well, I'll -- I'll try to make it.....  
HMJr: I -- ten o'clock is all right.  
J: Well, I'll try to make it ten. I've got a -- I've got a seance tonight of I don't know how long with John Fahey.  
HMJr: Yeah.  
J: And I could either.....  
HMJr: Well, when would.....  
J: I could either make it nine or ten.  
HMJr: Well.....  
J: Whichever suits you the best.  
HMJr: I -- I give you your choice, how's that?  
J: Well, let's make it ten then.  
HMJr: All right.  
J: That'll be a little better.  
HMJr: Ten o'clock.  
J: All right, thanks.  
HMJr: It won't take long, but I want you to know, because in the first place I told you.....  
J: Yeah.  
HMJr: .....I'd keep you posted.  
J: Yeah.  
HMJr: And it's a big fight and it's -- he's getting -- it's....  
J: All right, well, I'll -- I'll come at ten o'clock then.  
HMJr: It's not very pleasant.  
J: All right.  
HMJr: All right.  
J: I'll come.  
HMJr: O. K.

July 11, 1939  
3:48 p.m.

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HMJr: Hello.

Operator: Mr. Eccles. Go ahead.

HMJr: Hello.

Marriner

Eccles: Hello.

HMJr: Hello, Marriner.

E: Oh, I told you two weeks ago that I'd advise you each week what we're going to do with our bills.

HMJr: Yeah.

E: There's 35 million 500 thousand due this week.

HMJr: Yes.

E: And we're replacing 20 million of them.

HMJr: I see.

E: So that the statement on Friday will show that 15 million five will run off.

HMJr: O. K.

E: And now we'll -- I'll -- what we'll do each week -- do you want me to call you every week on it?

HMJr: Well, if you call.....

E: Some weeks we might replace and some weeks we might not. We're feeling the market. We're trying to avoid.....

HMJr: I'd appreciate it, because it only takes a minute to call me.

E: Well, I -- I didn't want to bother you if you didn't want me to.

HMJr: I'd -- I'd like to.

E: All right. Now, this -- this won't show up until Friday in the press and so.....

HMJr: I won't say anything.



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E: .....if you'll still treat it confidential.

HMJr: I won't say a word.

E: O. K. then.

HMJr: Thank you.

E: All right.

HMJr: Good bye.

July 11, 1939.

Honorable Henry A. Wallace,  
Secretary of Agriculture,  
Department of Agriculture,  
Washington, D. C.

My dear Mr. Secretary:

I had an opportunity today to discuss with the President the matter which you and I talked about yesterday concerning the Commodity Credit Corporation.

He asked me to advise you that it is his wish that I continue to exercise on behalf of the United States any and all rights arising out of the ownership by the United States of the capital stock of the Commodity Credit Corporation pursuant to the provisions of Executive Order No. 7848, dated March 22, 1938.

I am ready and willing to call an annual meeting of the stockholders of the Commodity Credit Corporation at any time which suits your convenience.

Sincerely yours,

Secretary of the Treasury.

DWB:MLM

This carbon sent to this  
office by Mr. Bell's office.

July 12, 1939

My dear Mr. President:

I thought you might be interested in reading the attached report on silver purchases for the period July 1 to July 11th.

Sincerely yours,

The President,  
The White House.



July 12, 1939

Secretary Morgenthau

A. Lockhead

SILVER PURCHASED IN N. Y. JULY 1 TO JULY 11

<u>Date</u>	<u>Ounces</u>	<u>Price</u>
July 1	-	Saturday
" 3	-	Holiday
" 4	-	Holiday
" 5	-	No price set
" 6	954,000	.36-3/4¢
" 7	-	.36-3/4¢
" 8	-	Saturday
" 10	408,000	.35¢
" 11	210,000	.35¢
	<u>1,572,000</u>	

ORIGINAL AND TWO COPIES BY SPECIAL MESSENGER TO Mr. F. M. Johnston, Clerk of the Senate Finance Committee, Room 310, Senate Office Bldg.

JUL 12 1938

My dear Mr. Chairman:

Reference is made to your letter of July 11, 1938, in which you ask for a report on an amendment intended to be proposed to H. R. 5555 by Senator Shipstead. The amendment provides for the reduction of the Stabilization Fund from \$2,000,000,000 to \$500,000,000 and the use of the \$1,500,000,000 as a basis for the issuance of coins and currency to be used to retire special obligations which are held in the Federal Old-Age and Survivor Insurance Trust Fund, the Railroad Retirement Account and the Unemployment Trust Fund. The amounts thus paid into the funds are to be used for the purpose of purchasing at the market price interest-bearing Government or Government-guaranteed obligations or for the acquisition of any such obligations on original issue at par. The amendment also provides for the crediting to the Federal Old-Age and Survivor Insurance Trust Fund any increase in the value of gold should the dollar be further revalued and all accounts hereafter retained as seigniorage upon the delivery of silver to the United States mints for coinage.

I do not believe it advisable to reduce the Stabilization Fund at this time. In view of the disturbed international situation it is essential that we maintain a fund of adequate size to protect the interests of this country. In this connection it is also to be noted that when the British Exchange Equalization Account was first created in 1931, the assets of the Fund amounted to \$175,000,000 or approximately \$275,000,000. Since that time the size of the British Exchange Equalization Account has been increased, so that today its size in terms of dollars is approximately \$2,875,000,000.

