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PARAPHRASE OF TELEGRAM RECEIVED**FROM: American Embassy, Paris, France****DATE: March 24, 1939, 3 p.m.****NO.: 560****FROM COCHRAN.**

Quiet exchange market here, with no evidence that the French control intervened. The situation of the rente and share markets is a little better, but there has been practically no business, as the market awaits the speech which Mussolini is scheduled to give on Sunday.

BULLITT.**EA:LWW**

REB

PLAIN

London

Dated March 24, 1939

Rec'd 6 p. m.

Secretary of State,
Washington.

393, March 24, 7 p. m.

FOR TREASURY FROM BUTTERWORTH:

The Treasury bill rate rose today to $3/4$ per cent as compared with just over a $1/2$ per cent of past weeks due to the absence of tenders by clearing banks and reflects their desire for a more liquid position in the present circumstances. A rise of £18,000,000 in public deposits and a drop of £14,000,000 in bankers' deposits to a low level of £92,000,000 shown in this week's Bank of England return is due largely to heavy tax collection and is normal at this period, but the fact that this contraction in bankers' cash coincides with increased nervousness tends to accentuate the rise in the bill rate which is due primarily to the international outlook.

Although the London stock exchange was somewhat stronger today the city's apprehension for the future was reflected in a further decline in British Government securities.

REB

2-#398, From London, Mar. 24, 7p.m.

securities. Furthermore the dollar has been in demand all day. During the forenoon officials Swiss sales of dollars relieved the British authorities of the necessity of continuous intervention but in the afternoon they supplied the market. They also gave a majority of the 137 bars sold at fixing of which 23 were married.

KENNEDY

EMS

ROW

No. 152

Rangoon, Burma, March 24, 1939.

STRICTLY CONFIDENTIAL

SUBJECT: China's transportation problems and plans.

THE HONORABLE

THE SECRETARY OF STATE,
WASHINGTON, D.C.

SIR:

I have the honor to report that in the course of recent conversations T. K. Tseng, Vice Minister for Foreign Affairs of the National Government of China, indicated the great concern that the question of transportation facilities for required supplies of various kinds and for export products is causing the Chinese Government. At Haiphong, he said, China had 100,000 tons of supplies of many kinds, and the capacity of the French railway from that port of Indochina to Yunnanfu was only 250 tons a day. He pointed out that with the railway devoted exclusively to the movement of freight for the Chinese Government, and operating at maximum capacity, it would require 400 days to transport the supplies now awaiting shipment.

In regard to the Yunnan-Burma highway, he remarked that floods during rainy seasons frequently resulted in serious damage to railways, and that it would not be surprising if a new road suffered damage, regardless of any efforts that might be made to keep it open.

To maintain its currency, he said, China must have foreign exchange, obtainable only through exports, and a highway was not good enough for the volume of traffic demanded. A railway was needed.

India and Singapore Rail Connections.

The Vice Minister made the important statement that he understood that Lieutenant-Colonel A. J. Muirhead, Under Secretary of State for India and Burma, who visited India and Burma last December, took back to London for consideration information in regard not only to the proposed Yunnan-Burma railway, but also concerning possible railroad connections between India and Burma and Burma and Singapore. He said that he feared it might be considered, for strategic reasons, that the India and Singapore connections would be of greater importance to the British Government than the Lashio-frontier link.

He told me that some time before the separation of India and Burma, and consequently long before the outbreak of hostilities in China, he personally revived the project of a Yunnan-Burma railway, and that it was presented through official channels to the British and Indian Governments. The Indian Government opposed it as uneconomical, but the British Government said, in effect: "Go ahead and build your railway to the frontier of Burma, and when it reaches the border our section will be built to connect with it."

Railway Capital Not Yet Available.

The Chinese official asserted that the railroad construction work now in progress in Yunnan and else-

where in China meant less than it might appear to mean, as the capital required to buy materials and build the proposed lines was not yet available to China. He indicated that "domestic politics" had something to do with present activities, and he called the present Minister of Communications "a very clever man", saying that a Minister engaged in the construction of several railroads could expect to have popular support and a good chance to retain his position. Engineers were being given work. So long as a railroad was under construction, he said, no official accounting was required.

The Vice Minister indicated that another conference of interests concerned with the proposed financing of the Yunnan-Burma railway, similar to that held in Hong Kong at the end of the year, was recently held in Tientsin, but that there were no definite results. He declared that because of his personal relations with the several interests involved he was probably the only man who could reconcile the differences existing. "But I have never been asked to do it," he said.

In making this declaration the Chinese official did not appear to be doing more than stating a conviction, not boasting of any special ability.

Possible Use of British Boxer Indemnity.

The several interests involved were said to include the British-Chinese Corporation (Jardine, Matheson and Company and the Hong Kong and Shanghai Banking Corporation), the Banque de l'Indochine (representing French interests), the Chinese Ministry of Communications, T. V. Soong, the Board of Control of the British

Boxer Indemnity Fund, the Harman Syndicate, and the Yunnan Provincial Government.

Mr. Tseng said that he was a member of the Board controlling the British Boxer Indemnity Fund, and that arrangements might be made to use \$1,000,000 of that fund for the purchase of railroad materials and equipment. He estimated that \$3,500,000 would be needed for such purchases for the Yunnan-Burma railway.

French Claim Railway Rights.

He explained that the French, under an old loan agreement with China, claimed certain prior rights for the construction of railways in China, one of them a line to connect Yunnanfu with Suifu, the Yangtze River port at the end of navigation on that stream; that to the British a Yunnan-Burma railroad was not attractive without a Yangtze River connection, and that the British were not willing to do anything toward the construction of such a connection without the cooperation or consent of the French, as they felt that any disregard of the French claim to prior rights might establish a precedent that would be unfavorable to British interests at some future time. The Yunnanfu-Suifu line would cost, he said, less than the Yunnan-Burma railroad, and he thought the French would be willing to cooperate with the British in building it.

(According to information on file in the Defense Department, Government of Burma, the proposed railways in China for the construction of which French interests claim prior rights are the following: Yunnanfu to Chengtu, capital of Szechwan Province, via Suifu, on

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the Yangtse River; Chengtu to Chungking, on the Yangtse River; Yunnanfu to Chungking, via Kweiyang; in Kwangsi Province, extending from Hanoi, Indochina.)

More Rolling Stock for French Line.

The Chinese official said that the capacity of the French railway from Haiphong to Yunnanfu could be increased by the addition of rolling stock, and that if the French were unwilling to buy additional locomotives and cars, China might make the purchases and rent the equipment to the railway. He expressed doubt that the French would make the required investment. "They are very pessimistic," he said. "As long ago as December, when I was in Hanoi, they said to me 'Our days here are numbered.'" In Indochina, he remarked, the Siamese army was regarded with misgiving.

In connection with the question of additional rolling stock for the French railway to Yunnanfu, it is reliably reported that a few days ago the Burma Railways were asked, on behalf of the French railway management, if they had four locomotives they would be willing to rent. The head of the Burma Railways replied that he would consider selling, but not renting, the locomotives desired. The gauge of both railways is the same, one meter.

Transport of Railway Materials.

Vice Minister Tseng said that the transportation over the new highway of railway materials, particularly rails, if this had to be done, would be a difficult problem. He added that the Burma Railways had been asked if temporary track could be laid from Lashio to

a determined point on the border for the shipment of railway materials, the construction of permanent track in China to be then commenced at the frontier and carried toward Yunnanfu, but the railway management replied that this would not be practicable. If any track is built in Burma it will be permanent, and will mean that the British Government has decided on the construction of the Lashio-border link of the Yunnan-Burma railroad.

F. C. Hsieh, an official of the Chinese Department of Communications, came to Rangoon recently to inquire into the advisability of opening an office of the Railway Division of that Department, and he decided that no useful purpose would be served by such an office at this time. It is possible, however, that an officer will be stationed here as agent of the Chinese section of the Yunnan-Burma railroad.

Possibilities of French Railway.

C. M. Chen, the Chinese railway official who has just relinquished local charge of the Southwest Transportation Company to go to Singapore, and possibly later to Colombo, in connection with transshipment of war materials to Rangoon, told me that when recently in Yunnanfu he saw officials of the French railway and suggested to them that the capacity of the line could be increased by the provision of sidings as well as by the addition of rolling stock. He estimated the present maximum capacity of the railway at 300 to 400 tons a day, or higher than the capacity estimated by Vice Minister Tseng, and he said that he thought it could

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be increased by 200 tons daily.

Mr. Chen also told me that in the event the Yunnan-Kunming highway becomes impassable for trucks during the rainy season an effort will probably be made to continue the shipment of some supplies by mule caravans, not only over the new road but also over the old caravan trail from Shamo, on the Irrawaddy River, through Tengyueh and Talifu. He said that some ammunition, small arms, machine-guns, and high explosive could be shipped in that way.

Use of Airplanes Favored.

Mr. Chen expressed the conviction that it would be worth while to use airplanes for the movement of war materials from Lashio if the rains resulted in the suspension of truck traffic, and that such machines as the "Atalants" planes formerly used by the Imperial Airways could be made to carry relatively important quantities, if arranged exclusively for freight service. As previously reported to the Department, the purchase of these machines, of which there are four, was recommended, but it does not appear that anything further has been done. One of the planes was used for the Chungking-Kunming survey flight made by Imperial Airways early this month in connection with proposed air service between Chungking and Kunming. The reported price asked for the four machines is \$40,000, or 210,000 spioes. Each plane is fitted with four 340-horsepower engines, and has a speed of 120 miles an hour.

Singapore Link Could Depend on Siam.

In connection with Vice Minister Tseng's reference to a possible railroad connection between Siam

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and Singapore, it is to be pointed out that such a connection would depend on Siam, not only in the matter of operating over Siamese tracks in Siamese territory, but also in the matter of new railway construction, as a connection between the Burma Railways and the Royal State Railways of Siam, which connect with the British Siamya railroad to Singapore, would involve building in Siam as well as in Burma. The southern extension of the Burma Railways now ends at the town of Ye, 89 miles south of Moulmein and only 268 miles from Rangoon. The route of any connecting line would probably be south from Ye through Tavoy and Mergui and then across the frontier to a point on the State Railways of Siam. Whatever Japanese influence there is in Siam would be expected to oppose a British move of that kind.

Respectfully yours,

AUSTIN U. BRADY
Austin U. Brady
American Consul

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OFFICE OF THE
CONSUL GENERAL

NOV 25 1930

RECEIVED

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3. Copy to Consulate General, Calcutta.

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ADB/ep

A true copy of
the original document

Miss Chauncey

The Secretary
discussed this
verbally with
about today
and does not,
I think, wish to
write a reply

JG

From: Mr. GASTON

J R 13
11/2

JOSEPH ALSOP AND ROBERT KINTNER
The Capital Parade

March 24, 1939

1106 NATIONAL PRESS BUILDING
WASHINGTON, D. C.
TELEPHONE: NATIONAL 2304

NORTH AMERICAN
NEWSPAPER ALLIANCE

PERSONAL

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

Dear Mr. Morgenthau,

In accordance with our promise I am sending you through Herbert an advance copy of the first of the three articles in the "Saturday Evening Post." To be perfectly frank, I am a bit sorry that Joe said we would do this because the Post editors were very reluctant to release it ahead of time. In order to obtain the copy I had to promise two things: First, that you would tell no one that you received an advance copy; second, that you would show it only to your intimate family circle.

We had to high pressure the Post into giving us an advance copy since we, ourselves, never see the Post until the regular day for its sale. Martin Sommers, the Associate Editor, has written me a letter saying that while the matter may appear to be a small one, it is important to the Post. Mr. Sommers says "We've never done this before, as you know," and adds that the Post would get "in a lot of jams" if it became known that they had broken their rule. As I explained to Herbert yesterday, almost everyone who is to be featured in Post articles requests either a proof or an advance copy. Except in your case, the Post has always said "No."

Joe is vacationing in Florida, but before he left we had a talk and I would like to give you our feelings on the three articles. When we asked you to help us we promised, as Joe so aptly put it, "to be fair, factual, but not reverent." We put more time on these articles than on any that we have ever written, and we are satisfied that we have kept our promise to the best of our ability. In order that you may reach a sound judgment of whether we have succeeded or not, we ask only one favor — that you read this article as a part of the three articles, and that you pass your judgment not on any one thing said, but on the general picture of you that is given.

Henry Morgenthau, Jr., Esquire

March 24, 1939

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We know that there are opinions and appraisals in the articles that you will not like. We also know that there are other very favorable appraisals to which your critics will not agree. I do not want to labor the point, but I do want to ask again that you make your judgment on the basis of the three articles and the broad picture of yourself.

I certainly would not want to close this letter without thanking you, in behalf of both of us, for your generous cooperation, your patience, and your kindness. Without the hours which we spent with you we would have gotten an incorrect picture of your work. Herbert also was invaluable to us, and I am afraid we imposed upon his good will. He gave us every bit of information which we requested and I am sure we could not have done the articles at all adequately without his aid.

Would you also please thank Mrs. Morgenthau for her help? She, too, was invaluable.

Since you already know the contents of the second and third articles, we are naturally extremely interested in getting your reaction. If I understand the attitude of the editors of the Post, they think the articles are "favorable" to you. We are sure they are, and hope you agree. If this should not be your reaction, we would be extremely sorry, but would not want you to spare our feelings.

I hope you have a pleasant vacation. Best wishes to Mrs. Morgenthau and yourself.

Sincerely,

Bob Kintner

March 24, 1939.
4:13 p.m.

Operator: The Attorney General.
Frank
Murphy: Yes.
HMJr: Hello.
M: Hello, Henry.
HMJr: Frank.....
M: Yeah.
HMJr: I'm writing a letter today to Cordell Hull about the National Munitions Control Board.
M: Yes.
HMJr: And I'm sending you a copy of it.
M: Yes.
HMJr: I have never been satisfied the way that Board has been run.
M: Yeah.
HMJr: It's run by a fellow by the name of Green.
M: Yeah.
HMJr: And frankly we -- our boys have caught him in - absolutely lying.
M: Yes.
HMJr: Now, if that Board controls the exports of the munitions, -- and in this letter to Mr. Hull, which I am going to send you a copy of, I'm asking that he -- to get an opinion from you.
M: Yeah.
HMJr: And I just think that -- oh, we've sort of thought around here a long time that -- that they were breaking the law when they permitted munitions to be exported to Germany.
M: Yeah.

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HMJr: And so I'm -- Ed Foley knows all about it.

M: Yeah.

HMJr: And if you wouldn't mind taking a look at it yourself; there might be something, because I know that the President is looking for things that he can do against Germany just now.

M: Yes.

HMJr: And I think that there's a seventy-five per cent chance that this is one of them.

M: Yeah.

HMJr: I'm not as sure of this as I was on the countervailing duties, but I'm going to send it over to you; and I -- I know the President is interested in this kind of stuff.

M: Yeah.

HMJr: Is that enough said. I mean, you -- you'll take a look at it.

M: Of course I will, and if it's what you say -- now, I don't -- I -- if it's what you say we ought not to temporize with it.

HMJr: It's a seventy-five per cent chance that we're right.

M: Yeah. I wouldn't temporize with it. I'd....

HMJr: Right.

M:take action immediately.

HMJr: Well, we've fussed with it now for a couple of years. We've thought now for a couple of years that under the law the Munitions Board had no right to grant licenses of exports of munitions to Germany.

M: Yeah.

HMJr: But I can't get any support.

M: Well, you get it over to me right away.

HMJr: Okay doke.

M: All right, Henry. Good bye.

HMJr: Good bye.

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Confidential

MEMORANDUM FOR THE PRESIDENT:

I have been troubled for some time about the legality of the issuance of licenses for export to Germany of arms, ammunition and implements of war by the Munitions Control Board, of which I am a member.

Section 5(f) of the Joint Resolution of May 1, 1937 (50 Stat. 121), which creates the Munitions Control Board and provides for the regulation of the export of munitions, reads as follows:

"(f) Licenses shall be issued to persons who have registered as herein provided for, except in cases of export or import licenses where the export of arms, ammunition, or implements of war would be in violation of this act or any other law of the United States, or of a treaty to which the United States is a party, in which cases such licenses shall not be issued." (Underscoring added.)

The Peace Treaty between the United States and Germany incorporates that provision of the Versailles Treaty which forbids Germany to import arms and ammunitions.

In view of all the circumstances, it occurred to me that you might want to take this up with the Attorney General.

Attached is a copy of the letter which I sent to day to Secretary Hull in regard to this matter.

March 24th
J.M.R.

E.H.H.
E.H.F:s Typed 3/24/39

MAR 24 1939

My dear Mr. Attorney General:

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

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

Very truly yours,
(Signed) H. Morgenthau, Jr.
Secretary

Attachment -

The Honorable
The Attorney General

Enclosure

EHF:s Typed 3/24/39

MAR 24 1939

My dear Mr. Secretary:

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

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

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable,

The Secretary of State.

M:JUP:mg 3/23/39

Approximately 3/24/39 ^{6K171}

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Mr. Foley's opinion that
licensing of export of arms
and ammunition to Germany is
illegal.

MEMORANDUM Re: Exportation of Munitions to Germany.

The Act of August 31, 1935, 49 Stat. 1081, as finally amended by the Act of May 1, 1937, 50 Stat. 121 (U.S.C., Sup. III, title 22, sec. 245(b)), generally known as the Neutrality Act, provides, in part, as follows:

"(d) It shall be unlawful for any person to export, or attempt to export, from the United States to any other state, any of the arms, ammunition, or implements of war referred to in this Act, or to import, or attempt to import, to the United States from any other state, any of the arms, ammunition, or implements of war referred to in this Act, without first having obtained a license therefor.

* * *

"(f) Licenses shall be issued to persons who have registered as herein provided for, except in cases of export or import licenses where the export of arms, ammunition, or implements of war would be in violation of this Act or any other law of the United States, or of a treaty to which the United States is a party, in which cases such licenses shall not be issued." (Underscoring supplied.)

Article I of the Treaty of Peace between the United States and Germany, dated August 25, 1921, 42 Stat. 1939, 1942, provides as follows:

"Germany undertakes to accord to the United States, and the United States shall have and enjoy, all the rights, privileges, indemnities, reparations or advantages specified in the aforesaid Joint Resolution of the Congress of the United States of July 2, 1921, including all the rights and advantages stipulated for the benefit of the United States in the Treaty of Versailles which the United States shall fully enjoy notwithstanding the fact that such Treaty has not been ratified by the United States."

Article II of such treaty provides, in part, as follows:

"(1) That the rights and advantages stipulated in that treaty for the benefit of the United States, which it is intended the United States shall have and enjoy, are those defined in Section 1, of Part IV, and Parts V, VI, VIII, IX, X, XI, XIII, XIV, and XV." (Underscoring supplied.)

Article 170 of Part V of the Treaty of Versailles, referred to in the Treaty of August 25, 1921, provides, in part, as follows:

"Importation into Germany of arms, munitions and war material of every kind shall be strictly prohibited."

In 1933, prior to the enactment of the Neutrality Act of 1935, the State Department disapproved the exportation of a military airplane to Germany on the ground that, since the United States "under the provisions of Articles I and II of the Treaty between the United States and Germany restoring Friendly Relations, enjoys all the advantages stipulated in Articles 170 * * *, the importation of military aircraft into Germany * * * would constitute a violation of the treaty rights of this Government". Letter of Secretary of State Cordell Hull, September 11, 1933. See Department of State Press Release, Publication No. 641. This view was reaffirmed by the State Department in 1934 in a Department Press Release dated September 22, 1934. This continues to be the correct view of the Treaty of 1921, and since, under the Neutrality Act of 1935, no licenses may be issued for the export of munitions where the exportation would be in violation of a treaty to which the United States is a party, the licensing of the export of munitions to Germany is not permissible. Arguments to the contrary do not stand up!

1. It has been contended that the issuance of licenses to export munitions from the United States to Germany does not constitute a violation of the 1935 Act because section 5 of the 1935 Act forbids the granting of export licenses for munitions in cases where the export of munitions "would be in violation * * * of a treaty to which the United States is a party * * *", whereas the 1921 Treaty with Germany in terms prohibits only the importation of munitions into that country. However, it is clear that normally an export of goods from the United States to Germany necessarily involves an importation of goods into Germany. Swan & Finch Co. v. United States, (1902) 190 U.S. 143, 145-146; see United States v. Chavez, (1913) 228 U.S. 529, 530. There is nothing to indicate that the word "export" was used in the Neutrality Act other than in its normal sense.

2. It has been argued that since Germany has openly repudiated the prohibition against rearmament contained in the Versailles Treaty, the provision of the 1921 Treaty with the United States which prohibits importation of munitions into Germany is no longer in effect. Whatever may be the effect of such repudiation upon the continuance of the obligation under the Versailles Treaty, to which the United States is not a party, Germany, so far as there is any public record, has never even requested the United States to be relieved of its obligations to the United States under the 1921 Treaty, nor has it ever notified the United States that it considers the provisions of the 1921 Treaty terminated or obsolete. Further, the United States has never acted to modify or rescind the limitation imposed by the 1921 Treaty upon the shipments of arms to Germany. It is a well established principle of international law that the violation or renunciation of a treaty by one of the parties to it does not destroy the force of the treaty, in the absence of consent to such renunciation by the other party: In re Thomas, (C.C. S.D. N.Y. 1874) 12 Blatchf. 370; Charlton v. Kelley, (1912) 229 U.S. 473, 474, 475. It also seems clear that if the injured party to the treaty does elect to regard the treaty as void it must express that decision through a treaty or statute or other constitutional process and that it is not within the prerogative of any individual or of any official of the State Department to annul or to treat as annulled a treaty of the United States. See 1 Writings of James Madison (1865) 524-5.

3. It has been contended that the Treaty between the United States and Germany of Friendship, Commerce and Consular Rights dated December 8, 1923, 44 Stat. 2132, superseded any inhibition which might have been contained in the 1921 Treaty. In this connection, it is only necessary to point to the language of Article XXX of such Treaty which provides as follows:

"Nothing in the present Treaty shall be construed to limit or restrict in any way the rights, privileges and advantages accorded to the United States or its nationals or to Germany or its nationals; by the Treaty between the United States and Germany restoring friendly relations, concluded on August 25, 1921."