I have on a number of occasions stated that when the Stabilization Fund ceases to be needed, the \$2,000,000,000 should be used for the retirement of the public debt. I am still of that view. I believe, however, that when the debt is retired it should be done in an orderly manner so as not to upset the condition of the Government bond market and at a time when the credit structure of the country would not be adversely affected. If, as is intended by the proposed amendment, the Government were to go into the market and purchase over \$1,500,000,000 of Government obligations, the market price of Government obligations would be raised to such a high level and the yield on Government obligations would be reduced to so low a point as to create an unusual market for Government obligations.

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According to the Federal Reserve Bulletin of July, 1939, the excess reserves of member banks amount to more than \$4,200,000,000 and are very near their all-time high. If the proposed amendment is adopted, the excess reserves of member banks will be increased to more than \$5,500,000,000 and the possibility of an inflation will be correspondingly increased.

According to the Circulation Statement of United States Money for June 30, 1939, there is in circulation more than \$7,000,000,000 of coins and currency which on a per capita basis amounts to \$53.72. The amount of currency now in circulation both on a total and per capita basis is the greatest in the history of this country. To issue an additional \$1,500,000,000 of coins and currency would serve no public need for money. This money would immediately be redeposited in the banks, thus increasing excess reserves.

The methods now followed with respect to the issuance of special obligations for the Old-Age Reserve Account, the Unemployment Trust Fund and the Railroad Retirement Account are such that the moneys in these Funds are immediately invested, and when needed to meet benefit payments, moneys can be made immediately available by the redemption of such special obligations. This element of flexibility in the administration of the Funds would be lost if the amendment were adopted. There is also a likelihood that the adoption of the amendment would result in a loss of revenue to these Funds since the yield on \$1,500,000,000 of Government obligations that could be purchased in the market for the Funds is likely to be less than the interest rate on the special obligations.

The foregoing is also applicable to the amendment's proposed use of silver seigniorage and additional gold increment.

I accordingly recommend that Senator Shipstead's amendment be not adopted.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

RECORDED  
7-11-39

Honorable Pat Harrison,  
Chairman,  
Committee on Finance,  
United States Senate,  
Washington, D. C.



JUL 12 1939

My dear Mr. Chairman:

Reference is made to your communication of July 3, 1939, enclosing a copy of bill S. 2741, "To amend section 308 (an administrative provision) of the Tariff Act of 1930", and requesting a statement of the Department's views on the proposed legislation.

The bill provides that subdivision (3) of section 308 of the Tariff Act of 1930 (U.S.C., 1934 edition, title 19, sec. 1308) be amended to read as follows:

"(3) Samples for use in taking orders for merchandise, and articles for examination with a view to reproduction or for display or competition for noncommercial purposes at fairs, shows, meets, or exhibitions;"

The amendment would extend to articles brought into the United States temporarily for display or competition for noncommercial purposes at fairs, shows, meets, or exhibitions, privileges corresponding to those now granted by section 308 and other provisions of the Tariff Act of 1930 to several classes of articles under closely similar conditions.

The Treasury Department perceives no objection to the enactment of the bill into law as no new administrative difficulties would be imposed thereby.

In view of the urgent request for expedition of this report, advice has not been secured from the Bureau of the Budget as to the relationship of the proposed legislation to the President's program.

Very truly yours,

Acting Secretary of the Treasury.

Honorable Pat Harrison,  
Chairman, Committee on Finance,  
United States Senate.

JUL 12 1939

My dear Mr. Chairman:

Reference is made to your communication of July 10, 1939, enclosing a copy of bill H.R. 6999, "To amend section 308 (an administrative provision) of the Tariff Act of 1930", and requesting a statement of the Department's views on the proposed legislation.

The bill provides that subdivision (3) of section 308 of the Tariff Act of 1930 (U.S.C., 1934 edition, title 19, sec. 1308) be amended to read as follows:

"(3) Samples for use in taking orders for merchandise, and articles for examination with a view to reproduction or for display or competition for noncommercial purposes at fairs, shows, meets, or exhibitions;"

The amendment would extend to articles brought into the United States temporarily for display or competition for non-commercial purposes at fairs, shows, meets, or exhibitions, privileges corresponding to those now granted by section 308 and other provisions of the Tariff Act of 1930 to several classes of articles under closely similar conditions.

The Treasury Department perceives no objection to the enactment of the bill into law as no new administrative difficulties would be imposed thereby.

In view of the urgent request for expedition of this report, advice has not been secured from the Bureau of the Budget as to the relationship of the proposed legislation to the President's program.

Very truly yours,

(Signed) Herbert E. Gaston

*Acting* Secretary of the Treasury.

Honorable Robert L. Doughton,  
Chairman, Committee on Ways and Means,  
House of Representatives.

EJS:mf  
7/11/39

## GROUP MEETING

July 12, 1939.  
9:30 A. M.

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

H.M.Jr: Gene, were you at the President's press conference?

Duffield: Yes. I've got a memo on it for you.

H.M.Jr: / I'd like to see it.

Duffield: I'll get it right now.

H.M.Jr: Mac?

McR: No, I have nothing.

H.M.Jr: Got nothing.

Dan?

Bell: I have nothing.

McR: Oh, I have - you asked about those Customs sales in New York. I have a report on them on my desk, and I've read it. There are one or two places I've got to check, only with respect to stuff that had been turned over on request of other departments. So far as the sales are concerned, I think they're absolutely clean.

H.M.Jr: Will you show it to me?

McR: I'll bring it in with the additional information that I want to get.

(Mrs. Klotz comes in)

Klotz: Good morning.



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(Duffield hands memorandum on President's press conference to H. M. Jr.)

H.M.Jr: Well, Mac, you let me know more about it.

McR: Yes, I'll give you the report of all the stuff.

H.M.Jr: Righto.

George, how are you coming along on your study on steel?

Haas: I've got something for you this morning.

H.M.Jr: Have you? Well, when I get to you.

Haas: Yes.

H.M.Jr: All right.

Mac, what about that special equipment for the White House grounds?

McR: Well, they - the Park Service is purchasing it, and they promised to cooperate with Secret Service on the selection. They're going ahead with it.

H.M.Jr: Could you get a date for me when it will be installed?

McR: The Park Service will have it. I guess it will be about 60 days.

H.M.Jr: Well, when do you....

McR: I'll give you a date. I talked to them a couple times. They insisted on going through another process of competitive bids. They weren't willing to purchase on the offers made to Secret Service.

H.M.Jr: Well, let's have another follow-up on it.

What else for McReynolds?

Mac, has Harold - or you, Bell - has Harold Smith done any more about taking back to the President again the three Cutters and 15 planes?

- 3 -

McR: He telephoned me yesterday evening the last thing that he had taken it back and the President turned it down again.

H.M.Jr: What a man! I mean the President.

Bell, whatever happened on the gold coins with George Harrison?

Bell: Well, I haven't pushed it very hard, but every time I've called someone in the Federal Reserve Bank on business, I've had them switch me to Governor Harrison's office, and he is always out of town. I think he's out now for a week. I left word with his secretary to give me a ring when he comes in. We reversed the charges.

H.M.Jr: Now, George, Mr. Wallace says he'll be very glad to have me designate you as contact man with the Department of Agriculture. Now, the first thing I want you to do - maybe I've already told you this....

Haas: No.

H.M.Jr: He says that - I want - he'll be glad to explain to you, or have explained to you, the cotton and rubber barter deal.

McR: I've got a memorandum on that on my desk for you, as a result of that conference day before yesterday; and also have the name of the man that we contact. It's Robinson.

Bell: Robbins.

McR: Robbins, yes.

H.M.Jr: When was that conference?

McR: Day before yesterday.

H.M.Jr: Day before yesterday.

Haas: I'll get that from Mac.

H.M.Jr: Memo's on Mac's desk. He substituted the word "Desk" for "secretary."

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McR: Afraid to alibi this morning. May not know where it is.

H.M.Jr: Ed, did you have any study made of suits against the United States Government - like Sullivan & Cromwell - in behalf of foreign governments?

Foley: Oh yes, that's being looked into.

H.M.Jr: All right.

Now, I asked you to have a study made of all pending legislation, and I see today that they have agreed on the TVA bill - 61 million five. Does that mean we're going to get our bonds?

Foley: That's right, it will go through. The conference report has been on the Speaker's desk, and it will be agreed to probably today.

H.M.Jr: Is there anything else?

Foley: No; I've had that check made and I'll give you the summary of the legislation. I have the memorandum on my desk.

H.M.Jr: God, what big desks you boys must have.

Mr. Haas, ....

Haas: Yes, sir.

H.M.Jr: I feel good, because I was in early this morning and nobody was here, and I just had to do something; I cleaned my desk out. So I feel very virtuous this morning.

Anything else for me?

McR: Can you (Klotz) think of any more embarrassing questions?

H.M.Jr: I've got Jesse Jones coming in this morning.

Klotz: We're having company today?

H.M.Jr: Yes - just phoned.



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Anything else for me to do?

Klotz: No, sir. That's all.

H.M.Jr: Mac, everything all right?

McR: (Nods nothing).

Bell: Nothing.

H.M.Jr: Harold?

Graves: Nothing.

H.M.Jr: Archie?

Lochhead: There's a memorandum on the silver purchases since July 1. Incidentally, we're getting the first kick-back from shortening the regulations. The Phelps-Dodge people were down this morning. We'll just let them hold on to it for a while.

H.M.Jr: Steve?

Gibbons: Nothing.

H.M.Jr: I guess we can't do anything more about the Cutters, et cetera.

Gibbons: Apparently not. Smith is the one that took it to the President - apparently thumbs down. You talked to him after - once since....

H.M.Jr: Well, I talked to him in the last 10 days.

Gibbons: Yes, but I mean he said to send it back, and apparently he took it back, and we can't do any more.

H.M.Jr: If you and McReynolds would stay behind a minute, I'd like to talk to you.

Harry?