The Treaty of August 25, 1921, expressly states, in Article II, quoted above, that the provisions of Part V of the Treaty of Versailles, including necessarily Article 170, are intended to be for the benefit of the United States.

4. It has been argued that the export of munitions to Germany at most violates Germany's obligations to the United States, rather than any treaty obligations of the United States. There is some suggestion of that argument in remarks of the Secretary of State at his press conference of May 6, 1938. See Department of State, Press Releases, Vol. XVIII: No. 449, Publication 1171, May 7, 1938, at pages 546 and 550. It will be observed, however, that the licensing provision of the statute, quoted above, refers not to treaty obligations of the United States but rather to "exports * * * in violation of * * * a treaty to which the United States is a party * * *." That provision comprehends the exportation of munitions from the United States to Germany in violation of the prohibition contained in the Treaty of 1921 with the United States.

Finally, the fact that the amount of shipments which have heretofore been made to Germany amounts to only about \$2,000,000 does not in any way detract from the fact that such shipments have been permitted contrary to the Neutrality Act. Furthermore, a precedent has been established which would enable Germany to import from the United States unlimited quantities of munitions in violation of the provisions of the Peace Treaty of 1921.

GROUP MEETING

March 24, 1939.
11:30 a.m.

Present: Mr. Hanes
Mr. Bell
Mr. Gibbons
Mr. Lochhead
Mr. Gaston
Mr. Hras
Mr. White
Mr. Foley
Mr. Duffield
Mr. Graves
Mrs. Kiota

H.M.Jr: I wanted to find out from Schwarz how the President reacted on the reserve. He said he backed me up on this.

Gaston: Yes, he gave an argument, Chick told me, in favor of this modified plan.

H.M.Jr: We're still all right, John.

Now, who has something that they'd like to bring up that's important and that's unfinished business I shouldn't leave behind me?

Bell: I have something.

H.M.Jr: All right, go ahead, Bell.

Bell: I have one or two things to talk to you about.

H.M.Jr: Well, you better do it now, so - I mean at least I can tell you that I'll just pass them on to somebody else, or say yes or no.

Bell: Well, one thing I'd like to have you sign is a letter to the acting administrator of the Federal Housing Administration, approving some amendments to their regulations, and also approving a call of about \$700,000 of the outstanding debentures. They've got outstanding about a million and a half, and have got a little over \$700,000 in cash, and would like to call those April 1.

H.M.Jr: O.K.

Bell: Three places here.

(H.M.Jr signs)

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Bell: you asked me to speak to you about Eccles' memorandum.

H.M.Jr: have you read it?

Bell: Yes.

H.M.Jr: What's he say? I haven't read it.

Bell: You haven't read it? He just wants the Treasury to study with the Federal Reserve Board this open market policy and reserve question.

and apparently they had a meeting on March 20, and he says: "Mr. Harrison moved that the Chairman either by telephone or personally advise the Secretary in reply to his question that (1) the Federal Open Market Committee does not regard the present as the proper time for a reduction in the system open market account by the sale of bonds, and that in view of the change in circumstances that has occurred since the question was presented, the Committee assumes the Secretary is of the same opinion, as indicated by the cancellation of an outstanding order by the Treasury to the Federal Reserve Bank of New York to sell \$10,000,000 of bonds for the trusts administered by the Treasury, and (2) the Committee still feels that the continuing and fundamental problem involved is one of excess reserves, that is, the serious one, and that inasmuch as the Secretary of the Treasury expressed the opinion that the primary responsibility for initiating action with respect to excess reserves rests on the Federal Reserve System, the Federal Open Market Committee would suggest that representatives of the System consult with the Treasury with a view to determining if a long-range attack can be made on that problem."

H.M.Jr: Well, that can't go unanswered.

Bell: well, I don't think it has to be answered immediately.

H.M.Jr: Well, study it.

Bell: all right. Take some time, I take it, to study.

H.M.Jr: well, will you handle it?

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Bell: Glad to.

H.M.Jr: I think so.

Now, Fahey called up this morning, wanted to talk over his problems. Evidently he hadn't read the letter I wrote to him saying you (Bell) were available. And he wanted me - he told me what the problems were. I said that was right down your alley. His refunding and all that.

Bell: Yes. Well, I've talked to you about that, and is it all right for me to go ahead and try to work out a program?

H.M.Jr: Well, I think so - John - on this refunding, always on the supposition - it's a 900 million dollar refunding of the Home Owners Loan - that things don't get any worse. I mean I wouldn't

Bell: Have to make the call around

Hanes: When would that normally be?

Bell: Have to make the call probably first of May and have a refunding on May 15.

H.M.Jr: Well, what I would do is, I'd get it all ready to do and then when I get back we can talk about it. We can have it already. Wouldn't you (Hanes) say so?

Hanes: Yes.

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

We're going to have them use their cash to pay off some of their notes.

Bell: Some part of it, yes. They've got quite a problem of spreading their maturities, see? They're getting in this cash from month to month and they can't buy securities in the market with their sinking fund when the securities exceed par; so we have to have some short maturities in there to take care of that cash coming in.

H.M.Jr: Anything else?

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Bell: No, that's all I have.

H.M.Jr: Now, you're all clear?

Bell: Yes. I still have some unfinished business that you want me to do, and that's the war costs and so forth.

H.M.Jr: Yes.

Bell: But I haven't had a chance to talk to you about it. That can wait, I suppose, until you get back.

H.M.Jr: I think so. But the Cabinet's just been called off. I didn't know that when I called this meeting; I wouldn't have called this meeting. We've got time this afternoon if you want it.

Bell: All right.

H.M.Jr: What?

Bell: It's all right with me.

H.M.Jr: Want to come in three o'clock?

Bell: All right.

H.M.Jr: Will you (Klotz) put Mr. Bell down at three?

Klotz: Oh-huh.

H.C.Jr: Mac, you got anything, any unfinished business?

McR: I just got a letter from the Acting Secretary of the Navy: "It would be appreciated if you will authorize the Treasury agency service to cooperate with the director of the Naval intelligence in connection with training of Naval intelligence personnel." I think that's a good thing for us to do.

H.M.Jr: O.K.

McR: That's all.

Lochner: Marks are nice and quiet, but francs are quite nervous; probably continue for this afternoon, when they're looking to Mussolini's speech.

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H.M.Jr: I thought old "Mussi" ain't talk until Sunday.

Docnreed: Yes, but it's a week-end - regular pattern - Friday afternoon and Saturday they get cold feet. Incidentally, the S. S. Manhattan, sailing today, is going to have a record gold cargo, 52 million. Sort of help pay off the mortgage - about \$125,000 freight on that boat.

White: Cairns is on that boat. Ought to give him a free ride.

H.M.Jr: Who is on the boat?

White: Cairns and Foley.

Foley: Foley? I'm Foley.

White: Well, you were ^{gone} yesterday.

H.M.Jr: What are you trying to do, take Foley for a ride?

Doc: Fellow's away one day and he's gone for a long time.

Foley: Taking a cruise.

H.M.Jr: I'll read this - Chick Schwab's memorandum on the President's press conference.

"Social Security - President Roosevelt today said the present social Security act makes possible a reserve fund which, under insurance methods, would be 'too large.' Asked to comment on the statement of Secretary of the Treasury Morgenthau before the House Ways and Means Committee on the old-age reserve, the President said he had not yet read it but that 'all of us' have been working to eliminate what under the existing law has been 'very properly criticized--an unlimited reserve.'"

That was all right.

"The President ^{said} it was untrue, as has been frequently suggested, that the reserve fund under the existing system would sometime reach 40 billion dollars and beyond. When payment of benefits reached substantial proportions, he pointed out, outgo would at least equal income. What we should have, he declared, is

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an actual reserve to take care of payments for a period of from three to five years in the event of emergencies."

we're together.

"Asked if it were feasible to hold down the rate of taxation, he said that depended on how much of an increase in benefits is desired."

That's O.K.

"In response to a question as to how large a reserve fund might be adequate under the present system, the President said he wasn't sure but he believed thought was being given to a figure between two and a half and three billion dollars. Asked if he approved of a change in the present program of increasing payroll taxes, the President replied that that is what Congress is studying now."

Perfect, huh? Hum?

Mac: Right down the alley.

H.M.Jr: Couldn't have been better if Mac said it himself.

"The President said, in response to a request for comment, that he had so far read only the headlines on Chairman Lodge's remarks before the special Silver Committee of the Senate yesterday with respect to budget-balancing and curtailment of expenditures... There was nothing to say one way or another, he replied to a question, regarding reports that President Hutchins of the University of Chicago would be asked to succeed Bill Douglas as SEC Chairman.... The President said he would stay in Washington over the weekend and that he would leave for Warm Springs next Wednesday evening, 'subject to postponement or cancellation.'"

Bell: What day?

H.M.Jr: Wednesday.

you (Doohhead) all right then?

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Lochhead: Yes.

H.M.Jr: All right. Mr. Gibbons?

Gibbons: I'm doing nothing, of course, on the Coast Guard except on the airplanes. I think we'll get those airplanes - I mean with the rest of the budgetary request. I'm not asking anybody on the Hill to help us out on that. I'm leaving that to Woesche.

H.M.Jr: You mean the fifteen planes?

Gibbons: The fifteen planes, and the two - one for Elizabeth City and one for San Francisco.

H.M.Jr: How about the three cutters?

Gibbons: I'm working on that. I think we'll get all those.

H.M.Jr: Do you?

Gibbons: Yes.

Now there's only one other thing. You sent Woesche over to the Civil Aeronautics Authority....

H.M.Jr: A month ago.

Gibbons: ... about monitoring those planes flying across. We haven't gotten anywhere yet. But there is an appropriation up, passed by the House and Senate both, giving Civil Aeronautics authority, funds to build radio stations and all that sort of thing.

H.M.Jr: Well, why don't you and Woesche get together with Civil Aeronautics and have it out?

Gibbons: Do you want me to? You had sent him over.

H.M.Jr: You might - if you'd find out first which side the Navy is on - if you could, line the Navy up with us.

Gibbons: I'll talk to Edison.

H.M.Jr: See if you can't get Navy to back us up.

Gibbons: It's just going to be - the Coast Guard will be held responsible for going out, you know, and

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H.M.Jr: I'd go after it.

Gibbons: Well, I wanted to get your approval, because you sent him ...

H.M.Jr: See if you can't get navy to back you up.

McK: They've got the money to do it. It's all to the good.

Gibbons: It's in Committee now. That money may be stopped.

Hell: I think that money is for fixing up navigation agencies throughout the country, just the same as the old authority had; they had to fix these navigation aids all over the air lanes.

Gibbons: All right. I just wanted to get your clearance on it.

McR: I'd be delighted to see them get the money for that purpose, because under the reorganization bill, which the President will undoubtedly sign, we could take it away from them.

Hell: Put it in reserve. Mac's going to put it in reserve.

McK: After April 15 we'll take it away.

Gibbons: That's all I've got.

H.M.Jr: Now, Senator Pepper promised me this morning that he wouldn't raise the question about the Collector for Internal Revenue for Florida until I got back. He was going to come and see me himself.

Gibbons: O.K.

H.M.Jr: Harry?

White: Two. One little thing - possibly Archie called your attention to the fact that the Export Bank is considering a loan of a million dollars to finance exports to Japan. Thought you'd be interested.

H.M.Jr: No, he did not.

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White: Just came in.

Lochhead: Must have just come in. I haven't seen it.

H.M.Jr: Well, you know your duty, don't you?

Bell: Lochhead doesn't get those until they're all finished.

Lochhead: Still has to be voted on.

H.M.Jr: What? We're strictly neutral - but!

Lochhead: You always said, though - I think you told them they could always ask for something.

H.M.Jr: Oh, sure. Who's fathering that one?

Lochhead: That's absolutely new. What did they do, send it over ...

White: In that weekly statement, you know, that they send of what loans they're considering. I'll tell you about it.

H.M.Jr: Anything else?

White: Secondly, something of more - I consider much more important. I'm a little bit troubled, to put it mildly, at the general financing program, and I thought that possibly while you were away you might ask Danny to prepare a defense of the maintenance of such a large cash reserve and see what it looks like on paper after you've given the best arguments you possibly can make for it. I think it will serve two purposes. In the first place, you might re-examine the question, and in the second place the question may come up and you will be in a position to be prepared.

A second point along with that, which I'm sure won't receive much light - but I just utter my annual protest as to the make-up of the outstanding debt, the proportion of the notes and bills to bonds. But the first question I consider more acute.

H.M.Jr: Well, if you think sur balances are too big, we can

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just let 50 million a week of bills run off.

White: I get the implications. None the less, there are ways of reducing it. That might be the best way. There might be other ways.

H.M.Jr: A billion three of bills, they tell me, actually costs us \$24,000 a year. Somebody gave me that figure.

White: But do you know how much a billion of bonds cost you?

H.M.Jr: All right.

White: Therefore, the comparison between cash and bills may be open to some question. In any case, if you've got a very strong case - if it's a strong case, I think it could be easily made on paper.

H.M.Jr: Of course, I'd like to do what you suggest just out of devotion to the Federal Reserve Board. I'd just love it. This isn't one of Currie's suggestions, is it?

White: No. I gave you a memorandum on it some time ago.

H.M.Jr: I'd love to do it, because I mean all we've got to do is to say, "No new money on the 15th of June," which I hinted at my press conference I'd say - we didn't have to have any new money until the 15th of September - and I think the Federal Reserve System would just be fit to be tied. Now, if that's what you want, it's all right with me.

White: That wouldn't bother me, if the merits of the proposal were good enough. And I think if Danny or your staff has an opportunity to put down on paper their defense of it or their justification for it, it would be a relatively simple matter to let some of us shoot at it, because I think it's going to be attacked and I think there's some ground for attacking it. Got almost seven billion dollars in cash tied up, and I don't think it's fair to estimate the cost of that on the cost of borrowing bills.

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H.M.Jr: Well ...

White: But I thought they might do that, since there is a little less pressure while you're gone.

H.M.Jr: Mr. Bell in his capacity as Assistant to me will take it under consideration. That's right along the lines of Eccles' memorandum to us.

Bell: I've got a plan for reducing the balance there on paper - not immediately. I suppose you could go out and increase expenditures, but I'm not in favor of that.

White: No, no, no.

(H.M.Jr laughs)

You can't defend your position by taking the other position, taking a ridiculous extreme. You put it down on paper and then we'll see what we'll do with it.

Bell: I think the balance will go down in the next few months pretty rapidly.

White: Well, I'm still troubled about that, and I wanted to register my disturbance.

H.M.Jr: That subject was included in that general discussion of the proposal, you know, to reduce the bills.

H.M.Jr: Any, it's so easy; if the thing ever gets hot, we'll just let the bills run off, that's all.

H.M.Jr: Harry may have some qualms about that.

H.M.Jr: I know. Harry knows I'm having a good time.

Coston: About 700 million of that balance would be a little difficult to spend, represented by the silver bullion assets.

H.M.Jr: Well, anyway, it's a good point and keep raising it, Harry.

White: I will.

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H.M.Jr: All right.

Professor Foley?

Foley: Sam Klaus is out in Chicago, as you know. He tells me that Campbell has fired Glasser, who was the principal offender, and he's giving notice to the other seven, and that situation is clearing itself up. Sam says that there is an awful lot to be done in connection with that case in order to gather all the loose ends together and make sure. He thinks that they've got most of the material, but it's a question of formulating it now and determining a course and making it tie into that course. He's giving all his time to it, and I think it's a good thing we sent him out there.

H.M.Jr: Yes.

Foley: The Attorney General wants to appoint a committee - Bob Jackson is to be the chairman; Bill Douglas is going to serve; Lloyd Garrison, University of Wisconsin, and Judge Patterson of New York - and he wants to know if I'll serve representing the Treasury, to investigate the bankruptcy statutes, particularly insofar as the administration of them is concerned: appointment of referees and receivers, payment of the fees, and all that sort of thing. I told him I'd speak to you about it.

H.M.Jr: Well ...

Foley: We're involved because of ...

H.M.Jr: I know it. Now, look, ...

Foley: ... 77-D.

H.M.Jr: All right. Now, before I go into this thing, see, I want to know from the President of the United States, does he want referees appointed by advice of the Senate or not? Now, what's the use of investigating these things? Let's have a clean-cut statement. Up to now every bank receiver is appointed on the advice of the Senator or Congressman. Before I go in and waste a lot of your time, I want to know

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what is the policy politically? That's all. Tell us we don't have to ask a political thing, and we don't need any investigation.

You can tell Frank Murphy that for me. I mean for - I mean here you are six years and a half, or six and a quarter years; they've appointed all receivers on the say-so of a Senator or Congressman, with people calling us on long distance telephone to tell us how to run our business, and so forth. I won't go into such a thing. Let them decide before we go in the meeting whether it's done on a political basis or not.

No, you've got the whole thing - over nine hundred receiverships in the Comptroller's office - Jeffy O'Connor - every one of them picked by a Senator. Let them take the lid off, call a spade a spade.

Foley: This involves, Mr. Secretary, the administration of the bankruptcy laws in connection with 77-D, reorganization of Internal Revenue

H.C.Jr: I still say before somebody can go in representing me I want to know, is it going to be done on a political basis or is it going to be done so that we pick a fellow because we think he's efficient? And I won't go in until that bridge is crossed first.

I'm sick and tired of all these people getting together, being noble, and then underneath is the dirty politics. I'm sick and tired of it. I'm not going to have anything more to do with it. I want to know where I stand on a lot of these cheap politics.

Bell: Banks don't come under the Bankruptcy Act; they come under the National Bank Act.

Foley: This is 77-D, these reorganizations, Mr. Secretary.

H.C.Jr: I still say I want to know whether we're going to play politics and let the Senators pick them, or is it going to be done on a straight business basis. I'm sick and tired of it. I know the crowd, I know what it is. I want to know. All this - I mean I can understand all this thing, and you (Foley) know what

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I'm talking about, too. I mean this thing that you (Gibbons) and Johnny and I have been in on, see? I want to know, where do we stand? Are we to run this place the way we've continued to run it, or are we really going to have a new deal? Now, we don't have to ...

Foley: I gather that's the purpose that this committee is to be appointed to accomplish.

H.M.J.: wow, eh, listen, that committee can't settle that.

Foley: Well, it can make recommendations.

H.M.J.: Oh, no, then what?

Foley: well, I don't know.

H.M.J.: I'm sitting here, out on the hot spot by these people who are backing up Senator Kopper and making my life miserable, to kick out a fellow who's served the people for five years, has served the Treasury well, and the only thing they've got against him is because he wouldn't go out and collect money for Senator Kopper, and this whole same crowd that you're mentioning, we are putting the heat on me to get rid of this fellow. And I want a definition of what is a liberal and what is a new dealer. I'm not going to go into any more committee meetings until I know. I'm sorry.

Foley: well, I'll tell him.

H.M.J.: I mean this isn't against you. You're playing it the way I want it played. But I want to know where the political angle is.

I mean I'll sit down with Bennie Cohen and Currie and listen to what they think as to whether we should spend or not. That's one thing; that's a matter of opinion. But when the same crowd mixes what I call dirty politics in this thing, I don't want to play with them. A fellow can have an intellectual difference of opinion whether they should spend more money or spend less money, whether they should do this or that. That's a matter of opinion, and I want to meet them and talk about it. But when they mix in what I call dirty politics, I

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want to know about it. Now, all they've got to do is tell me if they want to do this thing on a political basis or on a business basis. If they'll decide that, then we'll play with them.

And if you don't know what I'm talking about, if you'll stay behind I'll explain it to you.

Foley: Well, I'd like to stay behind.

H.S.Jr: It's nothing personal. But I'm fed up. I can't fight on more than three fronts at one time, and I can't fight on this political front. If you don't understand, I'll explain it to you on a man-to-man basis if you stay behind. I mean I'm not implying before the group that you're playing politics, but these other people are, and I'm fed up on it.

Foley: This memorandum is on possible action to be taken by the Treasury in connection with the development of a national crisis abroad. You said that you wanted two items explored in memos on that.

H.S.Jr: I think you better come in this afternoon.

Foley: All right.

H.S.Jr: Be some time along about 3:30, say.

Foley: All right.

H.S.Jr: I think if White's around he better come in too, and Cochran. We'll do that foreign stuff at 3:30, O.K.?

Foley: Yes.

Duffield: I still have on my desk the U.S.N.A. bill on which I sent you a memorandum asking whether - all I wanted to know was whether you had any commitment with anybody on the bill.

H.S.Jr: I'm not sure that I may not have told either Wagner or Struss I was for it.

Hanes: I think you've got some commitment on that to Struss. I checked pretty carefully on that before you ...

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- H.M.Jr: Now, up to now we're half way around the room and I haven't dumped anything in Hanes's lap. I'll dump this one in his lap.
- Hanes: Well, the best way to proceed, I imagine, would be to talk to Straus about that, find out what his understanding is of our position.
- H.M.Jr: Yes. I'm not sure.
- Hanes: I was in on the meeting, but frankly I have forgotten now, it's been so long ago - I've forgotten what commitment we did make.
- Bell: I think the situation is a little confusing. I think Straus thinks he has a clear road to go ahead with presidential approval. I asked the President last week what his position was on it and he said, well, he didn't exactly need the \$11 million, but what he would like to have done is for Congress to give Straus the authority and the money to study the whole problem on this housing program, and get a program ready so that as soon as Congress could accept it next year, if it was needed economically - that he could go just as soon as the act was signed, rather than working out the program after the act was signed.
- H.M.Jr: Why don't you, between you (Suffield) and Bell and Hanes
- Bell: And I told Mr. Straus that yesterday.
- H.M.Jr: Well, will you two fellows handle that for me?
- Hanes: Yes.
- Suffield: I have here, as the result of those recovery questions of the fiscal and monetary group, two business forecasts: one from the Secretary of Commerce and one from the National Resources Committee. Are you interested?
- H.M.Jr: I'd like to take those down with me and read those.
- Suffield: That's all I have.

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H.H.Jr: There's one coming from George Harrison. I'll take that too.

Haas: I sent you one in too.

H.H.Jr: I read yours. I think yours was written before the last European crisis, wasn't it?

Luffield: I think all of these were, Mr. Secretary.

Haas: That's right. Mine was in terms of the prospect, as the question read, with these other threats in sight, you see, it means that those threats that were taken into account have materialized.

H.H.Jr: Yes, I read yours.

Luffield: That's all I have.

H.H.Jr: George?

Haas: I haven't got anything. Do you want us to send anything to you while you're away?

H.H.Jr: No. I'm going away with good resolutions.

White: Not going to telephone more than three times a day.

H.H.Jr: Harold?

Graves: You asked me at our last meeting to find out and report to you about the Skidmore case, when it was going to go before a grand jury. Have you had a report in the meantime?

H.H.Jr: No.

Graves: Mr. Gray tells me the District Attorney has told him that the intention is to take that case before the grand jury on April 17; that's this grand jury at Freeport. He says that the arrangement there is to take it before the grand jury for investigation; that after indictment the case would be set for trial at Chicago. You asked that question too, as to whether that meant that the case would be tried at Freeport. It will be tried in Chicago, which is

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in the same judicial district.

H.M.Jr: I see. When will it be tried?

Graves: Well, that, of course, is uncertain. It will go before the grand jury for investigation on the 17th.

H.M.Jr: But they're not waiting on us.

Graves: No.

H.M.Jr: O.K.

Wallace's blue and orange stamps - are they legal - & mean as far as the Comptroller's office is concerned?

Graves: Yes.

H.M.Jr: Did you clear that?

Graves: It isn't cleared formally, but as I've told you, he has had a representative participating with our people and the people from agriculture.

H.M.Jr: It hasn't been cleared yet?

Graves: It hasn't been cleared formally, but they don't anticipate any difficulty.

Foley: The clearance will come, Mr. Secretary, when they approve the accounting forms that are being worked on. There hasn't been a formal submission.

Graves: I understood them to say the forms had been submitted yesterday.

Foley: Yes, but we haven't got approval on them yet.

H.M.Jr: How about my thousand bales of cotton?

Graves: You're going to get it.

H.M.Jr: Will you get that? I'd like to know that. That's important. (Selling)

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Graves: I talked with Mr. Perkins about that this morning. He's having a little difficulty with his lawyers, but he's told them that they've got to find a way to get that.

H.K.Jr: That's the way.

(To Foley) There's nothing personal in what I was saying. Nothing at all. I just want to know where I stand in the Treasury as far as politics go, from this certain group; that's all. And just for the group's benefit, I believe when it's a question of politics it's the Chairman of the National Democratic Committee who should advise and recommend appointments, if they're going to be done that way; and if they're not going to be - or there should be on receiverships, and so forth and so on, no political considerations.

But I don't know where I stand, and I'll illustrate to you exactly what I mean, and it just makes it - politics is difficult enough, but if you know that either the White House or Mr. Farley is going to decide a political appointment - when you've got extra spokes in the wheel trying to tell you and bring influence to bear, it makes it very difficult, and I don't want to get in a jam with that and find out maybe I'm tied up.

and the Florida situation is a good case in point. It also ties right in with the gentlemen in L.A. Angeles.

Graves: Nothing further.

H.K.Jr: Still doesn't know. I'll draw you a few pictures.

Gaston: I'd like to have Marquis Childs talk to Harold Graves on that Treasury tax enforcement thing, if you don't object, in addition to his talks with Grey.

H.K.Jr: I can see him today.

Gaston: You can see him today? I'll get him on the phone.

H.K.Jr: Four o'clock.

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Gaston: Four o'clock - Marquis Childs; St. Louis Post-Dispatch, Saturday Evening Post. He's a good boy.

R.M.Jr: He wrote this ...

Gaston: He wrote "Sweden: The Middle Way."

White: A book that's been pinned from one end of the country to the other. A good man, but the book's been pinned.

Gaston: Should we have some book reviews in addition to this memorandum by Larry Bell?

White: Wouldn't be a bad idea.

Bell: Oh, listen, I'm going to take a few days off too in the next few weeks.

Daas: Improve your golf, huh?

R.M.Jr: I'm coming to that in a minute.

Bell: Play golf here a couple days.

Gaston: Only other thing is of no great importance. Frosty Hill called me. He was greatly concerned about a Lee bill down there which would set up a system of insured farm mortgages which he thinks would be perfectly poison. I told him to send a memorandum to Larry Bernard on it, which he has done.

Bell: I've asked for an appointment tomorrow with Senator Lee. He told me he's had it up with the President and the President's approved it. Really terrible. Don't even charge the farmers any premium.

R.M.Jr: Don't forget what his first name is.

Bell: "Josh"?

R.M.Jr: Yes.

Bell: Didn't mean anything to me except it indicates the farmer

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Gaston: Ruin the F.C.A. and let the Government hold the bag. Let the Government hold the bag - country banks hold the mortgage and the Government holds the bag.

H.M.Jr: John?

Ganes: Nothing.

H.S.Jr: I just want to say - first place, I want to thank everybody for the help they gave me on that Social Security statement, which I think has worked out very well; and second, I hope everybody will be sensible while I'm gone the two weeks. I promise not to call up unless it's an emergency after one o'clock.

Bell: That's good.

H.S.Jr: and I'm not going to call up every day anyway. If there is something important, why, call me; but I'm not going to make a practice of calling every day. I mean if it gets hot enough then I'll come back; otherwise, I'll stay down there.

Ganes: Nobody believes me.

Klots: I wish they had the nerve to laugh out.

Bell: What do you mean, "not enough". This is where it's going to be hot.

H.S.Jr: Well, I meant something really hot.

Bell: Oh.

H.S.Jr: Mr. Ganes will be in charge while I'm gone. You going to hold 9:30 meetings or not? That's up to you.

Ganes: I think it's a good plan. I'd like to let everybody know what's going on around here.

H.M.Jr: I think it's a good plan.

Ganes: If they don't object to it.

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McA: Good way for you to find out what's going on.

Hanes: That's the reason I want the plan.

H.M.Jr: It's a good crowd. I wouldn't call them much after 12:30.

Hanes: I was thinking of the most convenient time.

H.M.Jr: That really is a good time.

White: 12:30?

Duffield: The Republicans used to do that here. Udden Mills used to have them, didn't he, at 4:30 or 5:00? That's a Republican tradition; you can't do that.

H.M.Jr: Are you (Haas) making that business trip?

Haas: I was planning to, yes, sir.

H.M.Jr: Are you (Duffield) going to take a trip up and down the Mississippi Valley?

Duffield: Whatever you say.

H.M.Jr: Well, I think it would be a good idea.

Duffield: All right.

Hanes: You going to take a trip, Danny?

Bell: Just waiting to see if there are any other sections of the country that need investigating.

Duffield: There's always the west coast.

White: Don't hurry him, Johnny; he's going around.

Hanes: Seems like I'm going to hold these 9:30 meetings alone.

Waston: Master will be here.

Haas: Talk it over with yourself, John.

Hanes: Sure that Master will be here? I want him to hear what I've got to say.

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Lochhead: Maybe if you tell us where you're going to be,
we could all meet you there.

Klotz: Oh, that's marvelous.

McA: Seem to be breaking down.

H.M.Jr: All right.

March 24, 1939.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston (Reported by Charles Schwarz)
SUBJECT: President's Press Conference, Friday, March 24, 10:30 A.M.

SOCIAL SECURITY - President Roosevelt today said the present Social Security Act makes possible a reserve fund which, under insurance methods, would be "too large." Asked to comment on the statement of Secretary of the Treasury Morgenthau before the House Ways and Means Committee on the old-age reserve, the President said he had not yet read it but that "all of us" have been working to eliminate what under the existing law has been "very properly criticised--an unlimited reserve."

The President said it was untrue, as has been frequently suggested, that the reserve fund under the existing system would sometime reach 40 billion dollars and beyond. When payment of benefits reached substantial proportions, he pointed out, outgo would at least equal income. What we should have, he declared, is an actual reserve to take care of payments for a period of from three to five years in the event of emergencies.

Asked if it were feasible to hold down the rate of taxation, he said that depended on how much of an increase in benefits is desired. In response to a question as to how large a reserve fund might be adequate under the present system, the President said he wasn't sure but he believed thought was being given to a figure between two and a half and three billion dollars. Asked if he approved of a change in the present program of increasing payroll taxes, the President replied that that is what Congress is studying now.

MISCELLANY - The President said, in response to a request for comment, that he had so far read only the headlines on Chairman Coolidge's remarks before the Special Silver Committee of the Senate yesterday with respect to budget-balancing and curtailment of expenditures....There was nothing to say one way or another, he replied to a question, regarding reports that President Hutchins of the University of Chicago would be asked to succeed Bill Douglas as SEC chairman...The President said he would stay in Washington over the weekend and that he would leave for Warm Springs next Wednesday evening, "subject to postponement or cancellation."

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro, Brazil

DATE: March 24, 1939, noon.

NO.: 87

Department's 21, January 21, 1 p.m., and Embassy's 27, January 24, 1 p.m.

By decree law signed by the President yesterday the former 3% tax on exchange remittances in payment of import bills is increased to 5% and the 6% tax on remittances other than import bills to 10%. Text follows: "The President of the Republic taking into consideration the terms of Article number one letter A of decree law 1,059 of January 19, 1939 (see Embassy's despatch No. 1133, January 27, 1939) which budgets revenue destined to the special plan of public works and national defense during the current year and opens the special credit for its execution, decrees: article one effective upon the date of the publication of this decree law the tax referred to in paragraph two of decree law 97 of December 23, 1937 which was increased in part by decree law number 485 of June 9, 1938 will be collected on the following basis: (a) 5% for cases covered by number one paragraph one of Article three of decree law number 97 mentioned above, and (b) 10% for the cases provided in the other parts of the same paragraph

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paragraph referred to above.

Article two all dispositions to the contrary revoked.

I am told in strict confidence by the Director of Exchange that although it was expected that 250,000 contos would be yielded annually by the tax and profits on exchange operations embodied in the five-year plan (reference: telegram No. 23 of January 20, 3 p.m., from the Embassy), information recently compiled by the Bank of Brazil shows that the income from both sources in 1938 totaled 210,370 contos - which information was furnished to the Embassy in strict confidence.

Inform Commerce.

SCOTTEN.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro, Brazil

DATE: March 24, 1939, 1 p.m.

NO.: 88

Reference is made to my telegram of March 17.

I am told by the Exchange Director that today the Bank of Brazil will close exchange for maturities and daily quotas for the whole period February 11-13.

Inform Commerce.

SCOTTEN.

EA:LWW

March 24, 1939.
9:51 a.m.

Operator: Go ahead.
Claude
Pepper: Hello.
HMR: Hello.
P: Hello, Mr. Secretary?
HMR: Talking.
P: Yeah, this is Pepper.
HMR: Good morning.
P: How are you this morning?
HMR: Well, I think I can last until six o'clock when my train leaves for the south.
P: Oh, oh, well that's grand. I'm glad you're going down there. Well, I expect you -- if anybody in the world needs it, you need it.
HMR: Well, I'm going up to talk on Social Security, and by the time the Committee gets through with me, why the train can have what's left.
P: Well, where are you going to speak?
HMR: Ways and Means.
P: Oh. Oh, I see.
HMR: They've asked me to come up.
P: Oh, I see. Mr. Secretary, I -- you know I talked to you about this collector at Florida.
HMR: That's right.
P: I -- I've got an idea that -- that -- now this is just off the record, between you and me....
HMR: Right.
P: That the -- that the -- that the Boss has an idea that it would not be an impropriety to inquire of the

- 2 -

existing Senators, particularly in a case where a collector has served over four years, as to whether or not if the name were resubmitted he'd be confirmed. And -- and if he were to make such inquiry of me, I'd want you to know very definitely that -- and I'd be supported in that by Senator Andrews -- that I would very definitely and very strenuously oppose the confirmation of Mr. Larson on the floor.

Mr. J: Uh-huh.

P: Now, if the name were not submitted to me -- that is, if -- if after Mr. Larson having served five years now -- let me see, he was -- he was actually confirmed -- he actually took his office on March the first, 1934. He was confirmed in January, 1934, so he's served now for over five years, and the two new Senators have come in to the Senate from Florida since he was confirmed.

Mr. J: Yeah.

P: And so I was thinking of -- of Senator Andrews and I addressing a communication to you as the Secretary, stating these facts and -- and stating that we would not be agreeable to Mr. Larson's confirmation and recommending to you, and asking you to recommend to the President on our behalf, Mr. John Fahn of Leesburg, whose report has now been completed; and Mr. Helvering tells me it is a favorable report.

Mr. J: You know more about it than I do.

P: So -- well, that's -- that's what Mr. Helvering has advised me.

Mr. J: Well, he hasn't advised me anything.

P: Uh-huh. Now, I wonder if you have had any instances of where -- I mean, if a communication were to come through those channels and come to you in that form, would it be inappropriate for you to present that information to the President?

Mr. J: Oh, any communication that I get from Senators can't be inappropriate.

P: Yeah.

Mr. J: I would regret very much receiving such a letter.

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P: Yes.

HQJr: Because it sort of puts a pistol to my head and I like to think I'm a man, and I don't like to have pistols put to my head.

P: Well, what -- what I'm getting at is this. It's not a question of that; it's simply a question of -- of the technique. I mean, I -- I feel very keenly that I'm not satisfied with the present Collector of Internal Revenue in Florida.

HQJr: No. What I'd like to do, see?...

P: Uh-huh.

HQJr: Is this. I can't do it today because I've got this session on the Hill in a few minutes...

P: Yes.

HQJr: And Cabinet this afternoon.

P: Yes.

HQJr: Now, -- of course, the President can do anything he wants to for the two weeks I'm gone.

P: Yes.

HQJr: But I am going away because I'm completely all in.

P: Yes.

HQJr: And barring something in Europe, I'm going to stay away for two weeks.

P: Yes.

HQJr: And when I come back I'd like to have a heart to heart talk with you.

P: Yes.

HQJr: Now, if you can't wait that long, all right. But, as I say -- and if in the meantime if the President wants to do something, all right.

P: Yes.

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- HMJr: But I -- I just like to get -- to tell you just exactly how I feel and where I stand on this whole business of -- of discharging Collectors -- Democratic Collectors -- who have rendered excellent service to the country and have -- who have lived up to the Treasury's rules and regulations.
- P: Yes.
- HMJr: Now, I want you -- I'd like you to know just where I stand.
- P: Yes.
- HMJr: But it'll take me an hour.....
- P: Yes.
- HMJr: So -- and if you can wait until I come back, it would be doing me a favor, but if you can't, why that's all right too.
- P: Well, I certainly don't want to do anything that would put you out.
- HMJr: Well, I don't -- I -- I....
- P: It's just -- it's just one of those things that's already now -- eight months.
- HMJr: I know. You're an attorney, and I'd like to lay this whole thing before you.
- P: Yeah.
- HMJr: And -- it's politics, and -- or if it's agreeable to you I'd like to have Mr. Farley present.
- P: Well, you see, Mr. Secretary -- I mean, there wouldn't be any -- I -- of course, that's just a matter that -- I realize there are two interests involved in it, but I -- I very strongly resent Mr. Farley's having anything to do with this matter. I don't think it's any of his business, in the first place, and I -- I have not told him so far, but I -- I think perhaps it will be necessary for me to tell him so.
- HMJr: Well, I -- I can state my case to you as a Senator, and as an Attorney, and as -- as a citizen of the United States.....

- P: Yes.
- HMJr: And as a fair man.
- P: Yeah.
- HMJr: I'd like to have a heart to heart talk to you and get it right from my own lips how I feel.
- P: Yes.
- HMJr: I'd like that opportunity before you put yourself on record and make it impossible for both of us to change.
- P: Yes.
- HMJr: I mean, I'm willing -- I'm seeking a chance to talk with you and Andrews.
- P: Yes.
- HMJr: And I'd like to do that before the thing jells, but if it -- if it can't wait, well then I'm out of luck.
- P: Well now, Mr. Secretary, my situation is just this -- as far as I'm concerned I -- insofar as Florida is concerned, I'd just as well resign from the Senate if I retreat from that position now. Now, of course, I guess I could do that, but I -- you'd just as -- you'd just as well take me down in -- in Jacksonville and -- and set me up on the courthouse square and give me a spanking upon the bare behind, as -- as to say that this action is not to be consummated.
- HMJr: Well, I'm not.....
- P: And I've already crossed the Rubicon on that, and I -- I did it eight months ago, and I did it frankly, and I did it kindly, and I did it for reasons that I thought justifiable.
- HMJr: Yes.
- P: And I've tried to give the gentleman -- I've tried to give his friends every consideration that one could possibly give another.
- HMJr: Well now, in the the first place, I want you to -- as far I know, I've never met the man....
- P: Yeah.

WJr: It's -- but -- I want -- I want a chance to have you hear from me what my attitude is towards the seventy-eight thousand employees for whom I'm responsible....

S: Yes.

WJr: To the President and Congress.

S: Yes.

WJr: I'd like that chance, and I can't do it under an hour.

S: No, no.

WJr: And....

S: Well....

WJr: After you've heard me and you argue with me, and if we don't come to an agreement, the President is my boss; I'm only an appointed officer, and he can do as he wishes. He will anyway.

S: Yes, I see.

WJr: See what I mean?

S: Yes. Well, Mr. Secretary, I -- I -- I will -- I will accede to your personal request,

WJr: Well, I....

S: And I will -- I will appreciate it if you will make that as soon as you can because..

WJr: I'll make....

S: Every day -- every day that it's been deferred, they've simply built more fences around me, and I get more and more obstacles

WJr: I get back Monday

S: Yes.

WJr: On the tenth of April.

S: Yes.

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HBJr: And would ten-thirty be agreeable?

P: That would be fine.

HBJr: That's the first day I'm back.

P: Now that's April 10th at ten-thirty.

HBJr: Yes.

P: Righto! And I...

HBJr: And I want to say this to you; as far as I'm concerned, whatever the decision is it's -- you can't fight with me personally.

P: I know that. Well, you can't with me either, because I have too much regard for you.

HBJr: Well, I have for you, and -- but I do want you to get my side of the story. I mean, not towards one man but towards my seventy-eight thousand employees.

P: Yeah.

HBJr: And whatever happens is -- I'm not going to have a fight with you.

P: Well, neither am I with you, because you -- I really have a great esteem for you and I -- that'll always be my attitude towards you, and we'll -- I'll be glad to discuss it with you and I'll see you on April the 10th then at ten-thirty in the morning.

HBJr: Do you want to bring Senator Andrews too?

P: Oh yes, I'll bring him. Now -- I'll be glad to bring Senator Andrews.

HBJr: Well then it'll be just the three of us.

P: That's right.

HBJr: O. K.

P: All right, thank you.

HBJr: Thank you.

March 24, 1939.
12:17 p.m.

HMJr: Hello.

Operator: Robert Jackson. Go ahead.

HMJr: Hello.

Robert
Jackson: Hello. How are you?

HMJr: Henry talking, Bob. I've got Ed Foley here and he's asking me about this committee that you called him on.

J: Yes.

HMJr: in regard to receiverships. Hello?

J: Yes.

HMJr: Now, I've got just one interest in the receiverships -- as far as I'm concerned is -- and that is to have them non-political.

J: Well that's what we want.

HMJr: Well, that's what I want to find out, but -- I mean, if this is -- I mean, for six years, as far as I know, they have been done on a straight political basis. And if they are going to be continued that way, there's no use having somebody from the Treasury sit in on it.

J: Well, the purpose is to devise some way to get them out of the patronage class and to get this receivership situation in a situation where the court, when a receivership application comes up, won't lick its chops and say, "Here's a chance to appoint my friend to a good job if I appoint a receiver", so that they can be heard on their merits and avoid this sort of thing that happened with Manton where he put the receivers into receivership in order to name the receivers.

HMJr: Well, if that's your object, I'm heartily in sympathy with it.

J: Well, it is. If it were not I wouldn't be getting into it myself.

HMJr: Uh-huh. Well, on that basis, I'll tell Foley he can serve.

- 2 -

J: Well, I appreciate that a lot. The Attorney General suggested Foley's name and -- and I was very glad to have him and he's put it up to me to get the committee together. I -- I'd like Ed's help very much.

HMJr: Well, he's available.

J: I don't think it will take a great deal of his time I'll see to it that it doesn't.

HMJr: Right.

J: But I like his judgment and his -- his help.

HMJr: O. K.

J: All right. Thank you a lot.

HMJr: Thank you.

J: Good bye.

March 24, 1939.
12:25 p.m.

HMJr: Hello.

Operator: Congressman Bloom. Go ahead.

HMJr: Hello.

Sol
Bloom: Hello, Mr. Secretary. How are you? This is Sol Bloom speaking.

HMJr: Yeah.

B: You know, we're holding a celebration on the fourteenth of April. The President is going to speak -- in fact, it is one of the things he wanted to do, and we want to get out a thousand invitations -- this is at Mount Vernon on the fourteenth of next month. You were so kind to give permission the last time and you did it so well we thought we'd have a repeat of it.

HMJr: Yeah.

B: Is that all right with you?

HMJr: Yeah.

B: Thank you very much. And will you see that Mr. Hall gets word?

HMJr: Yeah, I'll -- I'll tell him. Yes, thank you.

B: All right. Thank you.

HMJr: Thank you.

B: Good bye.

March 24, 1939.
12:30 p.m.

Operator: Go ahead.

HMJr: Hello.

A. J. Altmeyer: Hello.

HMJr: Hello.

A: Altmeyer.

HMJr: I just wanted to say thank you.

A: Well, thank you. I've heard some very fine things said already by the Committee members about the statement.

HMJr: Well.....

A: They liked it very much.

HMJr: It was a great help, and I think that your attitude was most constructive and most fair.

A: Well, thank you.

HMJr: And, it was a pleasure to work with you.

A: Well, fine. Thank you so much.

HMJr: All right.

A: It's reciprocated one hundred per cent, you know that.

HMJr: I -- well, I feel it.

A: Yeah.

HMJr: Thank you.

A: All right.