White: Baldwin got in touch with me last night to say that Secretary Wallace was going to appear before the Committee this morning. There was some question in their mind as to whether the maximum interest

- 6 -

rate was satisfactory, in view of the fact that Farm Credit apparently has been raising some objections, and they thought it might be desirable on some of their loans to increase the rate. I suggested that it would be quite undesirable for them to go up and begin either making exceptions or finding such criticism on points of that nature, until they had an opportunity to talk it over with you, et cetera; and they said - he said they wouldn't do it, they'd go along anyhow, and if they felt that they did have to have a higher rate they would take it up with you later, but that so far as he knew this morning, when he appeared, he would not raise that issue.

H.M. Jr: I'm glad you mentioned it, because in explaining my position at lunch to Kintner and Alsop - the article they wrote yesterday was written before lunch - I explained that I don't believe that the Administration has begun to use the device of low interest rate - by low interest rate I mean going rate - as a - how should I say....

White: As a stimulant.

H.M. Jr: As a stimulant to get governmental units to go ahead and construct, and that - I said, "I think, as far as I know, I would say the average rate for RPC is at least 4 percent. Now, when a man has to go into some municipal outfit - has to pay 4 or 5 percent, there is no attraction. Naturally, the mayors and all the rest of them are making the drive to get a grant. This going interest rate, if you really charged the going interest rate, would be an attraction to a lot of these people to go ahead and build non-federal projects." And I don't think we have used that device sufficiently. Well, even - I mean if I had the two alternatives as between a grant and even going below the going rate, I'd be in favor of going below the going rate. I mean if I had two pistols and I had to make my choice. But I think if we're going to get this Congress out of town without getting another 500 million - I mean we've got to stress the low interest rate.

Foley: That's right.

- 7 -

- White: And if they begin making exceptions in view of the fact that Jesse Jones....
- H.M.Jr: So if you'll keep that in mind for my statement.... Does anybody question that - what I've just said, as to the soundness, huh?
- Foley: Well, that's the keystone in the arch of this whole thing. If you don't maintain that interest formula, this program is just no good.
- H.M.Jr: And Kintner for the first time perked up and said, "Well then, really you haven't changed any about balancing the budget." Kintner, I think, was pretty sour on this thing, but when he heard that thing he began to take interest. Wouldn't you say so, Gene?
- Duffield: Yes.
- Foley: Well, he's been talking to Ickes and Hopkins. That column that appeared last night was written last Friday; it's three days off the time of publication. And I know he was in to see Hopkins last Friday. And they haven't stopped those fellows, and they're going to try to get a lump sum appropriation on the floor, if they can.
- H.M.Jr: Hopkins?
- Foley: Yes, and Ickes and those fellows, all of them. They don't like this very well.
- H.M.Jr: They don't?
- Foley: No. And if this interest rate is raised so that this program won't work, and they don't get a lump sum appropriation, they're going to blame you, and I think the only thing to do is to make darn sure that that interest rate formula stays in there so that there is a declaration from Congress that these loans have to be made at somewhere near the going Federal rate for the term of the loan that's made by the agency.
- H.M.Jr: Well, on the non-federal projects, the interest rate is the keystone of the whole thing. And Bell has a study - I wish you'd give a copy to these



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people, White and them - of these interest rates of the RFC. You have that study that you made for me.

White: Well, it's also apropos of the other.

Bell: Have it in a few days. Coming in now.

H.M.Jr: Particularly the RFC.

Lochhead: Probably, Mr. Morgenthau, you'd be interested in this. When Leroy-Beaulieu was down here, he explained informally these copper purchases the French Government was making here. I asked him how it was financed. He said through the New York banks. He said they spoke to the Export-Import Bank, and said the Export-Import Bank's rate was so much higher than even the rates of the New York banks that they couldn't do any business.

H.M.Jr: Well, I'd like very much to stress the interest rate on this thing, particularly on the non-federal projects.

Foley: On the non-federal projects, Mr. Secretary, during this last program, because municipalities with credit have been able to get cheap money, very little loaning has been done. It's mostly all been granted. PWA and RFC made the mistake of never reducing the interest rate below 4 percent, which has been the rate....

H.M.Jr: I said 4 - I didn't know and Gene didn't correct me, so I said 4 percent.

Foley: It's been 4 percent for five years, Mr. Secretary, and they've never reduced it, although interest rates generally for municipal money have dropped, and a lot of these municipalities are able to borrow on long term at around 3 or even under.

White: The effect of a low interest rate is not so much the fact that it becomes profitable on a non-federal work, because you can't measure the profitability, but what it does do is that it has a very important psychological effect on the part of those who have to make the decision, and they feel that if the rate is very low, startlingly low, that - then

- 9 -

they'll say, "Well, we ought to undertake these projects because we can borrow at one percent, and if we wait a few years we may have to pay three, four, five."

Foley: May have to pay six.

White: And from a business point of view it is desirable to undertake those. So it has a considerable stimulative effect in that direction. However, I don't want to give the impression that Agriculture wanted a higher rate. They merely wanted an exception for some of their loans, to meet the criticism, I gather, which is coming from Farm Credit, that some of the Farm Credit loans will look pretty sour if they make loans at low rates of interest. The position I took - until they talked with you - their demands for exceptions might lead to other demands for exceptions and sort of break down the whole structure.

Foley: Well, they talked to us yesterday, too, and we told them for goodness sakes not to say anything about the rates today when they appear, and if we have to do anything we can do it after the hearings are over and we get a chance to rewrite the bill before it is reported out.