HMJr: Good bye.

March 24, 1939.
12:41 p.m.

HMJr: Hello.
Herbert
Feis: Henry?

HMJr: Yes.

F: Sorry to disturb you when I know you're rushing off. I just wanted to mention this one thing to you. The Argentine situation is very difficult and they're trying to work it out by a system that will promote certain exports. It looks all right to us here, but we're not sure. That would -- if they can do that -- especially on wool, it enables them to shake loose from the complete German control of their wool market at the present time.

HMJr: Yeah.

F: Now, we therefore, are very much hoping the thing can be done. All I wanted, really, to ask of you -- or Welles asked me please to ask this of you, would be if you could pass a note somewhere down along the line that on any question that might be brought into the Treasury, regarding countervailing duties on Uruguay, to go darn slow and to talk it over with you, you see?

HMJr: Countervailing duties on what country?

F: Uruguay.

HMJr: Didn't know it was up.

F: It's not up. No, no. Don't put a -- don't put a bean up anybody's nose.

HMJr: Oh.

F: It's simply they are going, we think, to use certain methods to promote wool exports.

HMJr: Uruguay.

F: That's right. Now, their reason for doing it is today Germany completely controls that market. They want to get some free exchange. We don't think the methods they are going to use are going to involve any problems, but if they should, if -- if you should hear of it, perhaps I had better leave it that way, would you

remember that we have spoken to you and hold it up until every consideration could be given to it?

EMW: Right.

F: Well, what I -- I know I'm stumbling around -- what I'm really trying to say is that the possibility of Uruguay doing this may really be quite important as to her ability to remain economically independent.

EMW: Now, John Hanes is here and wants to talk to you a minute.

F: Right.

(Hanes lifts receiver)

John Hanes: Herbert?

F: Hello, Jack.

H: How are you?

F: Good.

H: Herbert, I've been asked a question here, and I haven't taken it up with the Secretary yet because I haven't had time -- by the Bankers Trust Company in New York who are contemplating making certain credits to the Argentine. They heard something about the -- the Argentinian export or import duties raised against American goods, and they thought this is a straight commercial loan or discount and they thought that by the fact that the Argentine had raised the duty against American imports coming in, that there might be some reason known to the State Department or the Treasury, why they, the Bankers Trust Company, should not enter into any negotiations with Argentine for these credits. And they asked me if we had any reason in the Treasury to advise them not to do business with the Argentine or if there was something that they would interfere with down here by doing this business, they, of course, didn't want to do it. And they tried to see Sumner, or tried to get in touch with him -- Frank Sheppard did, but Sumner was tied up and he couldn't see him, so he asked me if I would ask you, or Sumner, whether or not there was any reason why they shouldn't proceed to negotiate loans for the Argentine here in this market.

- 3 -

F: The answer is no.

H: There's no reason?

F: No. No, having said that let me give you a little explanation. They haven't raised duties on us; it's the way they are manipulating their exchange control.

H: I see.

F: You can't get official exchange for anything. It's a very severe discrimination.

H: Against us?

F: Against us. Through the administration of the exchange control.

H: Yes.

F: But we're in active conversation with them now trying to straighten it out and certainly we've no objection to any ordinary commercial financing. In fact, between you and me I'm glad to hear of it.

H: Well, if -- I -- I should think it would be -- it might help our relations with them.....

F: It might.....

H: if -- if we did do something.

F: Quite definitely. It might aid them; help them to get through.

H: Yeah.

F: The squeeze they think they are going through that they say compels them.....

H: Yeah.

F: To do this.

H: I see. Well, I told them that I'd check with the Treasury and the State Department. I -- and I checked also with the R.F.C. to make sure that they had no reason to hold back.

F: Well, there's none over here.

- 4 -

H: O. K. Fine. Thank you.

F: I -- John....

H: Would you mind telling Sumner that I'm asking for S. Sloan Colt. He knows Sloan, of course.

F: I'll pass the information -- the conversation on to him.

H: Righto.

F: Now, there are two or three other things, John. You will be Acting Secretary, won't you?

H: I -- I suppose.

F: Yeah. Well, I'll be -- I'm trying to get off too until Tuesday.

F: Yeah.

F: Tuesday -- I've got on my calendar two or three other things I'd like a chance to ask you about.

H: All right.

F: So you'll be hearing from me later in the week.

H: O. K. Fine.

F: Is the Secretary still there?

H: Yes, he is.

F: Would you ask him if he could speak to me a minute?

H: Yes, just a minute.

HJr: Yes, Herbert?

H: I'm speaking on Monday in Detroit -- that's that annual speech of mine....

HJr: Yeah.

H: On the economic bases of foreign policy.

HJr: Yeah.

F: Now, in the course of it I talked a little bit about monetary affairs.

HMJr: Yeah.

F: I begin -- in the first place, in the very beginning of the speech I say it's an expression of personal views.....

HMJr: Yeah.

F: and not an authorized statement. Secondly, when I get to monetary affairs I say I'll be brief because these are primarily in the field of Treasury business.

HMJr: Yeah.

F: See? Then in the few things I discuss I am perfectly sure -- otherwise I would have bothered you with it -- I am perfectly sure they are completely in line with what you are trying to do.

HMJr: O. K. That's all right.

F: So -- but I'm glad of this chance to tell you so that if and as you should see it you would understand the reason I didn't bother with it -- with them -- because I know they are completely in line.

HMJr: O. K., Herbert.

F: All right. Have a good time.

HMJr: Thank you. Good bye.

F: Good bye.

C8

te:

A carbon copy of this record was
turned over to Mr. Hanes to-day on
instructions of Mrs. Klotz.

MCH

r. 24/39

March 24, 1939.
1:55 p.m.

California

Operator: Hello.

John

Hanes: Hello.

Calif.

O: Just a moment please.

(Pause)

James

Roosevelt: Hello.

Hanes: Hello. Hello, Jimmy. Hello.

R: Hello.

H: Hello, Jimmy.

R: Hello, Johnny. How are you?

H: I'm fine, thank you. You?

R: Well, I tell you what I called you about. As a matter of fact, it isn't so terribly important because I'm coming east anyway and I want to come in and see you next Wednesday if you'll be there.

H: I'll be here.

R: Grand! What I wanted to ask you about -- it was really because of the fact, originally, that I called father and asked him if there wasn't some way to clean up this Bank of America business.

H: Yes.

R: And I was wondering if you were making any progress or if you could tell me what the trouble was. If it's -- if it's the trouble with them, why I ought to do something about it.

H: Well, Jimmy, I haven't followed their case with the S.E.C. at all.

R: Yeah.

H: I have followed very closely that part of it which is our business here in the Treasury.

R: Yeah.

Q: And I know that part of the story perfectly and I think we are making good progress with them insofar as the bank itself is concerned in its negotiations with the Comptroller's office.

A: Yeah.

Q: Now, they agree to do certain things. The Comptroller, of course, has asked them to -- to extend their capital -- to get themselves in better ratio, capital to deposits.

A: Yeah.

Q: And there's a lot of criticized and classified assets in the bank which the Comptroller has set apart and has said that capital had to be written off to take care of those classified assets.

A: Right.

Q: Now, they wrote -- wrote a letter to the Comptroller the early part of January in which they agreed to bring their capital up to the ratio of one to ten, which was the ratio that the Comptroller set for them, and they had a directors' meeting agreeing to go through with this thing and we are waiting for them to perform on their end of the bargain.

A: Yeah.

Q: Now if they perform, so far as we're concerned here, we're primarily concerned with the -- with the statute as it's written, and that is to keep these banks in safe and sound position, and the way -- the only way that we could do that is that they put in more capital in the bank and that they must do.

A: Yeah.

Q: And this -- the other part of the story over the S.E.C. I haven't followed at all except by the newspapers, and it's in -- the newspapers are so confused about it themselves that I haven't got a very clear idea of what is going on there.

A: Yeah. Well, I tell you, the thing that they seem to be worried about out here is that the S.E.C. taking grace the bank in so much that it will hurt the bank, you see?

- H: Yes.
- R: And they were wondering if there is any kind of an agreement that they could reach to go ahead and try the case without bringing in the bank, you see? Unless you people think that it's necessary to do so.
- H: Well, Jimmy, our policy here in the Treasury is just to mind our own business.
- R: Yeah.
- H: And -- and that is none of our business because the -- the S.E.C. has got a case over there which is a show cause order against Transamerica to show cause why they should not be delisted from the New York Stock Exchange because of giving false and erroneous information.
- R: Yeah.
- H: Now, what the procedure is for them -- it seems to me that if they want to make any bargain, they ought to offer the S.E.C. a stipulation and close the hearings and stop all this wrangling back and forth between the S.E.C. and the -- and the banks. I say that.....
- H: But how do they go about it?
- H: Well, that's something again. It's none of my business and I haven't any power to say anything, nor do I want to say anything about how the S.E.C. ought to conduct its affairs.
- R: No, no.
- H: I do -- I do believe, however, that if the banks came in and made a stipulation and -- and talked to the S.E.C. along the lines that Mario Giannini talked to me every time I've seen him.....
- R: Yeah.
- H: Well, then I think the S.E.C. are perfectly reasonable about it. I don't think they've got any -- there's no axe to grind on account -- they just want to make sure that they get the -- the thing in the public mind clear, that's all.

- 4 -

- R: Well, do you think -- do you think it would be bad business for me to talk to Jerome Frank about it? See -- see if I could get him to tell me what -- what they want, and so that -- so that they could come in and do it?
- H: Well, Jimmy, I -- I tell you, if you want my -- if you want my frank opinion as from Jimmy Roosevelt -- from John Hanes to Jimmy Roosevelt, I'll tell you what my frank opinion is.
- R: Yeah.
- H: I think you would do them more injury than you'll do them good.
- R: Yeah.
- H: Now, that's just a straight, and frank, and earnest statement, and sincere.
- R: Yeah.
- H: And -- and it's -- with as much idea of helping you as -- as anything in the world, because I don't want to see you get your neck out.
- R: No, no. I don't want to. I just want to -- in other words, they come across and say, "We want to do whatever is the proper, decent thing to do to finish this; it's hurting the bank and it isn't doing us any good anywhere around, but we can't seem to find out what it is that they'll let us do, and -- and don't give us a fair play." Well, naturally, hell I want to -- I want to see anybody treated fairly, that's all.
- H: Well, now, that's a question again -- that -- I should think you would have to settle for yourself. I'm just telling you -- I'm just telling you from your own standpoint if I were sitting where you are, I would -- if I were you I'd -- I'd have as little to do with it as I could, but that's just from John Hanes to Jimmy Roosevelt.
- R: Yes, sir.
- H: Not -- not anything official about that, but.....
- R: Oh, no.

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W: Well, we.....

R: I just want to be right about it.

W: We -- here in the Treasury, we've just got a rule that we mind our own business and -- and we hope to God that these other fellows will mind theirs and let us alone -- let us go on and do our job.

R: Yeah.

W: But if -- if these fellows want to make a -- if they want to make a settlement of this matter with the -- with the S.E.C., they're going about it in -- in a pretty bad way, Jimmy.

W: Yeah.

W: Because their -- their witnesses are refusing to testify -- again this is out of the newspapers that I get this.

W: Yeah.

W: Because I haven't discussed it with anyone other than here in the Treasury.

R: Yeah.

W: But, it seems to me from the newspapers that they are going about creating a cooperative understanding in a pretty bad way.

R: Yeah.

W: And if they wanted -- if they wanted to settle the thing, why it seems to me they are going to lay all the cards on the table, I think those fellows at the S.E.C. are a pretty fair-minded bunch.....

R: Yeah.

W: And they -- they just don't want somebody giving them the run-around.

R: Sure.

W: But I -- I would think if they would -- if you are coming on here next week, why I'd let the matter -- matter rest until you get here because you're liable to create a lot of misunderstanding by -- by telephone

because you can't get the background unless you're out here.

R: That's right.

W: So my advice to you again -- I'm outside the Treasury now, which I try to stay in, but I'm fond of you, and I want to say to you that if I were you I -- just as Jimmy Roosevelt, I'd keep quiet until you get here and get some of the background.

R: Right, Johnny. Well, I appreciate it a lot, fellow. That's what I wanted to find out. Bless you, and I'll see you when I get out there.

W: All right, Jimmy.

R: Thank you, Johnny.

W: Good bye.

R: Good bye.

March 24, 1939.
4:00 p.m.

HMJr: Hello.

Operator: Mr. Johnson. Go ahead.

HMJr: Hello, Johnson?

W. R. Johnson: Yes, sir.

HMJr: Secretary speaking.

J: Yes.

HMJr: When I come back on the tenth of April, I want a report from you as to what the activities are of smuggling of oil from Mexico into the United States and what we are doing to combat it. Texas citizens seem to think there's a lot of it is going on. I don't know whether they are right or wrong.

J: Yes, sir.

HMJr: When I'm back I'd like to have a special investigation.

J: All right, sir.

HMJr: Will you take care of it?

J: Yes, sir.

HMJr: Thank you.

J: On the tenth.

HMJr: Thank you.

J: Thank you, sir.

STATEMENT BY SECRETARY MORGENTHAU BEFORE THE
WAYS AND MEANS COMMITTEE OF THE HOUSE
OF REPRESENTATIVES, FRIDAY,
MARCH 24, 1939.

Titles II and VIII of the Social Security Act of 1935 charged the Treasury with responsibility for collecting the taxes for old age insurance, for administering the old age reserve account, and for making the benefit disbursements certified to it by the Social Security Board. I should like to submit to you today some considerations bearing on these aspects of the old age insurance program.

In 1935 when the Act was before this Committee, I urged adoption of a self-supporting contributory old age insurance system in which the future tax

- 2 -

burdens on the beneficiaries would be lightened by interest earned on a reserve fund accumulated by an excess of taxes over benefits during the early years of the system. I believe now as I believed then that a sound old age insurance system must be on a contributory basis. Our experience in these four years leads me, however, to recommend to you an important alteration in the role which a reserve fund should play in this contributory insurance system.

Four years ago when the old age insurance program was being planned, we expected that the Act as passed would provide old age security for a fairly limited group in the community. We realized,

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of course, that many workers who might not be insured under the Act at any one time would later obtain protection by shifting into insured occupations. It was generally supposed, however, that the group so shifting would be small compared with the great mass of workers, who throughout their working life would remain continuously either in the insured category or in the uninsured category.

Because the limited group of employments for which insurance was provided had been selected primarily upon the basis of administrative feasibility, it did not seem fair that uninsured persons should be taxed in order to provide old age benefits as-of-right for the insured group. I therefore recommended to your Committee in 1935 that the old

age insurance system be made self-supporting from payroll taxes on insured employees and their employers.

Operation of the Act has provided significant information bearing on this question. This information shows that the extent of migration, temporary or permanent, from uninsured to insured employment is far greater than was assumed by the President's Committee on Economic Security in 1935. In my last annual report, I pointed out that the consequence of this migration was that the scheduled tax rates were insufficient to maintain the system on the actuarial reserve basis provided by the law.

There is, however, another and more cheerful result of this migration. As a consequence of the

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migration, a much larger proportion of the total population of the United States is qualifying under the contributory system to receive old age benefits than had been expected. My latest annual report presented the estimate that, without extension of the coverage under the present law, 80 per cent of the population of the United States ultimately will have qualified during their working life for at least the minimum annuity under Title II of the Act.

This experience throws new light on our original belief that the Act ought to be self-supporting. Four years of experience have shown that the benefits of the Act will be so widely

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diffused that supplemental funds from general tax revenues may be substituted -- without substantial inequity -- for a considerable proportion of the expected interest earnings from the large reserve contemplated by the present law. Therefore, it becomes apparent that the argument for a large reserve does not have the validity which four years ago it seemed to possess.

There is no need at the present time and, I believe, there will be no need in the near future, for supplementing payroll taxes from general revenue. For all classes of beneficiaries, the values of the benefits which the Act provides are and for a long time will be substantially in excess of the contributions under the schedule provided in the law.

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There is another reason for questioning the schedule of tax rates and the resultant reserve set up in 1935. We adopted a gradual step-up in the tax rate in 1935 in order to give industry an opportunity to accustom itself to the new taxes and so avoid any undue restrictive effects. The trend of business conditions in specific future years could not, of course, then be accurately foreseen. In periods of incomplete business recovery like the present, the contributory old age insurance system should be so financed as to have the least possible deterring effect on business. It is, therefore, a pertinent question whether a substantial increase in the tax rate should be allowed to occur at the present stage of business recovery.

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The depressing effect of the present disturbed state of world affairs upon the American economy makes it especially urgent that at this time we do not place any avoidable burdens on American productive enterprise.

That is only one side of the picture. Over against these factors affecting business, your Committee will, of course, take into account the possible undesirable effects on the public understanding of contributory old age insurance which may result if the tax schedule is disturbed at this time, especially if increased benefits are approved.

With these factors in mind, I recommend the following changes in the Act:

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1. We should not accumulate a reserve fund any larger than is necessary to protect the system against unforeseen declines in revenues or increases in the volume of benefit payments. Specifically, I would suggest to Congress that it plan the financing of the old age insurance system with a view to maintaining for use in contingencies an eventual reserve amounting to not more than three times the highest prospective annual benefits in the ensuing five years.

2. The method of administering the old age insurance reserve fund should be changed so that it will be made clearer to everyone that it is a trust fund established for the

benefit of the insured who have contributed to it. I recommend the creation of a board of trustees for the fund to be composed of the Chairman of the Social Security Board, the Secretary of Labor, and the Secretary of the Treasury. The Secretary of the Treasury should be the managing trustee for the fund. Such a Board of Trustees would be similar to that set up in the Postal Savings Act.

I also recommend the establishment of an "old age insurance trust fund" to be held in trust by a board of trustees and to be deposited in a special account in the Treasury. The old age insurance trust fund would be made

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up of (a) contributions collected under Title VIII of the Social Security Act, (b) income accruing to the trust fund, and (c) any other money appropriated thereto by Congress, including the balance now carried in the old age reserve account.

The board of trustees should report annually to Congress on the operation and status of the old age insurance trust fund during the preceding fiscal year and on its expected operation and status during the next five fiscal years, reporting and estimating the income of the fund, its disbursements, and its assets. The board of trustees should report from time to time

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to Congress on the actuarial position of the fund. It should also make a special report to Congress whenever the trustees believe that during the ensuing five years the trust fund will exceed three times the highest annual expenditures anticipated during that five-year period. The trustees should also report to Congress when they believe the reserve is falling unduly low.

3. To improve public understanding of the purposes for which the funds are collected, I recommend that the taxes under Title VIII be termed "contributions" levied under the Government's taxing power. This terminology has already been used in the Railroad

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Unemployment Insurance Act.

The change to a contingency reserve system of old age insurance must necessarily influence the rates at which the Government should collect contributions. I must advise Congress that acceptance of a contingency reserve basis means that at some future date either payroll taxes will have to be higher than the present Act provides or there will be a deficiency which the Government will have to make up from other tax sources.

On the other hand, if a contingency reserve system is adopted and if the schedule of tax rates provided in the Social Security Act remains unchanged, we may have for a few years, unless benefits are increased substantially, a reserve

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fund somewhat larger than would be necessary under the standard I have here suggested. However, the early annual disbursements of benefits are neither representative nor can their amount be precisely forecast at this time. Consequently, it may be desirable to anticipate a somewhat larger contingency reserve during the first few years of benefit payments. In addition, the contributory old age insurance principle would be jeopardized if, for the purpose of reducing the reserve, the rate of contributions was reduced or inadequately increased during the period when the public had not yet come to understand completely the essential dependence of benefits on contributions.

- 15 -

I submit for your consideration four alternative rate schedules for old age insurance contributions. They differ only as to the rates which would apply during the next three years. The rate schedule which will be most in harmony with the maintenance of a contingency reserve on the standard previously proposed will depend upon the benefit provisions finally adopted by Congress. These alternatives are as follows:

1. Leave the present rate schedule unchanged, that is, 1 per cent on employees and employers each from 1937 to 1939, inclusive, increasing to $1\frac{1}{2}$ per cent on each in 1940, to 2 per cent in 1943, to $2\frac{1}{2}$

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per cent in 1946, and to 3 per cent in 1949.

2. Increase the tax rate on each, employees and employers, from 1 per cent to 1-1/4 per cent in 1940, to 1-1/2 per cent in 1941, to 1-3/4 per cent in 1942 and follow the present schedule thereafter.

3. Increase the tax rate from 1 per cent to 1-1/6 per cent in 1940, to 1-1/3 per cent in 1941, 1-1/2 per cent in 1942 and follow the present schedule thereafter.

4. Omit the increase in tax rate from 1 to 1-1/2 per cent scheduled to take place in 1940, but step up the rates in 1943 and follow the present schedule

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thereafter.

You will observe that all of these plans provide for the existing schedule in 1943 and thereafter.

I should like also to place before you four tables which show annual contribution collections, annual benefit payments and the size of the old age reserve fund over the next few years under each of the four tax schedules. In preparing these tables the Treasury has used for illustrative purposes the intermediate estimates of benefit payments based upon the proposals outlined by the Social Security Board in its report to Congress. These estimates were supplied to the Treasury by the Board and their inclusion in the Treasury's tables does not imply

either approval or disapproval of the benefit plans which underlie the estimates. This material, I hope, will assist you in determining at what rates contributions should be collected and how large the contingency fund should be.

Our experience under the Social Security Act has been very brief. We have been collecting taxes under the old age provisions of the Act for only slightly more than two years. We have not as yet had any experience with the payment of monthly benefits. Periodic re-examination of the Act, therefore, is essential. I think that it is most important that prior to 1943 Congress again comprehensively re-examine the financial provisions

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of the Act. Pending that re-examination, however, I believe that the tax rates for 1943 and thereafter which are now in the Act should be retained so that there shall continue to be a definite program for financing old age insurance on the statute books.

I firmly believe the old age insurance program of the Social Security Act constitutes a great and far-reaching constructive program. Its planning, initiation and operation have been a tremendous task. That task has been successfully carried forward over the past four years. With proper revision, the Act will provide a means of protecting millions of our people against dependent old age. It will protect them through enhancing

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their capacity to help themselves and in planning for a self-reliant old age. It will protect them and our society from the dangers of paternalism.