H.M.Jr: Have you got a man present....

Foley: Yes.

H.M.Jr: At the hearing?

Foley: Yes.

Bell: Well, isn't that provision still in there?

Foley: No.

Bell: The President took that out?

Foley: That's right.

H.M.Jr: Well now, you were going to keep in touch with Wagner's clerk. What happened after - who - Wallace is today. Who's tomorrow?

- 10 -

- Foley: They're going to have Wallace and McDonald today, and they're going to have Jones and his crowd tomorrow, and Carmody on Friday, so Carmody can go out to Chicago for that regional meeting.
- H.M.Jr: If at all they want me, it will be Monday, I take it.
- Foley: It will be either Friday after Carmody or Monday, depending on how the hearings go.
- H.M.Jr: O. K., fair enough. Anything else, Harry?
- White: No.
- H.M.Jr: George?
- Haas: I have this memorandum for you. That steel is obviously very rough, and if you're going to use it we'll do a little bit more - some more checking on it. But a round figure of about 10 percent I don't think is far off.
- H.M.Jr: Of Government?
- Haas: About 10 percent of the total. The problem is adding dynamos and automobiles and trying to put them on a tonnage basis. And cement - it's down at the bottom - a large figure, nearly half for the three years.
- H.M.Jr: O. K. Now, can White and Duffield have a copy of this?
- Haas: I gave them to Harry last night over the phone.
- H.M.Jr: Well, give them copies.
- Haas: I'll give them a copy.
- H.M.Jr: Might give a copy to Foley, too.
- Haas: Fine. Structural steel there is a rather surprising figure, Mr. Secretary. It's over half. It's in the second paragraph.
- H.M.Jr: Structural steel is what?



- 11 -

- Haas: About half. Over half some years. Government used over half the structural steel. There's another figure that might be usable. Take all construction, as reported by F. W. Dodds Company for 1937; it states that the amount publicly financed in '37 was 53.3 percent of all construction.
- H.M.Jr: Well, that's just the figures that I want.
- Haas: I'll turn them over to them.
- H.M.Jr: The thing, as I say - you keep talking about this thing that Duffield (Kintner?) said - he said, "Well then, you still believe in balancing the budget?" and I said, "Sure, I'm looking now after six years - I'm looking in terms of four or five years, and that this is the bridge which will get us across from giving the money away to lending it. This is the bridge. But it will take us four or five years to do it, and you can't look to any Republicans, because if you look at what the five Republican Governors have done, in every case, with the exception of Pennsylvania, they have increased expenditures." And they said, "Yes, and in Pennsylvania they have wrecked everything."
- I'm saying as much as this so as to blow a little stuff toward you fellows (White and Duffield).
- George?
- Haas: I have nothing.
- H.M.Jr: Looks like a good job, George.
- Haas: Thank you.
- H.M.Jr: But I want you to dig in on Agriculture now.
- Haas: All right, I'll try to find out how it works.
- H.M.Jr: Well - and you might find out what are they going to do with their bounty; I'd like to know how much is going to export bounty and how much for food tickets, George.
- Haas: Uh-huh.

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Duffield: Nothing.

H.M.Jr: Ed?

Foley: Here's this letter on this amendment that Shipstead proposes to offer to reduce the stabilization fund.

H.M.Jr: Did you cry plenty?

Foley: Yes.

H.M.Jr: Good.

Foley: Danny Bell wrote the letter, with Bernie.

Bell: With Harry White.

H.M.Jr: What a mixture!

White: I had very little to do with it.

Bell: What?

White: I had very little to do with it.

Bell: I thought you said you had nothing to do with it. I was going to object.

H.M.Jr: Aren't you satisfied?

White: What's that?

H.M.Jr: Aren't you satisfied?

White: I thought they did a good job, considering the task they had to do.

Bell: Wasn't the task, it was the time; we tried to beat Congress adjourning, but they beat us to it finally.

Klotz: Can I get copies of that?

Foley: Huh?

Klotz: Copies?

- 13 -

Foley: Yes, I'll send you some.

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

Foley: No.

H.M.Jr: All right.

Foley: During the period from the first of July to the fifth of July, while the stabilization fund was inactive, about three thousand dollars was incurred in the way of current liability against the fund. The question comes up as to what we'll do about that three thousand dollars.

It seems to me that there are three possibilities. One, we can ask for legislation in the next deficiency bill, which I would not advise that we do. The other is that we get the money some place else, which I don't think is necessary. And the third thing, and the thing that I would advise, is that we just make those disbursements - that three thousand dollar disbursement - out of the account, and go along, and when we report next time to Congress as to the condition of the fund and the disbursements made from the fund, if Congress says anything about it we can say, "Why, certainly, we didn't dismiss our people, because we expected that the fund would be used again and the power would be continued, and I had no alternative; I couldn't dismiss my staff, I couldn't dismiss the people that were being paid out of that account." And if they say anything about it, why, legislation can be obtained at that time. But I think it would be a mistake, in view of all the turmoil that's been raised about the termination of the fund and the money going back into the general fund and all of that, to raise the question at the present time. Now, I have the legislation here and the letter, but I don't recommend that we do it.

H.M.Jr: Have Mac and Bell passed on this?