ALTERNATIVE PLAN IV

1. No increase in tax through 1942; thereafter tax schedule of present law.
2. The benefit estimates used are for illustrative purposes only and are the intermediate estimates based upon the proposals outlined by the Social Security Board in its Report to Congress.

(In millions of dollars)

	Calendar Year					
	1940	1941	1942	1945	1950	1955
Net tax receipts (gross receipts minus administrative expenses) \$	501	\$ 505	\$ 504	\$1,078	\$1,751	\$1,849
Less: Benefit payments	175	400	555	914	1,697	2,320
Net cash receipts of Government	326	105	- 51	164	54	- 471
Add: Interest accrued	48	56	58	82	115	98
Total addition to fund	374	161	7	246	169	- 373
Fund at end of year *	1,804	1,965	1,972	2,907	3,974	3,131

*Fund at end of year 1939 is estimated to be \$1,430 millions.

ALTERNATIVE PLAN I

1. Tax schedule of present law: 1 percent on employees and 1 percent on employer through 1939, increasing to $1\frac{1}{2}$ percent in 1940, 2 percent in 1943, $2\frac{1}{2}$ percent in 1946, and 3 percent in 1949 and thereafter.
2. The benefit estimates used are for illustrative purposes only and are the intermediate estimates based upon the proposals outlined by the Social Security Board in its Report to Congress.

(In millions of dollars)

	Calendar year					
	1940	1941	1942	1945	1950	1955
Net tax receipts (gross receipts minus administrative expenses)	\$ 707	\$ 780	\$ 781	\$1,078	\$1,751	\$1,849
Less: Benefit payments	175	400	555	914	1,697	2,320
Net cash receipts of Government	532	380	226	164	54	- 471
Add: Interest accrued	51	66	77	110	147	135
Total addition to fund	583	446	303	274	201	- 336
Fund at end of year*	2,013	2,459	2,762	3,846	5,064	4,395

* Fund at end of year 1939 is estimated to be \$1,430 millions.

ALTERNATIVE PLAN II

1. Tax schedule: $1\frac{1}{2}$ percent on employee and $1\frac{1}{4}$ percent on employer in 1940; $1\frac{1}{2}$ percent on each in 1941; $1\frac{3}{4}$ percent on each in 1942; same as present law in 1943 and thereafter.
2. The benefit estimates used are for illustrative purposes only and are the intermediate estimates based upon the proposals outlined by the Social Security Board in its Report to Congress.

(In millions of dollars)

	Calendar year					
	1940	1941	1942	1945	1950	1955
Net tax receipts (gross receipts minus administrative expenses)	\$ 605	\$ 746	\$ 884	\$1,078	\$1,751	\$1,849
Less: Benefit payments	175	400	555	914	1,697	2,320
Net cash receipts of Government	430	346	329	164	54	- 471
Add: Interest accrued	49	62	74	109	146	134
Total addition to fund	479	408	403	273	200	- 337
Fund at end of year*	1,909	2,317	2,720	3,836	5,052	4,381

* Fund at end of year 1939 is estimated to be \$1,430 millions.

ALTERNATIVE PLAN III

1. Tax schedule: 1-1/6 percent on employee and 1-1/6 percent on employer in 1940; 1-1/3 percent on each in 1941; 1-1/2 percent on each in 1942; same as present law in 1943 and thereafter.
2. The benefit estimates used are for illustrative purposes only and are the intermediate estimates based upon the proposals outlined by the Social Security Board in its Report to Congress.

(In millions of dollars)

	Calendar year					
	1940	1941	1942	1945	1950	1955
Net tax receipts (gross receipts minus administrative expenses) \$	570	\$ 666	\$ 758	\$1,078	\$1,751	\$1,849
Less: Benefit payments	175	400	555	914	1,697	2,320
Net cash receipts of Government	395	266	203	164	54	- 471
Add: Interest accrued	49	60	69	100	136	122
Total addition to fund	444	326	272	264	190	- 349
Fund at end of year*	1,874	2,200	2,472	3,528	4,695	3,966

* Fund at end of year 1939 is estimated to be \$1,430 millions.

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**FEDERAL RESERVE BANK
OF NEW YORK**

March 24, 1939.

Dear Mr. Secretary:

Two good-sized corporate offerings during the present week have given the new securities market its first real test in some time. In spite of a declining stock market and renewed apprehension concerning European developments, both of the new issues were sold out the day of offering and were quoted at moderate premiums. The first issue to be marketed was \$22,500,000 of National Distillers Products Corporation convertible debenture 3 1/2s of 1949, at 100 1/2. This issue is rated Baa by Moody's and the initial conversion begins about 30 per cent above the present market for the company's stock, but the debentures were readily sold. On the following day, \$17,500,000 of Northern States Power Company first mortgage 3 1/2% bonds of 1964 were offered, at 106, to yield about 3.15 per cent. Being an Aa issue, their successful reception was to be expected, since all high grade issues have only to be priced in line with the market to meet with strong demand under present conditions.

A third corporate issue this week illustrates that the railroads can obtain money for new equipment at very low rates provided there is reasonable assurance of the loans being paid. The Chicago, Milwaukee, St. Paul, and Pacific Railroad, in receivership, sold \$1,920,000 of equipment trust certificates due 1949-54 at an interest cost of a little less than 3 per cent. An insurance company won the award at public bidding. The three issues this week amount to \$40,000,000 of which \$13,000,000 is new capital.

Good-sized issues are now in registration for the Commonwealth Edison and Eastman Kodak Companies and the Texas Corporation for sale in April. The last two will raise about \$75,000,000 of money for new capital purposes, more than total new capital in any month since last September. Both companies have stated, however, that the money will be spent gradually over an indefinite period instead of for immediate expansion.

Municipal bond awards remain at a low level, the total this week being about \$4,200,000.

Yours faithfully,



Allan Sproul,
First Vice President.

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

March 27, 1938.

Dear Mr. Sproul:

On behalf of the Secretary, who is away from Washington on a brief vacation, I am acknowledging your letter of March 24th, covering your survey of the new securities market for the past week. I am sure Mr. Morgenthau will be most interested in studying your comments when he returns to his desk.

Sincerely yours,

H. S. Flots,
Private Secretary.

Mr. Allan Sproul,
First Vice President,
Federal Reserve Bank of New York,
New York, New York.

dbn

EG

GRAY

London

Dated March 25, 1939

Rec'd 10:28 a.m.

Secretary of State,
Washington.

401, March 25, 2 p.m.

FOR TREASURY FROM BUTTERWORTH.

The text of the Civil Defense Bill indicates that the obligatory air raids precaution measures to be imposed upon British industry may involve a gross expenditure of about pounds 33,000,000 of which pounds 10,000,000 will be borne by the government in the form of tax relief or grants. These figures exclude the obligations to be imposed upon utilities and railways. Including grants to these services the total burden upon the Exchequer will be pounds 25,375,000 most of which will arise in the financial year beginning next month.

Owners of factories, mines and commercial buildings will be obliged to provide protection for workers and to ensure maintenance of services and will receive a government grant equal to the standard rate of income on the capital sum expended. This will involve an Exchequer charge

-2- #401, March 25, 2 p.m. from London

charge of about pounds 8,000,000. Half the cost of obscuring glare in industrial processes - pounds 4,000,000 in all - is to be borne by the Government.

Grants to utilities will take the form of tax relief for capital expenditure and allowances - except for railways and electrical undertakings - up to 50% of the cost of maintaining essential services in time of war. Railways are to have a 100% grant subject to repayment up to one half in the event of war, while electrical undertakings are to receive up to 50% of the cost of special services and stocks.

KENNEDY

KLP:VFWC

EG

GRAY

Berlin

Dated March 25, 1939

Rec'd 10:30 a.m.

Secretary of State,
Washington.

202, March 25, 1 p.m.

Law relating to the financing of national political tasks of the Reich (new ~~xxxxx~~ **finance** plan) dated March 20 and published last night provides briefly as follows:

All government (federal, state and local) disbursing agencies must pay 40% of every disbursement (of reichsmarks 500 or more) to private business in tax certificates of two types in equal amounts.

Type one certificates are non-interest bearing and may be used for paying all taxes collected by the Reich after six months from date of issue or for effecting up to 40% of any payments between private businesses. (They thus amount to a new form of currency). In order to encourage holders to retain certificates rather than use them merely for tax payments, a flexible utilization of depreciation (in reporting taxable income) is permitted on a percentage basis of amount of certificates held and length of time held. This advantage is further increased in the case of exporting manufacturers and exporters.

Type

-2- #202, March 25, 1 p.m. from Berlin

Type two certificates may be used for payments of all taxes collected by the Reich after three years from issue and are then worth 112% of their face value. They may also be used for payments between private businesses on the same terms as type one certificates.

Loss in cash revenues through acceptance of certificates for tax payments to be partially compensated by special tax of 30% on increases (with certain exceptions) in taxable income of individuals and corporations over taxable income in the previous year. First quarterly payment due September 10, 1939 for increases in 1938 over 1937.

GEIST

PEG:WWC

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bern, Switzerland

DATE: March 25, 1939, 11 a.m.

NO.: 23

Reference is made to telegram No. 21 of March 21 from the Legation.

Yesterday as a temporary protective measure the Swiss Government decided to block all payments by persons or firms domiciled in Switzerland to persons or firms domiciled in Bohemia, Carpathian Ukraine, Slovakia and Moravia. It will be required that such payments be made to the Swiss National Bank, the relevant decree taking effect as of today. As soon as appropriate arrangements have been made with the states concerned, it is announced, through clearing the payments can be transferred to the foreign creditors.

BIGELOW.

REB

GRAY

London

Dated March 27, 1939

Rec'd 3:30 p. m.

Secretary of State,
Washington.

407, March 27, 1939 p. m.

FOR TREASURY FROM BUTTERWORTH.

In search of consolation the city takes some comfort from the fact that Mussolini's speech was not "explosive" but at the same time is painfully aware of the absence of any statement of positive policy on the part of the British Government. Consequently, the London security market rose slightly but on practically no trading and British Government securities merely stayed steady. The foreign exchange market has also not been very active and sales of dollars from Holland have given the pound some support. Of the 214 bars at fixing 96 were married and about 50 were supplied by the British fund. There were no substantial dealings after fixing.

KENNEDY

KLP

CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 27, 1939, 6 p.m.

NO.: 576

FROM COCHRAN.

At six o'clock this evening I visited at the Bank of France. At least a small amount of foreign exchange has been gained by the French control every day since the beginning of the recent crisis. In gold and foreign exchange the fund as of this morning contained 20,500,000,000. The equivalent of about one-quarter million pounds in dollars and to a lesser extent sterling was taken in by the control today.

Today there was improvement in French shares and rentes. Both the Dutch florin and the Swiss franc have shown improvement. Therefore, the first reaction to the speech which Mussolini gave has been fairly good, but trading is still not heavy. Reynaud's decrees lightening taxes on exporters have encouraged the French market.

BULLITT.

EA:LWW

FS

GRAY

London

Dated March 27, 1939

Rec'd 2:55 p.m.

Secretary of State,
Washington.

AC2, March 27, 11 a.m.

FOR TREASURY FROM BUTTERWORTH.

I have today received a letter dated March 25 from the British Treasury referring to Sir Frederick Phillips' remarks reported in paragraph three of my 274, March 20, 6 p.m., and stating that "As the enclosed note is of a technical character we thought that the most convenient course would be to ask you to be good enough to transmit our note to your Government, instead of dealing with the matter through the diplomatic channel. We are, of course, taking up the matter with the French Government."

The note which is entitled Despatch of Gold Bars by Post reads as follows:

"One. The arbitrage of gold from London to New York by use of the French mails was first practiced last year. The method is to buy gold in London and ship it to France for delivery to the French post office in packages each containing one bar of gold which may be of a value of pounds 3000 or upwards. The value of each package is,

HOWEVER

REB

2-#402, From London, Mar, 27, 11a.m.

HOWEVER, declared at a figure corresponding to the general limit of value (understood to be 1000 gold francs) set by the French postal regulations. The gold is insured in transit for its full value. At first, insurance cover could only be obtained for a limited amount and shipments were rarely in excess of pounds 250 -- pounds 500,000 a week. The practice has now, however, grown to very large dimensions, over pounds 3 millions having been sent in January and pounds 4 millions in February.

Two. While it cannot be proved that none of this gold would have been sent if postal facilities had not existed, it is certain that the existence of those facilities has definitely encouraged the sending of gold from London to New York. But there is a still stronger objection to this traffic, namely that it falsifies the price of gold in London. By establishing a gold point at which gold in such substantial quantities can be profitably exchanged for dollars it affects the amount of intervention necessary both here and elsewhere in order to maintain the relationship of currencies inter se in terms of gold.

From the point of view of the Tripartite Agreement the traffic is doubly obnoxious by increasing at this time
the

REB

3-#402, From London, Mar. 27, 11a.m.

the flow of gold from Europe to the United States and by dislocating the ordinary methods of management and control.

Three. An attempt has been made to establish prohibitive insurance rates but has failed because unassociated companies in Switzerland continue to do business. The shipping lines can not reduce their freights to a level at which they might compete with the subsidized mails for the advantage obtained by the arbitrage is equivalent to about 5 pence an ounce and would not be offset if shipping freights were reduced by 50%.

In these circumstances His Majesty's Government have no option but to approach the Governments of the United States and France with a request that they will take effective measures to check this traffic.

Four. There is nothing in any general international postal agreement which requires that the traffic should be allowed to continue. International postal conventions enable any postoffice to accept gold, including gold coins, for transit in closed registered letters or parcels assuming that the country of destination is willing. But this is only permissive. In the Union of South Africa no such traffic

REB

4-//402, From London, Mar. 27, 11a.m.

traffic is allowed. In the United Kingdom and India gold can only be transmitted through the post to a value not exceeding pounds 5, in Holland gold can only be forwarded by mail by license of the Finance Ministry on each occasion and licenses are in practice refused.

The present traffic would be unprofitable if the gold were broken into small consignments.

Five. It is understood that there is a Franco-American postal convention dated the 30 December, 1935, which authorizes the sender to declare only a part of the value of the goods delivered by parcel post. His Majesty's Government can not, however, believe that there would be any serious practical difficulty in suspending the operations of this regulation so far as relates to gold, particularly having regard to the declared policy of the United States and French Governments to support the Tripartite Agreement.

Six. His Majesty's Government are advised that a cessation of the traffic between France and the United States would be effective in stopping it completely: should, however, it be the case that the French Government consider that it would be desirable for any other

government

REB

5-#402, From London, Mar. 27, 11a.m.

government, such as the Swiss Government to be brought into any new arrangement His Majesty's Government would, of course, be prepared to approach that government forthwith."

KENNEDY

WWC

PEG



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

March 27, 1939

Dear Henry:

I had a very successful visit in New York with Frank Kent, who, I think, is going to come forward tomorrow with something tangible, copy of which I will send to you. Geoffrey Parsons of the New York Herald Editorial staff, Arthur Sulzburger, and Dr. Mers of the New York Times. I am enclosing herewith some results obtained from Scripps-Howard and Raymond Clapper. I believe it will bear fruit and I will keep you posted on further developments.

Hope you are having a good rest.

Sincerely yours,

T. H. Johnson

The Honorable

The Secretary of the Treasury.

March 27, 1939

CHRONOLOGICAL ORDER OF EVENTS ON TAXATION:

- FEBRUARY 17th: On board special train, Key West, Florida. President declared no new taxes are planned. Says confidence is in order.
- FEBRUARY 23rd: Secretary Morgenthau backs up the President's statement "no new taxes, and tax revision to eliminate deterrents to business."
- FEBRUARY 24th: Secretary Hopkins at Des Moines places recovery ahead of reform. Offers business cooperation and declares for "no new taxes, and removal of tax deterrents to business."
- MARCH 24th: Chairman Doughton of the Ways and Means Committee issues statement to the effect that Secretary Morgenthau's statement was squarely in line with his own views, and invited Treasury to cooperate with the Ways and Means Committee immediately in a complete study of the tax structure.
- MARCH 25th: In a joint letter to Secretary Morgenthau, Senator Harrison and Representative Doughton concurred in the sentiments expressed by the President, Secretary Morgenthau and Secretary Hopkins and offered the full cooperation of the Finance Committee and the Ways and Means Committee in the program referred to by high officials of the Administration.
- MARCH 26th: Secretary Morgenthau acknowledged the letter of Senator Harrison and Representative Doughton, replying that the Treasury would be glad to prepare the desired information and to present it to the respective committees at their convenience.
- MARCH 27th: Secretary Morgenthau told press conference that tax data was ready for presentation to the committees on the Hill at the proper time.
- MARCH 28th: First conference between the President, Secretary Morgenthau, Under Secretary Eanes at the White House. Tax program presented to the President, and arrangements made for meeting on March 29th with Senator Harrison and Representative Jere Cooper to discuss the program with them.

March 9th:

At 2:00 P. M. Secretary Morgenthau, Under Secretary Hanes, Senator Harrison, and Representative Cooper met with the President. The first three-quarters of an hour the President and Senator Harrison talked about economy. Senator Harrison recommended that the President send a message to Congress, suggesting that a joint committee be appointed for the purpose of investigating the cost of running the Federal Government. The President agreed to send such a request. Finally, the subject of the tax problem was approached. The President asked Senator Harrison if he had any concrete suggestions. Senator Harrison stated that he had not been in communication with the Treasury, that he was not familiar enough with the problem to make specific suggestions, but that he was anxious to cooperate with the Treasury and would rely upon them to bring to Congress any suggestions which might help the business structure. The Senator stated that the only definite suggestion he had heard was the repeal of the excess profits, capital stock, and the undistributed profits tax, and substitution therefor of a flat corporation tax. The President asked the Senator if these changes were made, was it his opinion that the same amount of revenue would be collected from corporations as we are now collecting, and the Senator replied that he thought that would be the case. Mr. Cooper seemed to be disappointed in this suggestion and expressed the belief that the net result of this action would be to raise the corporate rate of taxation, that he did not think it would be construed as a plan to help business. However, the President seemed anxious to close the conference and simply said that the Treasury would present figures on this suggestion and report back to him the following Monday and shortly thereafter another meeting would be arranged with the same people present.

March 14th:

Secretary Morgenthau, Under Secretary Hanes again went to the White House and laid before the President the complete memorandum which contained estimates of revenue on major changes suggested. This conference was prior to the one scheduled for March 15th with Senator Harrison and Representative Cooper. At this conference the President spent most of the time talking about the Securities and Exchange Act, the difficulty of investing money, and very little time on the subject of taxation. We explained the memorandum to him, however, and showed how it was possible to cut out these taxes and distribute the burden equitably over the whole range of corporations. He instructed us to be quiet and let him do all the talking when Senator Harrison and Representative Cooper appeared with us on the following day. This meeting took place at 11 o'clock in morning, March 14th.

March 14th
continued:

At four o'clock in the afternoon of March 14th, the President held a Press conference, at which time he reversed the statements made on March 13th and 14th by Senator Barkley and Speaker Bankhead, stating flatly that the tax discussions were going along in an orderly way and that he had an engagement on March 15th to discuss the tax situation with representatives of the Treasury and with Senator Harrison and Representative Cooper.

March 15th:

We met with the President at the White House. Present were Secretary Morgenthau, Under Secretary Eanes, Senator Harrison and Representative Cooper. At this conference the President showed to the Senator and Representative Cooper, for the first time, the complete plan which we had presented to him on the corporate tax changes. This plan included 5 major proposals: (1) repeal of capital stock and excess profits taxes; (2) repeal of the \$2000 limitation on the deduction of net capital losses from other income; (3) allow a three-year carryover of net losses (including in net losses the net capital losses); (4) repeal the remainder of the present corporation income tax (to be replaced by new rate as in (5)); (5) change the flat rate on corporations to a rate sufficient to replace revenue lost above. Senator Harrison was very careful to reiterate the statement which he made at our first conference on March 9th at the White House, in which he said emphatically that he had never discussed any of these proposals with the Treasury, that he had never heard the specific proposals except through some hints at the general line which he had read in the newspapers. He stated to the President that he would be delighted to take these proposals and study them and he felt that it was proper that some members of his committee begin study on them. He asked the President for a copy of the proposals and was told that one would be sent to him when the Treasury had made additional copies. The President asked Secretary Morgenthau to have additional copies prepared and send them to him at the White House and that he would send them down to Senator Harrison and Representative Cooper. Photostatic copies were made the same afternoon and sent to the White House for transmission to the Senator and Representative Cooper. These photostatic copies were not sent to the Senator and Representative Cooper until late on the afternoon of March 22nd.

March 22nd:

The President held a Press conference, at which time he stated that he had sent a letter to Senator Harrison in answer to specific suggestions made on tax revisions by the Senator. He criticized the Press for the way in which they had handled his former statements about tax revision

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March 22nd
continued:

plans. In answer to this Press conference, Senator Harrison gave out the following statement for release to the morning papers. (See attached mimeograph.)

March 25th:

Senator Harrison answered the President's letter, which he had received late on the afternoon of March 22nd which was dated March 21st.

That letter you read to me over the telephone this morning.

STATEMENT OF SENATOR PAT HARRISON

Washington, D. C.,

For release morning papers March 23, 1939.

In answer to inquiries as to the President's statement in his press conference on Tuesday relating to tax modifications and a letter the President had sent him, Senator Pat Harrison, Chairman of the Finance Committee, said:

"First, the President sent me the data prepared by the Treasury Department which I requested.

"I have made no specific suggestions to the President or to Treasury officials as to any modification or change in the present structure of our tax laws.

"Following the speech recently delivered by the Secretary of Commerce and the statement made by the Secretary of the Treasury at a press conference, Chairman Doughton and I expressed in a letter to the Secretary of the Treasury our gratification over his statement and the remarks of the Secretary of Commerce relative to aiding business through the modification or elimination of any provisions of the tax law which act as a deterrent to business. We pledged in that letter our cooperation. We also requested that the views and recommendations of the Treasury Department be furnished to our respective committees as soon as possible after the March 15 returns had been received and examined.

"Very promptly the Secretary of the Treasury responded and expressed appreciation of our desire to cooperate. In his reply he stated:

"I hasten to reply that we shall be very glad to prepare the information you desire and to present it to your respective committees at your convenience.

"I appreciate very much your expression of desire to cooperate in effectuating the purposes which you state so excellently in your letter."

"My attitude today is the same as I have previously expressed. I reiterate that it is my earnest and sincere desire to cooperate in effectuating the purposes recently announced by those in high authority in the Administration.

"With the foreign situation most delicate, and our own domestic problems demanding courage and requiring our united efforts, we cannot afford to have misunderstandings among ourselves, and when differences arise, whether economic, fiscal or political, they must be harmonized, to preserve and promote the general welfare of the whole country."

FEDERAL RESERVE BANK
OF NEW YORK

120

OFFICE CORRESPONDENCE

DATE March 28, 1939.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knoke

BANK OF ENGLAND.

I called Mr. Bolton at 11:07 a.m. I told him the market here was very quiet, rather listless and a good deal less optimistic than yesterday. Bolton ascribed the change to the possibility of Poland putting up a real defense if threatened by Germany. That Poland was determined not to submit to Germany he had gathered very definitely from telephone conversations he had had with Warsaw. London was rather grim, he continued, with not much business going on. Most people were waiting to see what form the Government's new policy was going to take. Meanwhile he was going along steadily, continuing his gold shipments in order to be prepared in case of an emergency. "I feel a great deal of sympathy with you because of the enormous hoards of gold descending upon you." I pointed out that in another day or two the present magnitude of the movement was likely to have exceeded that of last September. The turnover in the London bullion market was from £500,000 to £750,000 daily, but the dishoarding going on wasn't as big as the papers would lead one to believe. Privately owned gold in London, he guessed, had now dropped to £175,000,000 but he would look into the figure and give me something more accurate. His short dollar position, which just before the Czech crisis had been reduced to \$15,000,000, had mounted again to something like \$50,000,000 now, due to the continued sales he had had to make to European central banks, particularly the Belgians and the Dutch, in their efforts to maintain their own currencies by means of dollar

OFFICE CORRESPONDENCE

DATE March 26, 1939.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knoke

BANK OF ENGLAND.

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sales. He was facing big dollar maturities in April and would have a word with us before he went into the market. With things going as they were he could not help but run a short dollar position; if it got too big he would sell it to us (that is, he would sell us gold). If we had any feeling about their giving the needed dollar balances to the Dutch and the Belgians, would I please let him know. He was doing it partly because he thought we would prefer not to set gold aside in Brussels and Amsterdam (he remembered the time some months ago, he said, when de Jong suddenly advised us that he had earmarked for us \$20,000,000 in Amsterdam and he was bearing that in mind). I replied that nobody here had commented on his dollar sales to the Dutch and Belgians but I wanted him to know that we were actually taking some gold under earmark in Brussels and Amsterdam although we were, of course, always arranging for its shipment at the earliest possible opportunity.

LWK:KW

EG

PLAIN

London

Dated March 28, 1939

Rec'd 3:30 p.m.

Secretary of State,
Washington.

411, March 18, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

The city continues apprehensive and anxiously awaiting a statement of positive policy by the British Government. The refusal of the Prime Minister to make such a statement in the House of Commons this afternoon augmented the uneasiness particularly since rumors are current of dissension within the Cabinet. Consequently the London Stock Exchange was weak today and British Government securities were specially weak, war loan, for example, losing well over a point to close at 95 $\frac{1}{2}$. In this connection it may be worth recalling that even during the September crisis a minimum price of 93 was set for war loan. Furthermore with money in demand the bill rate moved up to 7/8.

The foreign exchange market was not particularly active but the British control gave support to the pound by selling a small amount of dollars. Of the

-2- 1941, March 18, 6 p.m. from London

131 bars sold at fixing 63 were married and the remainder were supplied by the British fund. The demand for gold was of such dimensions that the gold had to be pro-rated on about a 30 percent basis.

KENNEDY

HPD

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 28, 1939, 5 p.m.

NO.: 586

FROM COCHRAN.

More pessimistic sentiment on continental exchange centers today. Support has had to be given to their currencies by the monetary authorities in Switzerland, the Netherlands and Belgium. However, the French franc was strong enough today against sterling to permit the French control to acquire some pounds. There was a decline in French rentes and shares. There is naturally concern on the part of Paris operators as to what reply to the speech of Mussolini will be made by Daladier tomorrow evening.

In French financial circles it is regretted that it is necessary to put out so much for war expenditure, but they think that Reynaud will be able to effect certain economic reforms that he could not otherwise have accomplished now that he has the special authority for defense of the country.

The new German financing system involving tax receipts is branded as inflation in the French press, which points to its depressing effect on the German markets.

In April, Rowe-Dutton, Financial Counselor of the

British

- 2 -

British Embassy here, will return to the British Treasury, and Norman Young, who is now in the Treasury, will become the new Financial Counselor.

BULLITT.

EA:LWW

CONFERENCE (CONDUCTED BY
 LEGAL SECRETARY HANES)

March 26, 1939.
 9:30 a.m.

Present: Mr. Hanes
 Mr. McReynolds
 Mr. Graves
 Mr. Gaston
 Mr. White
 Mr. Lockhead
 Mr. Foley
 Mr. Bell
 Mr. Duffield

Hanes: Herbert, you got anything new this morning?

Gaston: No. But it seems to me this decision of the
 Supreme Court makes our situation look pretty
 good on the bonds, and I was wondering

Hanes: I'm wondering what the effect of that will be
 on the Congress? Will they say, "we don't need
 a bill. We don't have to go on record"?

Gaston: Of course, we do need a bill, because we'll be
 in doubt as to what the real intent of Congress
 is as to taxation of salaries, and I should think
 both ends of the bill as it stands would need to
 be passed, wouldn't you, no?

Foley: Absolutely.

Gaston: And the other thing I was wondering was if we
 couldn't revive the securities thing now, since
 the whole ground of constitutional objection
 has been swept away. There is no ground to stand
 on there any more. The Court has made it very
 plain that all that is necessary is an equitable
 statute. I should think we might have some chance
 now of getting a statute through on the securities.

Hanes: No, is there any possibility of legislation designed
 to tax outstanding issues on the basis of a very
 slight graduation into the future, so that at the
 end of, let us say, ten years they're all fully
 taxed?

Foley: There's never been any constitutional reason why

-2-

you can't tax outstanding securities, but it's been for moral reasons, because these people bought the obligations with the understanding that they were exempt from income taxes. We in the Legal Division have thought that it wasn't the proper thing to do.

Witte: I think that's quite right.

Foley: The so-called Glass plan, thought up way back in the twenties, provides a method for taxing outstanding securities by including the income in the tax base; you include that income in determining the amount of surtax and you take it off the top rather than off the bottom.

Witte: See, that - but even that is more drastic than what I had in mind. I had in mind a very gradual tax, because the arguments based on morality and ethics and judgment lose a great deal of their force if you stretch it out over a period of five or ten years, and, I should say, probably lose all their force. But I was considering another something of that kind which might not be considered and a memorandum prepared to see what can be done on that basis.

Foley: Well, I'll be very glad to do it. It's feasible legally, it's merely a question of policy, it seems to me.

Witte: If you make it gradual enough, then as I say, the chief arguments - the chief respectable and just arguments against any such procedure, I would say, would lose all their force. I think it could be demonstrated, in other words, that the ethics and justice of the taxation if that tax disappeared if you stretch it out over a period of five or ten years, because there are a great many other methods of taxation which involve the same implicit promise - either implied or natural understanding that there wouldn't be an increase; and yet time and time again in history that has been violated either through taxation or other measures which the Administration has taken, or the Government has taken, which curtails the net income arising from a particular type of investment.

Witte: Well, Harry, a direct attack on it, it seems to me,

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is very different from an indirect attack. You've got not only an understanding but explicit statements in your public debt circulars saying that "the interest on these securities is exempt from all taxation, Federal, state and local." It's quite specific in the debt circulars.

Ball: it's a contract. You'd be abrogating your contracts.

White: well, you've abrogated contracts before - sovereign power.

Foley: I doubt if they'd have much more of a claim than they had

White: ... in the gold cases.

Foley: In the gold cases.

Buffield: Said they had a claim, but couldn't enforce it.

Well: well, I'm not so sure - they didn't lose anything; they still got a dollar in currency which purchases

White: And the moment you put it on that basis you might find they don't lose anything from increased taxation. The moment you get away - I'm not advocating it without an examination, but I think that a pretty convincing case might be made out which would look quite different - which would make the proposal look very different than it looks at first blush, if it were examined from the point of view of ethics and justice rather than legality and if it were approached from the point of view of a very gradual reduction.

Ball: I take it that would put the United States Government in a different position than it would put the states and local governments. They would have no right to do that, would they? They'd have no right to abrogate a contract.

Foley: Under their constitution they can't. We can. It's not binding on us; it's binding on them. In our

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Constitution the provision is binding on the states, but not binding on the Congress in so far as the abrogation of contracts.

well: So they'd be in a different position.

Foley: I think that's right. You said didn't they draw a distinction. The same reasoning, wenny, was used by the court yesterday in so far as salaries are concerned as could be applied to income on bonds. While they didn't come right out and go all the way in so far as income on bonds is concerned, the arguments are pretty much the same. They said that a tax on income - no, not income - a tax on salary or other compensation is not a tax on the instrumentality itself, so that would apply, it seems to me, both to salaries as well as to income on bonds.

well: But when you tax the bonds of a state or a municipality, aren't you getting awfully close to taxing the municipality or the state?

Duffield: You don't tax the bonds, you tax the income.

Foley: You tax the income in the hands of a private holder.

well: That's what they were doing in Marbury vs. Madison, weren't they? Was it a tax on the bank or on the circulation of the bank?

Foley: It was a tax on the bank itself, right on the bank; that is, a tax by the state on a Federal instrumentality, right on the bank itself.

white: Well, I didn't mean to inject this discussion.

white: It's an interesting discussion.

white: Just thought it might be worth looking into.

Honest: I just wanted to ask - I noticed in the paper just a summary of the decision.

Foley: It's in full in the Post this morning.

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Well: Frankfurter, I thought, drew a new distinction.

Why: Frankfurter wrote a separate concurring opinion. Why was that?

Why: I think Frankfurter was a little more to the left of the majority of the Court; he would have gone farther than the majority went, and he wanted to indicate his ideas. He said it was such an important decision, overruling a growth on the part of the Court of the law under the *McCulloch vs. Maryland* case way back in 1814, that he thought the individual members of the Court ought to indicate their own views as to the reasons why the Court was changing its prior decisions in respect of this matter and coming to an entirely different conclusion than the Court had ever reached.

See, they overruled expressly *Collector vs. Day*, which was the Massachusetts - which was the case holding that the Federal Government didn't have the power to tax the salary of a Massachusetts judge. They expressly overruled *Ogden vs. Graves*, which was the case holding that the State of New York had no power to tax the salary of the General Counsel of the Panama Railway Corporation, which was wholly owned by the Federal Government. They wiped those two decisions right off the books yesterday, and they also cut down two or three other very important cases.

Why: What I was wondering - did Frankfurter go so far as to indicate any thought in mind about taxing the income from bonds?

Why: Well, neither Stone nor Frankfurter nor Black, all writing majority opinions or voting with the majority, said anything about securities; but Stone did say that what the majority was saying wasn't confined entirely to salaries but it applied to all compensation. Now, that's almost broad enough to include bonds.

I talked to Bob Jackson yesterday afternoon, and Bob said that in his opinion the Court didn't say anything directly bearing on the income from securities, but he thought that the reason was analogous and he

-6-

thought that the Court was just building it up yesterday so that when the next case came along attacking legislation providing for taxing income on bonds, that it would be able to sustain it.

White: Let me ask this question, Danny. In the last bonds that were issued, does there appear on the face of the bond the usual statement that "these bonds are exempt from taxation"?

Ball: (Now yes)

White: Now then, I'm wondering whether that isn't included merely as a statement of fact and whether you can interpret that statement of fact as an ethical promise. You're saying that these bonds are now exempt from taxation; that's the law. But you're not saying that the Treasury or that Congress is thereby tying its hands from ever modifying that law. You are merely making a statement of fact, informing the prospective purchaser that it has an additional attractive feature in that the law at present exempts these bonds from taxation. Whether you can construe that ethically as a kind of contract which deserves never having a law passed - if that were so, you would always be tying the hands of the Government, because you never have the law passed so long as that statement exists in bonds, and that statement exists in bonds until you have the law passed. You're strapping yourself.

Ball: Well, it's a contract to the maturity of the bond, and we've got a precedent that if we want to reserve any rights, we do that in the bonds.

White: Yes, but again I say that so long as you automatically include that statement in every bond you issue (a) and (b) so long as you take the fact of such inclusion as an important justification for not altering the legislation, then I say you never can alter the legislation, which limits the sovereignty more substantially than I think on ethical grounds would be justified.

But John, I didn't mean to get into this discussion, but I think it has a certain significance, might be worth some kind of a joint paper around to see what

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it looks like after we get it down.

1087: Harry, so long as the bonds are not issued in perpetuity, I don't think you've got very much argument.

White: Less argument. But unfortunately, another bond replaces them, so, for all intents and purposes, looking into the future, since it looks as though our deficits are going to continue

1088: If you replace it with another bond, you've got a new contract then.

1089: I thought we pay them off some time.

White: Your thought is, you might pass the law, apply it to only new bonds that are issued.

1090: There is another decision that will be coming along at this time of the Court that bears on the general subject, which undoubtedly, in view of what was said yesterday, will be in favor of taxing income, and that is the appeal that is before the Court now from the decision of the Circuit Court of Appeals out in the Omaha, Nebraska, region, holding unconstitutional a statute imposing a tax on the salary of a Federal judge. Now, there is no doubt in my mind that this Court will overrule the Gore case, which is the precedent for the decision that is on appeal to the Court now.

White: But I throw out this possible suggestion for consideration: that in the next bonds that are issued consideration might be given to leaving that statement with respect to exemption from taxation off. They still would be exempt, but it would have a slightly different color if it weren't specified.

1091: Wouldn't be exempt if not so specified.

White: Have to be specified on the bond.

1092: You'd have a slightly different interest rate on that.

White: Yes, but as I say, justly so, justly so because of the possibilities, if you have that in mind.

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Gaston: Might just as well be candid if you're going to do that, Harry, and just simply put out your issue subject to Federal taxation and state taxation, which you could easily do.

White: Well, that would be ever better.

One further observation, which is rather irrelevant to the discussion on taxes but is relevant to the decision that was made. It appears to me that Frankfurter's decision - I read it very cursorily - is extremely important for the reason you (Tolley) said, also for another one: that it places so much less emphasis on precedent. Doesn't he say that one of the difficulties has been that lawyers have given so much weight to past decisions and have not examined the Constitution anew in each important case?

Winy: He said the Court for a hundred years on this subject has been interpreting interpretations by the Court rather than interpreting the Constitution. In other words, they have always been going back to *McCulloch vs. Maryland* and the growth of law that the Court developed in extending the immunity doctrine, and they haven't gone back and considered the thing de novo, in the light of the actual words in the Constitution; and the entire immunity theory is implied, not expressed anywhere.

White: This whole line of decisions grew out of dictum, didn't it?

Tolley: Yes, it grew out of the particular dictum that the power to tax was the power to destroy, which is loose language and has been twisted to mean something the Court never intended the language to imply.

Gaston: Marshall's statement that "the power to tax is the power to destroy" was directly applicable to that case, because in that case it was an effort to destroy.

Tolley: It was a state legislature taxing directly an instrumentality of the Federal government.

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Gaston: It was the intent to destroy.

White: That way lies revolution, really, because the next thing you know they'll be really considering whether a corporation is a person.

Ribbons: Are these public forums?

White: That's a dangerous decision.

(Hearty laughter)

Gaston: Well, Harry, you interest me a lot. Your last observation - you interest me a lot.

Foley: Go either way - this fellow.

White: Very dangerous decision.

Foley: Talks like a Republican now.

White: Well, you'll forgive my digressing, John.

Hanes: Brings up a very interesting discussion. I like it.

Mac: You got anything new this morning off the golf course?

Mac: No. Herbert beat me.

Hanes: How was your game?

Mac: Herbert beat me playing golf; I had to pay off with a drink.

Mac: No, I have nothing.

Hanes: How about Mr. Graves? You got your decentralization going, I see; got two more districts open yesterday?

Graves: Yes, the Western and Southwestern divisions open on the first of April and then there remain two, the Erie and the Southern territory.

Hanes: Have you decided where you're going to put your headquarters in this district?

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Graves: were in Washington.

Hanes: And have sub-offices around the district?

Graves: We only have gone as far as two, Baltimore and Richmond; and you had something on your table

Hanes: We had a request come from Winston-Salem. They want an office in Winston-Salem. I think we wrote them a letter telling them we already had an office in Greensboro and we were going to keep the office in Greensboro.

Graves: Revenue agents' office is in Greensboro.

Bell: That didn't satisfy them, did it?

Hanes: Didn't satisfy them a bit. But it's only 28 miles from Winston-Salem. I don't think it's a hardship.

Gibbons: Got bus service?

Hanes: Got a good bus service, got a good office down in Greensboro too. Hell of a good man down there.

Steve, you got anything else besides this?

Gibbons: Nothing besides this.

Duffield: Have they decided where they're going to use the orange and blue tickets out in the Middle West?

Graves: The Department of Agriculture has released a list of twenty-five cities, Mr. Duffield, from which they are to make selections.

Duffield: When will it start, do you know?

Graves: First project, as I understand it, will begin the 15th of April.

Writer: Is there any thought as to how long the experiment will last before they expand it?

Graves: I think their program probably contemplates beginning in one city, as soon as they can going to another,

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going ahead as rapidly as their experience warrants, on the first projects.

Bell: And as rapidly as the politicians bring pressure to bear, as long as the money lasts.

Walters: They're in an inverse ratio.

Walters: That isn't cynical, that's merely practical.

Walters: Harold, anything else?

Graves: Nothing more.

Walters: Harry, you got any more ideas?

Walters: I've fully stopped. Nothing else.

Walters: Oracle?

Walters: No. The foreign markets are just in a state of pause. They don't know what to do, but gold is still moving over - the most that was reported since last year. Total on this morning's sheet was 230 million dollars.

Walters: Two what?

Walters: Litter on the way over or engaged to be shipped to this country, of which about half or over half is for official account.

Bell: For official account.

Walters: Yes, but that doesn't mean much, because when it gets over here - you may not get that exactly today, but two or three days afterward

Walters: Oh, I hear your staff is figuring out a way of issuing gold certificates if gold happens to sink; the certificates will be watermarked.

Walters: Incidentally, at this time, Mr. McKeynolds, it's rather interesting that with these terrific gold shipments coming into New York, the New York Assay Office handles it in first class shape. -not old

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fellow Lynch knows his business. If that was coming in at any other point, I'd be scared to death. But it goes through - he's handling that thing with a minimum of help and minimum of trouble.

- McK: We had to call back their furloughs in New York and put some more on in Philadelphia to make up for it.
- Lochness: Naturally they couldn't
- Hanes: All coming in American flag ships?
- Lochness: Everything that we ship comes in American flag ships, but naturally the English and the French and Dutch will always pick their own.
- Hanes: How much of that 230 million dollars is American gold, how much is for foreign account, earmarked?
- Lochness: Just a season. It's all foreign gold.
- Hanes: But how much is for account of foreign governments?
- Lochness: That officially shipped by foreign governments would be about 100 million.
- Hanes: But that's not going to be earmarked. Some of it is.
- Lochness: Lot of it is going on earmark; any of the stuff sent by foreign central banks will be for earmark.
- Hanes: The point I was getting at is, how much have we bought and how much are they shipping over here for safe-keeping - coming over from Switzerland, from some other countries?
- Lochness: You can't tell until it gets here. They did build up, I think, in the week ending March 17 - I think it was a high peak - assets of the foreign central banks with Federal Reserve of New York amounting to 994 million dollars. In one week they lost about 90 million dollars.
- Hanes: They sold dollars against that, translated gold balances into dollars in anticipation of the demand for dollars; keep on shipping gold, place it on

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earmark, then sell that gold to us to provide dollars.

Wanes: Specifically out of this particular shipment, how much have we bought? How much goes to the Treasury?

Wagner: About 60 million dollars of it is Treasury.

Wanes: Is ours.

Wagner: Is ours. And incidentally, about snipping on American boats, I'm having a little trouble in Holland. We have to pick out - the only American boats going out of Holland are this Black Diamond Line, which are one-screw boats, the insurance is double the insurance on large boats, and the Dutch Central Bank doesn't like the idea of our putting it on that because they have to pay the insurance. We're still holding to that, though.

Wanes: It isn't appropriate, anyway, for the gold to come over on a single-screw steamer. Oh, well,

Wagner: Let that pass.

Wanes: Put that out of the record.

Wagner: Never can tell when you're off the record.

Wanes: Eddie, you got anything else?

Wagner: The Transamerica hearings resume this morning at 10 o'clock. I don't know whether they've gotten an agreement over the week-end or not. That original tentative agreement was worked out between Rogge and counsel for Transamerica. Chester Lane was away. After Lane got back, I understand he wasn't entirely happy with the arrangement. Whether the thing has been settled and they'll adjourn the hearings, the public hearings, this morning and go out to the West Coast and get free access to all the records of the holding company and the affiliates and the bank and then come back and put into the record without objection such information as they want to complete the record to put before the commission, is something that we'll have to find out this morning.