Bell: I agree with what Foley says. I don't know whether Mac has heard about it or not. Sunday I talked with Wood, the Legislative Counsel of the Senate,



- 14 -

and he asked me the question as to whether we were going to send up that item in a deficiency bill. I said we had it under consideration. He said, "My advice is to leave it alone, because when you send it up in a deficiency bill, you raise the whole question, draw it out in the open. I'd let it alone, get confirmation of it two years from now."

- Foley: If we ever need it - and we don't have to go to the General Accounting Office for that - all we have to do is report to Congress. And I don't think the question will ever be raised, and if the question is raised you can make a perfectly legitimate defense.
- Bell: I think so.
- H.M.Jr: How is it on the reporting to Congress? Is there something in the law?
- Bell: That's a new provision - report to the President and to the Congress each fiscal year. They added "and to the Congress" right after "the President" in the Act.
- H.M.Jr: I see.
- Bell: There's a letter coming along setting up an Audit Committee again this year, and when that report is ready about January 1 you'll have to send it to Congress in addition to sending it to the President.
- H.M.Jr: I see.
- Do you want to get in on this, Mac?
- McR: Well, I talked to Bernie; Bernie came in and talked to me about it. I told him I thought it would be absolutely silly to raise any question at all. The bill should be paid. After all, the theory is that the thing continued, and why not have guts enough to stick to your theory?
- H.M.Jr: Theory?

- 15 -

Foley: There was a nasty article by George Rothwell Brown in the Herald this morning about the continuation of the fund and so forth.

H.M.Jr: Who is he?

Foley: Well, he's one of these columnists that write for the Herald, I think the poorest of the whole crowd, and this is a very, very bad article.

H.M.Jr: What does he say?

Foley: Well, he says that it was a fraud, that the statute was repealed and by subterfuge and dictator tactics we drove the thing right through, and we are now acting just as though it had been done in the regular lawful manner.

H.M.Jr: Nasty man!

Foley: I'm mad.

H.M.Jr: You've got Mrs. Klotz crying. That's all right, cheer up.

Klotz: I'll try awfully hard.

H.M.Jr: All right. What other good news have you got?

Foley: Well, I have this Philippine legislation, Danny. I don't know what to do with it. I think that that provision ought to be called to the attention of Congress.

H.M.Jr: Has McNutt resigned yet from the Philippines?

Foley: Not yet.

H.M.Jr: He's a tough man.

Foley: I guess he must have, though, in order to be confirmed. He hasn't taken his oath of office yet.

H.M.Jr: Let's let that go over until next day, because Jones is coming over at 10 and I've got to do something before that. Right?

Foley: Right.

- 16 -

H.M.Jr: I'll tell you, if you've got something else, after we get through with the bank thing, stay behind and I'll clear your docket.

Foley: Right.

H.M.Jr: You're (Gaston) coming in on the bank thing.

Gaston: Yes.

H.M.Jr: I'll clear your docket for you.

Gaston: The Swiss banker still hopes he'll get a chance to shake your hand.

H.M.Jr: No, no.

Gaston: He's going to meet Cochran at 3:00 o'clock.

H.M.Jr: That's a great distinction, honor. He can meet Merle Cochran.

Gaston: All right. You're programmed up all day.  
Jimmy Malloy would like to have you go to a buffet lunch and cocktail party for Andy Rahn of Minnesota at the Hamilton Hotel, 5:00 o'clock this afternoon.

H.M.Jr: I'm going to one for Sumner Welles at 1:15. Who is Andy Rahn?

Gaston: Very prominent Shriner and lumberman, politician, of Minneapolis, friend of Jimmy Malloy's.

H.M.Jr: Well, will you go?

Gaston: I'm going to go in for about 15 minutes.

H.M.Jr: Do a lot of drinking in 15 minutes.  
All right.

Gibbons: Didn't you hear that they were giving one also for Captain Collins?

H.M.Jr: No. A party for Captain Collins?



- 17 -

Gibbons: Cocktail party; I think it's at the Carlton or the Mayflower,

H.M.Jr: Who's giving that one? Mac?

Haas: Procurement Division.

McR: I don't know who it is. I was telephoned that there was going to be one, but I don't know who's giving it.

H.M.Jr: Well, I want to talk to you (Gibbons) and Mac.

July 12, 1939

My dear Mr. Chen:

I beg to acknowledge receipt of your letter of July 6 and am glad to learn that you are making progress with Mr. Keeshin.

If it is possible, I would very much like to see Mr. Sheahan and Mr. Bassi between now and the first of August as I would like to talk over with them and impress upon them the importance of their mission.

I am glad to learn that Dr. Buok is on his way to the United States.

If you will get in touch with Mrs. Klots she will be glad to give you an appointment for yourself, Mr. Sheahan and Mr. Bassi sometime next week.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. K. P. Chen,  
Universal Trading Corporation,  
630 Fifth Avenue,  
New York, N. Y.

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(Signed) H. Morgenthau, Jr.

Mr. K. P. Chen,  
Universal Trading Corporation,  
630 Fifth Avenue,  
New York, N. Y.

## UNIVERSAL TRADING CORPORATION

EXPORT AND IMPORT

630 FIFTH AVENUE  
NEW YORKTELEGRAPHIC ADDRESS  
UNITRACORP  
TELEPHONE  
CIRCLE 5-7646CODES USED  
BENTLEY'S  
ACME'S

July 6, 1939

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

Dear Mr. Secretary:

After your conference in Washington with me and Mr. Keeshin, I cabled Dr. Kung your kind suggestions about arranging assistance in connection with Chinese transportation problems. I received immediate confirmation of the plan and Dr. Kung asked me to convey to you his deepest thanks and appreciation on behalf of China for your helpful interest.

Mr. Keeshin has been in New York with his two principal associates and after a comprehensive discussion of the situation we have agreed that a group of his three best men will go to China as highway motor transportation advisers to the Ministry of Communications. The compensation for these three men will total U.S.\$33,000 as follows:

Mr. Sheahan	\$ 8,000	for 3 months
Mr. Bassi	20,000	for 1 year
Mechanic	5,000	for 1 year

These men will advise on all aspects on transportation except in the training of drivers and chauffeurs, which is already directed by another qualified American expert now in China. He is to join the group. The head of the group will be Mr. Sheahan, the senior executive of Mr. Keeshin's organization and can only be spared by Mr. Keeshin for a period of three months in China. The others are engaged for a full year. Unfortunately, due to the necessity of Mr. Sheahan's appearance as witness in a pending lawsuit, the group cannot leave this country until about August 15th.

I plan to be at Chicago around the 20th of this month with Mr. Keeshin and his associates who are going to China and talk with them in detail about the whole situation, so they will have as much background of the problems to be dealt with in China as I can give them on this side.

Hon. Henry Morgenthau, Jr.

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July 6, 1939

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In answer to my urgent request for a personal conference with Dr. J. L. Buck concerning various important matters with reference to Foo Shing Trading Corporation, I have just received a cable from Dr. Kung stating that Dr. Buck is leaving Hongkong today by air, and is scheduled to arrive in New York on the 14th. I am most anxious to learn from him the latest picture of the transportation situation at home. I shall take him to Chicago with me to meet the members of the group personally, and to assist me at the forthcoming meetings with Mr. Keeshin and his associates. It is also my intention to ask Dr. Buck to accompany the group to China and to direct and facilitate their activities on my behalf.

I am also sending a report to Dr. Kung of what has been done here and I am urging upon him the importance of seeing to it that the Ministry of Communications and other interested officials cooperate fully with Mr. Keeshin's group and extend them every possible facility.

The interest you continue to show in the problems of China is more deeply appreciated than perhaps you are aware of as it is impossible to adequately express our gratitude, and I want you to know how much we thank you for your advice about the solution of transportation difficulties and the recommendation of Mr. Keeshin.

With kindest personal regards,

Yours sincerely,



K. P. Chen

KPO:GT

SECRETARY'S CORRESPONDENCE DIVISION  
JUL 10 1939

7748

RECEIVED



JUL 12 1939

Secretary Morgenthau

Mr. Foley

This memorandum is concerned with the procedure to be adopted concerning the payment of expenses, ordinarily paid out of the Stabilization Fund, incurred or accruing between midnight of June 30 and July 6, 1939, the date of the approval of the new bill by the President. The expenses involved are as follows: Salaries for the staff in Washington and New York, telegraph and telephone, ticker and news service, and periodicals. The amount of the expenses involved is approximately \$3,500. There are a number of ways of dealing with the situation:

- (1) Go to Congress for new legislation. If the legislation were obtained, it would be the most complete protection in the payment of these expenses. However, opponents of the Administration might seize on this opportunity of raising again the question of the availability of the stabilization fund. On balance, I think it would be undesirable to follow this course.
- (2) Use other appropriations. So far as I have been able to ascertain, there do not seem to be other appropriations which would be available at this date to pay these expenses, and administratively there would be difficulties in the way of making the switch retroactively to other appropriations for the five-day period.
- (3) Fail to pay these expenses. I think this would be unfair to the people on the payroll, and also to the private organizations that have provided us with service during that five-day period.
- (4) Make the payments out of the stabilization fund in the usual course. This procedure can be justified on at least several grounds. In the first place, even if the stabilization powers were not extended on June 30, implicit in the statute was the power to liquidate the fund and to pay administrative expenses in the process of liquidation. Secondly, Congress was considering the legislation and there was every reason to believe that at least the stabilization fund would be extended. It would have been foolhardy to have disbanded the organization and facilities for the interim few day period until Congress had enacted the legislation. Common sense dictated the retention of the staff and the facilities. The Comptroller General and the courts would be unable to question the validity of the payment of such administrative expenses. It is possible that Congress might raise the question, particularly when the annual audit is submitted to the Congress. I think it is very unlikely that the Congress would raise the question, and if our answer were not satisfactory, then would be the appropriate time to get legislation from Congress ratifying the payment of these expenses. If you agree that this is the course to be followed, kindly so indicate below.

(Initials) H. S. F., Jr.

APPROVED 7/12/39

*File*

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DEPARTMENT OF STATE  
WASHINGTON

In reply refer to  
Eu

July 12, 1939

My dear Mr. Secretary:

I enclose for your confidential information a copy of an Aide Memoire which was left at the Department of State today by the Canadian Chargé d'Affaires ad interim in regard to a recent press article concerning the alleged attitude of the Canadian authorities with respect to the United States silver purchase policy.