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- Lochmead: You noticed that ticker notice yesterday that the Bank of America denied contemplating an issuance of 25 million dollars preferred stock.
- Hanes: Where was that published? They said that in response, in answer to these newspaper articles that they had decided to issue 25 million dollars preferred stock, the Bank of America denied that. Where did that appear?
- Huffield: They have been a Coast paper. I'll look at the American Banker; might have been in there.
- Hanes: Might have been there.
- Huffield: The American Banker ...
- Hanes: The underground, huh?
- Huffield: Yes.
- Hanes: I hadn't seen it in any paper. I just saw that squib yesterday from the ticker in which they denied that they had authorized any 25 million dollars.
- Foley: Conferencees have agreed on the reorganization bill and just as soon as we get a copy of what they have agreed on this morning, we'll digest it and circulate it.
- Huffield: Did you (Hanes) get the memorandum I sent?
- Hanes: I got that memorandum, yes. There's apparently no bills in there except one Republican bill, you said.
- Huffield: That includes a lot of things besides the Comptroller. He's got an - it amounts to an elimination bill rather than a reorganization bill. Lot of things he wants to cut out.
- Hanes: Might be well for us all to be thinking a little bit about that Comptroller's office, because there is going to be some effort made to do something with it. I don't know what they want to do with it. I don't know what is the proper thing to do with it.

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- McR: You saw the letter that the Secretary signed to the President?
- James: No, I didn't see it. I heard about it. You told me about it. Asking him not to do anything.
- McR: Not to do anything until he, you and Nelson had a chance to talk to him after he got back.
- Hines: Anybody got any thoughts on the task we ought to take on the Comptroller's office?
- Waffield: Well ...
- McR: I should think it would be some time before there would be any reorganization of it. It seems to me the President will have to set up some sort of an organization to carry out this bill.
- McR: I was going to ask whether you've got any idea ...
- Waffield: I haven't got the slightest idea.
- McR: I haven't heard a single thing as to who he's going to depend on to propose these reorganizations.
- Foley: I know some of these fellows like Ickes, for instance, are contemplating moving right away, so they don't have to wait until next January; the thing has to go before Congress sixty days before it can go into effect. Ickes has got his stuff ready.
- Waffield: I shouldn't think that Ickes could go right over to the President and put an executive order under his nose and ask him to sign it. I should think it would have to go through some central organization like the Budget, set up for that purpose, or the Brownlow committee.
- Waffield: Originally it was intended, in these former reorganization bills, that the thing would be channeled through the Budget; and the idea of setting up the reorganization through the Budget, have all these things handled so that any proposals coming up - the initiative was to be placed on the Budget to see the

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orders were promulgated. Anybody in the bureau could come to the Budget with that scheme - to the Budget - but they'd only get to the President through that channel. So far as I know, no similar arrangement or contemplation has been worked out.

- Polley: well, I think that's right and I think something like that ought to be done, and I think it ought - budget ought to be thinking along those lines. I mentioned the Ickes thing because I know that's what he has in mind.
- all: we've got an executive order; we're ready to go on it. But it's intradepartmental, doesn't involve anybody else.
- Hanes: Does the F.D.I.C. pay its own freight by the charge on the banks?
- Bell: Yes, it does.
- Hanes: Do they tap the budget, do they come into the budget?
- Bell: They come into us for administrative expenses. But we authorize them to incur their expenses for administration without having their own funds, and we set a limit.
- Hanes: Is there any out-of-pocket money paid by the Federal Government to the F.D.I.C.?
- Bell: Nothing except the 150 million dollars capital stock, on which we get no interest, no dividends.
- Hanes: I see. But there is no administrative - it's all charged to the banks.
- Bell: That's right.
- Hanes: Is the same thing true in the Comptroller's office?
- Bell: No, the Comptroller has about \$200,000 for administrative expenses of the office that comes out of the General Fund. All of the services to the banks are paid for by assessments.
- Polley: Practically the same, Johnny.

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- Ques: Hun?
- Coyle: Practically the same. Just \$200,000 a year, that's all.
- Bell: Two hundred thousand, and the other is about two and a half.
- Ques: Now about the Federal Reserve? Is that expense paid by the System?
- Bell: Each Federal Reserve bank's expenses are paid by that bank out of its earnings or its capital.
- Ques: It comes out of the System. But now about the central board in Washington?
- Bell: The Board is paid by assessments on the Federal Reserve Banks.
- Ques: In other words, there is no appropriation at all.
- Bell: Some is true of the expenses for shipping and printing their currency. The Bureau of Printing and Engraving is reimbursed for the expenses.
- Ques: So all those three agencies only cost the Federal Government \$200,000 and the interest on \$150,000,000.
- Bell: That's right. The Secretary spoke to me about a month ago to see if we couldn't work out some scheme whereby the Comptroller's office - the entire expenses would be paid out of assessments.
- Ques: Well, the Comptroller's office has a million dollars back there now in excess of its demands, in excess of its expenditures, which it has already collected from - I think this is collected, though, out of closed banks, huh?
- Bell: Yes, that was a million dollars turned over to the Comptroller during the emergency banking days out of emergency banking funds, and instead of spending the million dollars he spent out of the Insolvent Fund - assessments on banks. Now he wants to know what to do with the million dollars. We're suggesting that he turn it into the Treasury - miscellaneous receipts.

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Duffield: Fine idea.

Wes: Now, you know, I had that damn thing all taken care of as a reserve and now you're going to

Eames: Of course, who it really belongs to is people that you can't return it to, and that's the depositors in the closed banks who have been liquidated out.

Bell: Under the original theory, yes. If they had used ...

Wes: But you can't get it back to them.

Wes: No, that million dollars is there - it ought to go back to miscellaneous receipts, in my opinion. I don't think there is any question about it.

Eames: This is a good way to answer the Secretary's question. We can just take \$200,000 a year for five years out of that Fund and save that much from the Federal budget.

Bell: What's about like Straus's financing.

Wes: Yes.

Bell: Will come out of the General Fund eventually.

Eames: Benny, you got anything this morning?

Bell: Nothing except that the government bond market went up pretty high yesterday. I should think we ought to have authority to sell some bonds. You talked to the Secretary, did you, Archie?

Worsham: The point is we're looking over those blocks you wanted to sell. Those short-term bonds aren't moving. The banks are all getting out of the short stuff, moving into the long. You can move them out now, but - I mean it's not a question of those bonds you want to sell moving up.

Bell: We can sell some '43-'45s, which are pretty high - 110. They reached high yesterday.

Eames: How much?

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- Bell: The '43-'45s reached 110-17, and the '43s and '47s, intermediate bonds, all reached highs yesterday.
- White: There is quite a drive on - you may have noticed, may have seen the article by Bell in the Sunday morning Times with respect to the adverse effects of very low interest rates on Government bonds on business activity, and seeming to emphasize the point that these very low interest rates are a very bad thing for business and the community in general. Now, in my opinion that is calling white black. I'm wondering whether the Treasury oughtn't to make some counter-statements either in the form of a letter which would explain the ramifications and the effects - or whether you just want to pass it by; but if it grows a thorn we ought to meet it, because they're just throwing up a smoke-screen.
- Ward: Who wrote it?
- Laffelin: Elliott Bell.
- Danes: Elliott Bell. I didn't see that.
- Gaston: We can get a letter from one of your friends up on the Hill.
- White: There may be some people up there interested in it, Herbert.
- Gaston: I think there may be.
- Danes: And, Steve wants to know what the yield is on those bonds.
- Bell: On this 110, 1.40 to the call date and 1.70 to the maturity date - those intermediate bonds
- White: What's the date of maturity?
- Bell: '46.
- Sibbons: Even in Miami the biggest percent - 30 percent of the deposits are in Government bonds. There is no business in Miami except hotels and they're charging so much a month for taking deposits. That's the biggest bank in Miami.

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- Beall: Charging so much a month for what?
- Gibbons: For holding your money.
- Quaten: Charging service fees.
- Quaten: They must have short-terms. If they had long-terms, they'd be able to pay interest on it.
- Beall: First National?
- Gibbons: First National.
- Beall: That's Aobj's bank - the one that stood the depression. He just rolled the money out in barrels, then went off to play golf. Paid them to pay them off as fast as they came in. He really did. Brought it in in barrels.
- Gibbons: He's practically in that condition - 60 percent of his investments in Governments.
- Quaten: Just a Currency Warehouse.
- Beall: He wasn't in any way tied up with the Florida boom.
- Quaten: Branch of the United States Treasury, right?
- Beall: Pretty smart banker, I'll tell you that. Only banker in Miami that stayed open in the Florida boom.
- Quaten: Did his bank stay open?
- Beall: I think the deposits were up around 45 million and he saw them drop to around 10 or 12; paid them out, too.
- Gibbons: There's a law, too, setting up the Comptroller of the Currency and what they must do. What about this reorganization bill - what they can do?
- Quaten: Do anything under this
- Beall: There's a law setting up every one of these

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departments and agencies. This bill, in the absence of a specific prohibition, authorizes the President to transfer functions from one department to another or abolish them. If a provision in the Interior bill says "the Secretary of the Interior shall do the following things" and they take that function away from him and give it to Agriculture, then the Secretary of Agriculture can do those things.

Gibbons: But the function goes on.
 Carter: Just transfers.
 Gibbons: Merely transfers.
 Wiley: The administration of it is all that's affected.
 Gibbons: The President can decide tomorrow that there wouldn't be any Comptroller of the Currency henceforth, but his functions would be carried on by somebody else, some other
 Jackson: Yes - F.R.I.C.
 White: You cannot modify the function. It's ...
 Bell: You can abolish it.
 Walter: Then you can modify it.
 Hines: Well, do you want to stick here for a minute to see Damn, what time is it?
 Bell: 11 o'clock.
 Hines: Oh God, we better stop here.

March 28, 1939

FOR THE SECRETARY:

In order to determine whether the Treasury had any commitment on the bill which would increase the borrowing power and subsidy payments of the United States Housing Authority, Mr. Bell arranged for Mr. Straus to meet with Mr. Hanes, Mr. Bell, Mr. Foley, and Mr. Duffield at 10 o'clock on March 28.

Mr. Straus said that the Secretary had not said anything to him committing the Treasury one way or the other on the increased borrowing power or subsidies. Mr. Straus said that the only point taken up with the Treasury was whether the United States Housing Authority should sell its debentures through private channels. On this point, Mr. Straus said the Treasury had agreed not to interpose any objection to private sales.

Mr. Bell said that Senator Wagner had inquired of the Budget Bureau whether the new United States Housing Authority legislation had been cleared with the President. The President subsequently told Mr. Bell that he had not discussed the legislation with either Mr. Straus or Senator Wagner. The President added that he hesitated to send large spending bills like the United States Housing Authority bill to Congress at this time and preferred to have the United States Housing Authority prepare a program for which authorization could be obtained

early next year if business conditions necessitate. Mr. Straus objected that since almost 18 months elapsed between authorization and disbursement of United States Housing Authority funds action in 1940 would be too late to provide large disbursements in that year. Mr. Duffield asked Mr. Straus whether the influence on business from the United States Housing Authority program did not precede the actual disbursement and whether, therefore, action in 1940 would not ^{be} sufficiently timely.

It was agreed that the Treasury would not take any position on this question in its report on the bill and that Mr. Straus would clear the matter with the White House.

Mr. Duffield explained that the Comptroller's Office was objecting to section 4 of the bill which would give debentures of local housing authorities the same investment status among national banks as is enjoyed by Government and Government-guaranteed securities. Mr. Straus said that he was willing, tentatively, to withdraw that section, but that he would like an opportunity for his staff to confer with the Treasury's General Counsel on the subject.

ESD

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro, Brazil

DATE: March 28, 1939, 11 a.m.

NO.: 92

I refer to my telegram of March 24, noon, No. 87.

March 27 was the effective date for the increase in taxes on exchange remittances in payment of import bills. The Bank of Brazil as a result thereof has increased to 18.6 the deposit rate for the purchase of dollars. The rate was previously 18.3. The Bank of Brazil has made proportionate increases in other currency deposit rates.

Inform Commerce.

SCOTTEN.

EA:LWW

Treasury Department
Division of Monetary Research

150

Date March 28, 1939. 1938

To: Secretary Morgenthau

From: H. D. White

The attached report of a conversation is of interest only because the men making the remarks are members of the research staff of the Republican National Committee.

Incidentally, Herbert Gaston remarked that Bill Myers said he liked the Wagner letter so well he wanted a number of copies to distribute among the Cornell faculty.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE March 28, 1939

TO Mr. White
FROM Miss Kistler

Two members of the research staff of the Republican National Committee, Arthur Barnett, economist, and Harold Metz, political scientist, commented on the Secretary's letter to Senator Wagner as an "excellent piece of work", "well suited to its purpose". They said that ninety percent (on second thought reduce the figure to fifty percent) of all Republican Congressmen labored under the impression that gold imports are paid for out of taxpayers' money". He went on to say that the publication of the balance sheet of the Stabilization Fund was "a very smart thing to do", adding "It took the wind right out of their (of the Republican National Committee) sails".

THE WHITE HOUSE
WASHINGTON

March 29, 1939.

MEMORANDUM FOR H.M. Jr:

I am dictating this just before I leave.

I have had a long talk with Bob Doughton and he feels that the Tax Bill should be confined to the following three points and that any other legislation will seriously jeopardize early adjournment and create a general mess.

(1) Extend the present nuisance taxes, etc. which are about to expire.

(2) Reduce or postpone increase in the Social Security taxes.

(3) Make all state, municipal and Federal bonds hereafter issued fully taxable like any other income.

F.D.R.

PARIS, March 29, 1939

Mr. A. Lockhead,
Office of the Secretary,
U.S. Treasury Department,
WASHINGTON, D.C., U.S.A.

Dear Mr. Lockhead:

I am enclosing the long promised memorandum for the Secretary on the congestion of cargo at Rangoon, Kunming and Haikang and the proposed British-French-Chinese organization to control the movements of said cargo into China.

The memorandum is necessarily long and I may have fumbled the subject a bit but I managed to get all the information now at hand under this heading.

As you know the information about the proposed organization was furnished by Mr. L. Rajchman of the League of Nations, who recently arrived in New York from London where he apparently discussed the matter with Rogers and others. I believe Mr. K. P. Chen explained the proposal to Dr. E. M. Kung by telegram and received a favorable reply.

The balance of the information contained in the memo was recently received direct from Rangoon from reliable private sources and from State Department reports, copies of which I read in your office.

I hope the memo will be of some use to the Secretary. With kindest regards,

Yours sincerely,

M. R. Keelson

Encl:

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Paris, France, March 27, 1939

MEMORANDUM FOR THE SECRETARY:

From: M. R. Nicholson.

Reports recently received from various quarters clearly show that a tremendous quantity of goods purchased by the Chinese Government for use in resisting Japanese aggression is rapidly piling up at Bangkok and Haiphong, the ports of entry to the only remaining routes open for transportation into China. In fact there are indications that the congestion at these ports is so great that carrying vessels are unable to discharge cargoes and consequently huge quantities of war supplies are backing up into Singapore on the one hand and Bangkok on the other. Some reports indicate considerable congestion of goods at Kunming in Yunnan Province, China, the rail-head of the Yunnan-Haiphong Railroad and the main concentration point in China for goods over both the Burma and Indo-China routes. It is apparent that transportation companies, organized by political favorites are operating in and out Kunming, without any Central Government or other responsible control and are reportedly indulging in graft and illegal charges for transporting Chinese Government property. It is even stated that the Lashio-Kunming highway is not yet in a fit condition to stand heavy transport in a sustained manner.

The causes contributing to what seems to be confusion in the movement of goods over these two routes are variously described in reports. One State Department despatch quotes the Acting Financial Adviser to the British Embassy (Scott) as stating that the Chinese authorities have been slow in completing a system whereby goods could

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be carried to and from Burma. This despatch also states that information was at hand to the effect that on February 16th a Chinese supervisor of the Burma Road was going from Chungking to Kunming with sufficient funds and full authority to undertake the completion, before the rainy season begins in May, of the drainage and hard surfacing of the Chinese section of the road. It is unbelievable that this work can be accomplished within such a short period of time even under the most favorable conditions, and it is safe to assume that little or no goods will move over this highway during the rainy months of May, June and July.

The recent edict of the French Government prohibiting the transportation of war materials over the Haiphong-Kunming Railroad further complicates matters. The occupation of Hainan Island exposes traffic over the large section of this railway across the Chinese border to air-attack, which may not stop at the frontier. Any attempt to secretly move war materials over this line will be abortive as the rail traffic is being constantly splintered upon without prospects of early redress. The use of rail and highway from Haiphong, Hanoi to Nanning and thence by motor trucks north is also out of the question as the highway north from Nanning is exposed to air attack both from Hainan and Canton.

Therefore the only route (except from Russia) open to the Chinese for transportation of war supplies is the so-called Burma-Kunming route; the Haiphong-Kunming Railroad being available for the movement of merchandise other than war materials.

The huge concentration of war supplies (said to be 700,000 tons) at Haiphong and Hongkong will, consequently, have to be transferred

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to Rangoon for transportation into China either by rail to Lashio (via Mandalay) thence by highway (via Kunming) to interior Chinese points or by river traffic from Rangoon to Bhamo, thence overland by motor trucks (a distance of approximately 73 miles) to Muse joining with the Lashio-Kunming highway into China.

Of the two available routes from Rangoon into China, the one up the Irrawaddy River to Bhamo is considered the most practical. An alternative river route is via Mandalay and thence by rail to Lashio.

Traffic on the Irrawaddy is British controlled and there are several concerns operating thereon; one of which alone operates a fleet of approximately 600 steamers and launches. The steamers of this concern have a capacity of from 400 to 600 tons, and usually tow along side, two barges having capacity for an additional 750 tons each. In so far as the river transportation is concerned size and weight of individual packages are of no moment.

Service from Rangoon to Bhamo, at present, is weekly and consumes seven to eight days. While the alternate route via Lashio is satisfactory up to that point, reports indicate that the latter part of the route from Lashio to Muse, where it joins the Kunming highway, is very bad, with steep grades and sharp curves, making the passage of even light trucks, comparatively unloaded, extremely difficult and almost impossible for large packages. These obstacles are not found on the route via Bhamo, although they do occur further along through the province of Yunnan.

At Bhamo cargo is unloaded manually through cuts or ramps made in the river banks using block and tackle and rollers. Once again size and weight of individual packages are of no concern. While awaiting transportation from Bhamo cargo is stored in godowns

or mat sheds located considerably above high water. (During the rainy season the river rises as much as 40 feet). From Bhamo to where the route joins the Lashio-Kunming highway the road, although not in first-class condition, is passable by trucks without any difficulty. It follows a serpentine course through the hills but at all parts is wider than the average mountain roads found in the East. The bends, while fairly sharp, are well engineered and all the culverts and bridges are concrete, except two small bridges which are of bamboo but we are informed that two concrete bridges were being projected and that upon completion the entire road will have concrete culverts and bridges.

Last reports (dated November, 1938) concerning the new road through China itself, are not so favorable. The road is, of course, new, and in many spots is subject to washouts and slides which have in the past completely blocked traffic for varying periods. In addition, the territory through which it passes is extremely difficult, winding through high mountains, and with necessarily sharp bends at which it is necessary in many instances to repeatedly back up and go forward in order to maneuver a truck around them. Generally speaking, however, the road is well engineered within the limitations of the territory within which it passes. Another factor concerning traffic on this route is that many miles of the road are so narrow that it can accommodate only one way traffic and the control of the traffic is going to be a serious problem once the road is put in first-class condition. This control will, according to reliable reports, necessarily have to be done by constantly patrolling the highway, both to control the actual flow of traffic and to report and arrange for immediate repairs as slides and washouts occur. To accomplish this, ample stores of road building machines and supplies, as well as wrecking crews and facilities for refueling, etc. etc., will have to be arranged for at convenient points over its entire length.

The railroad from Rangoon to Lahio via Mandalay is of meter gauge (narrow gauge) with a weekly freight capacity of 1600 tons of general cargo and 850 tons of dangerous cargo. It is reported (March 10, 1939) however, that general cargo capacity may be doubled during next two months (April-May 1939). Maximum weight of covered carload is 30 tons and open carload 28 tons. Maximum dimensions, length, breadth and depth, in inches, is for covered cars 436-76-85 and open cars 437-87-85.

For transportation over the Burma routes original shipping documents must be presented. The basic document is, of course, the bill of lading and in its preparation chief care is the classification of the cargo, within the specifications of the freight tariff, that will involve the lowest payment of charges. Documents must also include invoices and completely detailed packing lists. While certificate of origin is not specified in any of the recognized references, economical passage through Customs is facilitated by this document. Cargo in transit through Burma pays the regular duty of which seven-eighths is refunded on re-exportation.

It is recognized that the continuous flow of war materials as well as non-military supplies into China is one of the most important problems facing the Chinese Government in their resistance to Japanese aggression. It is a problem that the Chinese Government has apparently failed to solve and in the opinion of Scott (supra) "the Chinese have not shown themselves capable of undertaking this work." Much has been said about Chinese inefficiency, graft, nepotism and unpatriotic exploitation, and probably some of it may be true, but

too much blame should not be placed on China's doorstep. With the complete and effective blockade of China's seaports the Chinese Government was forced to quickly divert shiploads of cargo afloat to other inlets and outlets and naturally turned to French Indo-China and its Haiphong-Yunnan Railroad and to the rail and waterways of Burma, to whose border the Chinese performed a near miracle by converting a caravan trail of hundreds of miles through almost impassable mountains, into a fairly serviceable highway in approximately seven months time.

The main difficulty as we see it was the unpreparedness of the Haiphong-Kunming Railroad in French Indo-China and the Rangoon-Mandalay Railroad and Burma Steamship lines in Rangoon to handle the mass of 1-transit to China freight suddenly dumped on their shores and the failure of the British authorities at Burma and the French at Haiphong to increase transport facilities and organize, direct and control the handling of this new traffic. Compared with modern Western methods of rail and water transportation the railroads of French Indo-China and of Burma are little better than mere toys and the river traffic on the Irrawaddy apparently has not been improved beyond the necessity of servicing the economic requirements of river towns of which Mandalay, the Capital of Upper Burma, with approximately 150,000 population (including British colonial troops) and Bhamo with approximately 4,000 native population, are the largest. The main traffic on the river beyond the Irrawaddy delta in 1919 (when the writer spent some weeks in Burma) consisted of bazaar boats or floating department stores that tied up at every village and jungle town of any size the whole 900 miles of the Irrawaddy's navigable length. The main water traffic is at Rangoon, the chief city of Lower Burma (population about 400,000), which is a busy, bustling port.