Sincerely yours,

*Cordell Hull*

Enclosure:  
As stated above.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

**Department of State**

BUREAU | Eu 241  
DIVISION |

**ENCLOSURE**

TO

Letter drafted 7/11

ADDRESSED TO

**Secretary of Treasury**



ConfidentialA I D E M E M O I R E

There appears in the July 8th edition of the New York Times, page 2, column 4, a press despatch from Ottawa dated July 7th purporting to reflect the views of the Canadian authorities on the United States silver purchase policy. This article gives an entirely incorrect impression of Canadian attitude on the question.

Canada would undoubtedly be adversely affected by cessation of foreign silver purchases. Canada is the third largest producer of silver, and during the last two years Canadian annual production has amounted to over 22 million ounces. While the total annual production does not bulk large in national income it is nevertheless an important item both in income and employment in certain sections of the country.

If United States purchases of foreign silver should cease Canada would be concerned over the effect on the world market for, and prices of, silver. The prospect of another period characterized by the great uncertainty and drastic fluctuations in prices of silver could not be viewed without concern under the present world conditions.

CANADIAN LEGATION  
WASHINGTON, D.C.

July 11, 1939

CJ

GRAY

PARIS

Dated July 12, 1939

Rec'd 4:08 p.m.

Secretary of State,  
Washington.

1297, July 12, 5 p.m.

FOR THE TREASURY.

The tendency of French wholesale prices in June was downwards. The general index at the end of the month stood at 685 compared with 693 at the end of May and 653 one year ago. On the other hand the index of retail prices stood at 758 at the end of June compared with 756 at the end of May and 698 one year ago. The industrial production index moved up from 95 in March and April to 97 in May. The improvement chiefly relates to metallurgy. Total capital issues in June amounted to 681,000,000 francs compared with 548 in May and 286 one year ago.

Rates were practically unchanged in light exchange trading today. The fund continues to obtain moderate amounts of sterling. The security market was depressed and rentes lost about 40 centimes. Variable revenue securities lost from one to two per cent.

~~(END MESSAGE)~~

BULLITT

NPL

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: July 12, 1939, 11 a.m.

NO.: 1290

The following is strictly confidential:

I have been told by Bonnet that agreement has finally been reached for returning to Spain the gold which France had been holding. Within the next few days announcement will probably be made that this gold will be returned to Spain.

As a quid pro quo the Spanish Government has promised that it will receive at once 50,000 of the refugees who are in France now. It has promised to take from 30,000 to 40,000 each month thereafter.

BULLITT.

EA:LWW



CJ

GRAY

LONDON

Dated July 12, 1939

Rec'd 2:38 p.m.

Secretary of State,  
Washington.

983, July 12, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

One. The Bank of England's usual bulletin announcement shows a purchase of gold bars to the value of pounds 20,002,848. The British (\*) of the causes for the note circulation increase mentioned in my 947 July 6, 6 p.m. the continued rise in employment is certain to continue for some time, renders unsuitable the more temporary expedient of an increase in the fiduciary issue to meet the August holiday currency demand peak, which the transfer of gold to the Bank of England from the exchange equalization account will doubtless give the double reassurance of (a) a permanent increase in the currency backing, and (b) confirmation of the belief that the exchange equalization fund has the gold to spare.

Two. The results of the negotiations with Rumania  
and

-2- #983, July 12, 6 p.m., from London

and Greece, reported in the second and third sections of my number 600, May 3, 6 p.m., are announced today in two Exchange Telegraph messages in which it is reported that (a) by an exchange of letters an arrangement has been reached for granting export credits to Greece of two million pounds to be used for the purchase of United Kingdom products, the relative securities to bear interest at five per cent and to be payable over twenty years, (b) an Anglo-Rumanian trade and payments agreement signed today in London provides for the guarantee for purchases of United Kingdom goods by the Rumanian Government approximating five million five hundred thousand pounds including provision for the purchase of British cotton and wool yarns and carded wool to the value of seven hundred fifty thousand pounds. Five per cent bonds repayable over twenty years will be issued by the Rumanian Government guaranteed by the Board of Trade. The agreement also amends the existing payments agreement.

Three. No silver was invoiced today. The spot price at the fixing was up  $3/16$  to  $16\ 9/16d$  on buying from India but arbitrageurs to the United States continue to shun the market and the forward rate rose by only  $2/16$  to  $15\ 15/16d$ . The TIMES city editor notes that

-3- #983, July 12, 6 p.m., from London

that yesterday Indian demands for prompt shipment were difficult to satisfy and that India's taking of fair quantities on a sharp fall is significant, while the writer of the money market column of the FINANCIAL TIMES asserts that "fortunately, there is no quarter from which severe selling pressure on the metal need be expected unless, of course, some of the more nervous holders panic again". It would seem that the London silver market is attempting to avoid giving a downward lead to the Treasury, realizing that the official quotations are not uninfluenced by the course of prices as fixed in London.

Four. The exchange market was quiet with both the spot and forward dollar slightly offered, the latter at 1 3/4 premium for three months. The British fund gave 34 of the 68 bars of gold dealt in at the fixing and 22 were married with Samuel Montagu the sole buyer.

KENNEDY

KLP

(\* ) Apparent omission