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There are three nationals directly concerned in solving the acute problem of transporting war materials and supplies into China over these routes, viz., the Chinese, British and French. External circumstances as well as considerations of home policy on the part of the British and French Governments may affect the workings of the two roads from time to time, - necessitating the diversion of traffic from one to the other, and from rail to road or river or vice versa. But regardless of gross disturbances, either political or military, the traffic ought to be directed and closely supervised, if the only ways of approach from the sea are to be utilized to the fullest capacity. Congestion at ports of entry, at Hongkong and Singapore, at relay points and at Kunming ought to be reduced as far as practicable at any given moment. Immediate and safe storage should be provided for at a convenient place, from which shipments could be distributed in accordance with the possibilities of the moment, along one or the other of the routes.

To sum up, full utilization of the two roads requires control of all incoming traffic by an organization under the authority of persons designated by China, by the two countries of transit and by the exporting country particularly interested.

We are informed, on very good authority, that such a plan of organization is now being discussed in London and that it has the tentative approval of the Chinese Government. It is planned to meet all needs by the establishment, at a convenient place (such as Singapore), of a "Transit Center" under a "Board of Management" composed of members, each yielding requisite authority in his country, namely a Chinese appointed by the Central Government, a British nominated by the Burma Office, a French designated by the Colonial Office in Paris and one or

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more members, nationals of the principal exporting country, excepting, of course, Japanese allies and/or any nation within the so-called German-Italian combination.

This "Transit Center" which would (a) provide for storage at the central intermediate storage, (b) arrange for small fleet of coastal steamers to ply between the storage and ports of entry, should be given entire control and direction over incoming traffic in accordance with needs of the moment. It should aim at operating the two roads as one, redirecting the traffic according to circumstances. The Chinese, British and French members would have to be vested with sufficient authority so that their rulings be acted upon, without question, by the local organizations. In addition the Center might provide mutual material assistance from time to time to the various traffic organizations involved in accordance with needs and, further, be entrusted with necessary arrangements for the completion, improvement and up-keep of the main roads of entry as fully as circumstances would require and opportunities permit. The "Center" could hardly be established as an intergovernmental organization; it would have to be a business office, either a trading corporation by itself or a branch of an existing Chinese or Sino-Foreign corporation. In any event it should be clothed with sufficient authority to keep roads open and goods flowing, should be closely coordinated and receive unselfish cooperation.

It is understood that the Central Government of China will take the initiative in "setting up" the proposed organization by inviting the British and French Governments to make proposals and nominate their respective representatives. It is expected that the United States Government, as the exporting country particularly interested, will be invited

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to nominate a representative to observe, advise and assist the "Center" and we believe the success of such an organization depends to a large extent on an American representative taking a place on the Board of Management. We suggest that this representative should be an engineer or an expert traffic manager or both if possible. He should be a person of wide experience able to drink whisky-sodas with the British, bird's nest soup with the Chinese and cater to the vanity of the French. Further he should be strong and robust in order to withstand the enervating tropical climate, the inconvenience of travel and the scarcity of good food.

For your further information in case of necessity decision on arrangements in Indo-China rests with the French Colonial Office in Paris, while local arrangements may best be conducted through the Bank of Indo-China, a semi-government institution, which owns the railway and whose very capable Vice-Governor, at present in Indo-China until the end of March, is engaged on a local survey after a trip to Chungking.

Ultimate responsibility for arrangements in Burma is vested in the Burma Office in London, an autonomous subordinate bureau of the India Office, but the local Burmese Government, not always amenable to the advice or ruling of the British representatives, must also be reckoned with.

It is reported that the Chinese Government have entrusted all requisite arrangements to a special South Western Transportation organization under the ultimate authority of the President of the Executive Yuan (H. H. Kung) and of the General Headquarters under Chiang Kai-shek.

TREASURY DEPARTMENT
Office of the Secretary
Secret Service Division

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MEMORANDUM
March 29, 1939

To: Mrs. Klotz
From: Chief Wilson

For the information of the Secretary
we attach itinerary of the President's
trip for March 29 and 30, 1939.

CONFIDENTIAL

Trip of the President to
Tuskegee, Auburn, Opelika,
Alabama, and Warm Springs,
Georgia, March 29-30, 1939.

Wednesday, March 29, 1939.

Lv. Washington.....(Southern Railroad)..... 2:30 p.m.

Thursday, March 30, 1939.

Ar. Atlanta, Ga..... 7:00 a.m. 1-5
Lv. Atlanta, Ga.....(Atlanta & West Point RR)..... 8:20 a.m. 6-8

Ar. West Point, Ga..... 8:30 a.m.
Lv. West Point, Ga..... 8:35 a.m.
(Breakfast on train)

Ar. Chowan, Ala..... 10:00 a.m.

Detrain and motor to Veterans Hospital,
Tuskegee, Ala., where the President will
stop briefly to greet the patients.

Drive to Tuskegee Institute and around
grounds; proceed to natural elevation
where the President will speak from his
automobile.

Lv. Tuskegee, Ala.....(by motor)..... 11:30 a.m.

Ar. Auburn, Ala..... 12:00 noon

Drive to Bullard Field, Alabama Polytechnic
Institute where the President will be met
by Dr. Duncan and assembled students; brief
speech from automobile, and drive around
grounds.

Lv. Auburn, Ala.....(by motor)..... 12:30 p.m.

Ar. Opelika, Ala..... 12:45 p.m.

Brief stop to greet assembled school
children.

Lv. Opelika, Ala.....(by motor)..... 1:00 p.m.

Picnic lunch enroute.

Ar. Warm Springs, Ga..... 4:00 p.m.

Members of the party:

T H E P R E S I D E N T

Hon. Harry L. Hopkins,
Secretary of Commerce.
Captain Daniel J. Callaghan, U.S.N.
Miss M. A. LeHand.
Mr. William D. Bassett.
Miss Grace Tully.
Mr. Henry M. Kannee.
Miss Roberta Barrows.
Miss Louise Bachmeister.
Miss Toinette Bachelder.
Mr. George A. Fox.
Mr. Dewey E. Long.
Mr. Leo A. de Waard.
Secret Service *Agents*

Regraded Unclassified

Newspaper men:

Mr. D. Harold Oliver,	Associated Press.
Mr. George E. Durno,	International News.
Mr. Frederick A. Storm,	United Press.
Mr. Walter Trohan,	Chicago Tribune.
Mr. William C. Murphy,	Philadelphia Inquirer.
Mr. John O'Donnell,	New York Daily News.
Mr. Felix Belair,	New York Times.
Mr. Coleman B. Jones,	New York Herald Tribune.

Picture men:

Mr. Charles Mack,	M.G.M. Metrotone News.
Mr. John Tondra,	Fox Movietone News.
Mr. E. M. Williams,	Fox Movietone News.
Mr. George M. Dorsey,	Pathe News.
Mr. Hugo Johnson,	Paramount News.
Mr. Alfred Oeth,	Paramount News.
Mr. George Skadding,	Associated Press Photos.
Mr. J. S. Thompson,	Acme Newspictures.

Broadcasting representatives:

Mr. Carleton Smith,	N. B. C.
Mr. Stanford Rose,	C. B. S.

Telegraph representatives:

Mr. C. S. Linkins,	Western Union.
Mr. J. N. Willis,	Western Union.

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Mr. W. C. Spencer, D.P.A.,
Southern Railroad,
In charge of Transportation.

GROUP MEETING (CONDUCTED BY
UNDER SECRETARY HANES)

March 29, 1939.
9:50 a.m.

Present: Mr. Hanes
Mr. Bell
Mr. Foley
Mr. McReynolds
Mr. Graves
Mr. White
Mr. Gibbons
Mr. Lochness
Mr. Gaston

Hanes: Steve, what's on your mind?

Gibbons: Not a thing.

Hanes: Nothing new?

Gibbons: No.

Hanes: Herbert, you got anything new?

Gaston: No, I don't think so, nothing except that I'd like to see a bill on future issues of securities.

Hanes: See what?

Gaston: A bill introduced in Congress taxing interest on future securities.

Hanes: Well, Tarleau was up there yesterday and Brown has got the idea now that it might be advisable to put an amendment on this present salary bill. Of course, that means - I don't

Gaston: That means starting a fight all over again on the salary bill. I'd kind of hate to see that.

Hanes: I don't know. It seems to me that's kind of a mistake, as long as we've already got this bill through the House, and just putting an amendment on that thing just starts the fight all over again. I don't think that's good tactics.

Gaston: What I'm thinking is that we're going to be on the

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anxious seat, and if they don't pass any legislation on salaries we're going to be in quite a jam, and I'd hate to see the thing imperilled.

- Brown: Brown says - I haven't seen Harless this morning; he was up there yesterday talking with Stan and Oswald and they're having a meeting today, the Senate Finance Committee, to determine the course there - and Brown told Harless he thought he could put an amendment on that salary bill and get it by.
- Coston: Well, if they can get it through, it would be swell.
- Watts: That means, then, it's got to go to the House, doesn't it? Does the whole bill have to go back to the House and be voted on over again, or just the amendment?
- Foley: Well, I should think it would be the whole bill, in case where you made a major amendment of that kind.
- Coston: Wouldn't simply be a conference matter.
- WCR: Be a conference, but it would come up to the House for a vote on the conference report.
- Foley: On a matter as important as that, I should think the House conferees would ask for a House vote.
- Bill: Ask for instructions.
- Foley: They wouldn't bind the House on a matter as important as that.
- Coston: Might be the easiest way to get it by.
- Foley: I should think so.
- Watts: Was your thought, Herbert, for the bill to apply only to Federal bonds?
- Coston: Both - future issues.
- Watts: All issues.

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- Gaston: After the date of the enactment.
- Wines: Brown was ready to report - of course, the hearings are all over in the Senate but there have been no hearings in the House on the tax-exempt question. Now, whether or not they would have to hold hearings - does the House have to hold hearings on that thing? Brown, you see, has had four weeks or five weeks.
- Waltz: No, they could take his testimony in the Senate.
- Gaston: They could take the Brown report.
- Waltz: But somebody might make a motion to refer it to the Ways and Means Committee for consideration. When they'd have to go into it again.
- Gaston: They'd be up against it then.
- Waltz: How many of the outstanding bonds are - they're all maturing, aren't they, at some much earlier date than the final maturity date?
- Waltz: Oh, I don't know, there are several of them
- Waltz: Call them as early as possible, make the new issues not exempt.
- Gaston: Just partially exempt.
- Waltz: No bonds are exempt from surtaxes except the pre-war issues.
- Gaston: It isn't - the Government bonds don't hurt
- Waltz: It's the state bonds.
- Wines: It's the state bonds that hurt. They're totally tax-exempt.
- Waltz: We've got about four billion dollars worth of notes fully tax-exempt; Treasury bills are fully tax-exempt.
- Gaston: They go out quickly.

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- Bell: We can roll those over in five years.
- Gaston: For the state the ability to tax those bonds would be quite important. The ability to tax the interest on United States bonds would be quite important to the states.
- Bell: Those that have income taxes.
- Gaston: Those that have income taxes, yes.
- Bell: That's right.
- Gaston: There's 19 billion dollars of the state bonds; that is, 19 out of the 60 billion are state.
- Bell: Oh-um. And they're fully tax-exempt.
- Gaston: Fully tax-exempt, yes.
- White: Would it be at all feasible to consider including such a requirement as that, in so far as any of these outstanding state bonds are callable, they should be refunded at the earliest callable date, not tax-exempt?
- Bell: You're just destroying state rights and everything here.
- White: Well, they are destroyed, if you want to ...
- Bell: I don't think you can dictate to them.
- Gaston: You'll probably find they'll be looking for some method to let them run past maturity rather than call them before.
- Gaston: Well, I tell you, Brown, coming from Michigan, has got quite a refunding problem in Michigan - he himself, see - and he's chairman of that sub-committee that did the investigating.
- White: Could have a conversion clause in there, be forced to take advantage of it. They'd probably have to pay a slightly higher ...
- Gaston: Archie's suggestion is the reverse of that.

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- Michigan: I mean if a thing like that went through, some states would make some deals not to pay their bonds off at maturity, let them run. You'd find some of them trying to do something like that.
- Ward: You're going to find all kinds of deals, and each state has a different problem. And Michigan's problem is a bigger problem than most of them, and Brown is Chairman of that committee. I judge by the questions Brown asked before the committee up there that Brown is going to offer some sort of an amendment to this thing or some sort of a bill which will take care of the refunding over the next five years of the obligations now outstanding in the tax-exempt class. Now, that's the kind of deals you're going to be up against, and I don't know if you can lick it.
- Hall: How do you mean take care of the refunding over the next five years?
- Ward: Make the refunding over the next five years exempt from this statute; in other words, that they can refund the bonds that are coming due the next five years in tax-exempt bonds.
- Hall: In other words, the tax-exempt features would continue to apply for another five years for outstanding issues.
- Ward: In other words, all the questions Brown seemed to be asking pointed toward easing into this tax-exempt thing over the period of the next five years.
- Hall: Then they ought to have a limit on the maturity of the obligations into which they can refund, if that's the case, because, as Archie says, they'd issue 100-year bonds totally tax-exempt.
- Haley: Wouldn't have the power. City of Detroit doesn't have power to issue 100-year bonds.
- Hall: Might get it.
- Haley: From the Legislature?
- Hall: Yes.

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- White: That really isn't so very serious, because they pay on the savings to the citizen of Michigan, at the expense, to be sure, of the Federal Government, to that extent; but if they really get as much as they can - depends on the total volume of outstanding debt; but in this case they'd probably be able to bid up the price on the strength of that so high; it isn't as serious as the total problem is.
- Foley: I'd like to see the thing explored, Johnny, to determine whether or not it's feasible to do everything the President asked in his message on this one bill.
- Hines: On one bill?
- Foley: Yes, because I don't see as there is any reason at all now for anybody to argue that we ought to do it by constitutional amendment. This case smacked the props right out from that. It brings the issue right out in the open now, it's whether you do it as a matter of policy or you don't do it as a matter of policy, and I think that there are a lot of these fellows who are hiding behind the constitutionality argument that will be smacked out now and will have to vote for it.
- Wright: This famous debate we had on the radio, you know, ...
- Foley: Sure, they still talked about it then.
- Dawson: They wouldn't meet the question on its merits then; solely the ground that it ought to be done by constitutional amendment.
- White: Yes, well, why don't we make Ed here the chairman of a committee to make recommendations to the Secretary as to how we will proceed on this thing; whether by trying to get an amendment to this particular statute or ask in the Ways and Means Committee - the sub-committee of the Ways and Means to start exploring that thing. We might go up - we might ask Doughton, if you decide this is the way to do it - ask Doughton for a special executive meeting with his sub-committee, and then

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go and lay it before him and ask him to either take it in the form of a new bill or as an amendment to the old bill. I'll do whatever you think wise on that. I want to get the thing started. I'd like to get it out of the way as quickly as we can, and get it out of the way before we go into the main tax bill.

Foley:

Yes.

Jones:

I don't want to get that thing confused with the main tax bill, because it's building more trouble for us.

and I've been hoping that these damn social Security hearings will get over up there, but they just seem to go on ad infinitum. I don't know how in the devil long it's going to be. Probably three more weeks.

Caton:

Probably. They know right now what they're going to do.

Cheel:

I was talking with John McCormack and asked him how soon they're going to finish. They don't know.

Watts:

They know right now what they're going to do.

Watts:

I said they could do

Watts:

They're going to report on the Worgenthal plan and abandon the half percent tax increase. That's what they're going to do.

Watts:

McCormack said that the Secretary's statement had made a profound impression not only on the Committee but on all the members of the House, so that means the Committee is going to accept that plan, in my opinion.

But Ed, would you mind taking that job on and just - I must confess I don't know enough about this legislative process to know which is the proper way to approach it; but if you'll take on that job, to figure out a way to do it and the best way to do it, way, we'll report to the Secretary.

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WELLS: Well, Johnny, I'm sure I'll be very glad to do
 ever, taking I can.

HANCOCK: Jimmy, I know

WELLS: I think you'll have to make the decision. I'll do
 the work.

HANCOCK: That's all right. What I want to do is to get some
 advice as to how is the best way to do it. I don't
 want to go up there and say, "Let's offer an amend-
 ment to this thing," and then have the damn thing
 kicked back on us and still both of them. I'd hate
 like the dickens to have that happen. I'm sure we
 can get the selling the bill through as it is now.
 These amendments are going to be killed today in
 the executive committee session of the Finance
 Committee. Those amendments are going to be killed
 today; if not today, Monday certainly. Now, then,
 that means the bill will go immediately to the
 Senate, the amendments will be offered again on the
 floor of the Senate, and a vote will be taken on
 the amendments and I think they'll be killed on
 the floor; then the bill has clear sailing.

(Hancock goes into Secretary's
 office to make telephone
 conversation; returns at 10:15)

HANCOCK: Now you advised that we're going to do?

WELLS: I think the Federal Government can pass a law which
 will tax the income from all securities.

HANCOCK: Yes.

WELLS: Now, can't the State of New York pass a law, or
 issue securities which will be tax-exempt so far as
 the State of New York taxes are concerned?

HANCOCK: I think so.

WELLS: But it can't exempt the Federal tax.

HANCOCK: That's exactly what he says.

WELLS: I think you're right, yes. It could exempt them.

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from state taxation as a matter of contract with the purchaser.

Bell: That's right.

Gaston: It could not exempt them from Federal taxation.

White: Then they are penalizing the holders of Federal bonds to that extent.

Hanes: Well, let's get along. Archie, you got anything else?

McNamee: No.

Hanes: Harry? Excuse me - I think we passed by Mr. Graves.

Graves: Nothing, Mr. Hanes.

White: Merely the question of a statement that Doughton wanted yesterday. He wanted a reply prepared to give on the floor in answer to Congressman Reed. Said he'd like it by noon. I asked Blough's men - Blough is away - to prepare a statement. Herbert said he was busy yesterday, but said he'd get at it this morning. Is that right, Herbert?

Gaston: Yes. Uh-hun.

Hanes: So he hasn't got any statement yet?

White: No.

Hanes: What does he want, just a political document?

White: He wants a statement about as long as the one Reed made, pointing out to Reed that he suffers a serious lapse of memory, which he accused Doughton of having. That got under Doughton's skin. He kept repeating that - that Reed is a very good fellow, but somehow lost his memory during that speech.

So I'm just passing the buck on that.

Hanes: To whom, me or Herbert?

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White: well, I thought Herbert took it, so ...

Gaston: Roy Blough is away, and ...

Hines: Herbert stopped it on the way.

White: Blough's staff is supposed to have something this morning.

Gaston: Is Gene Duffield gone?

White: Duffield's gone.

Wright: Archie?

McNamee: There's nothing on the rates, but a Bank of England man called yesterday on the telephone they were shipping \$40,000,000 of gold the end of this week in anticipation of any emergency and they're all following the same pattern, they're snipping their gold about as fast as the boats will take it. They hope they don't have to use it, but they feel better if they have it over here.

Hines: I got a report yesterday, Archie - whether or not it's of any value or whether there's any truth in it, I don't know - that \$3,000,000 came over here last week in gold by parcel post.

McNamee: There was a letter

Wright: More than that.

McNamee: Been \$30,000,000 come over here in the last year.

Hines: This fellow told me - said the reason no new gold was coming over here by parcel post was because one of the sacks broke open and out popped some gold, and he said one of the handlers picked up the gold nugget or block or whatever it was and put it back in the bag and tied it up.

McNamee: And I'll bet it was a steamship man told you that, too.

Hines: It was a Customs man.

Wibbons: Came into New York?

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- Hanes: Un-hun.
- White: It's of no special concern - it gets in the import - it's of no special concern except for a point that is being raised by the British Government.
- Lochhead: There's a letter prepared to the Post Office for your signature to go into that. We've taken it up with them semi-officially several times, with regard to this question. We don't want to get it too much into a jam of forcing the issue.
- Hanes: What's this letter doing, asking the Postmaster General
- Lochhead: ... what they can do about these particular shipments from France and England.
- Hanes: You mean you want to stop this coming by parcel post?
- Foley: The British Government has asked us to stop it, and the postal laws are not under the jurisdiction of this Department, and this letter sends a copy of the note that we've received from our man in London, which came directly here rather than through the State Department, ...
- Hanes: Yes.
- Foley: ... and asks them for their suggestions and advice, and in the meantime we've told the State Department. You have, Archie, haven't you?
- Lochhead: I cleared with the State. They say it's all right to go ahead.
- Foley: If this thing came in directly, I suppose it's a question of what France and what England and what we can do that will determine how far we're going to cooperate.
- Lochhead: Listen, the Post Office Department - the way I get it is this; Post Office Department says that if this is to be stopped, it should be stopped from the other

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side. In other words, the country in which the shipment is made should take action. They say that although there is a postal agreement with France whereby each country will accept 44 pounds' weight in the mail, there is nothing to stop France from

Foley: ... changing ...

Wachsmuth: No, not changing that; they can't stop that, but France can simply say; "You can't ship gold to the value of more than a hundred dollars in one package." They say if France wants to do that, the Post Office here has no objections.

Wach: As long as they don't put more than a hundred dollars value on it.

Wachner: That's right.

Wach: They can put an arbitrary value on it.

Wachner: The question I'm asking is, do we object to it? Is it an objectionable practice to be shipping gold by parcel post?

Wach: I don't know whether that's been examined here.

Wachner: As an operating thing, it's objectionable for this reason: that you can't figure gold points with these unknown quantities being transferred, and when you're operating with England on the other side, figuring gold points, when you can't fix them exactly - it's not a good idea. That's your general trouble. I say, though, that it has to be worked, I really think, from France. France will really have to have their say.

Wachner: Wasn't the Postmaster General authority to refuse to accept that shipment under the postal law?

Wachner: I think we could, but I don't think we should be in the position of having our Post Office over here make the law they won't accept the package. That's kind of unilateral action. We want to find what France - there's another besides England; France has an interest in this. It seems to me if

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it's going to be stopped, France ought to indicate her willingness to stop it; then we'll cooperate.

Hobson: I don't understand why the Treasury wants to stop it.

White: That's an open question. So far as I know, that problem has never been brought to my attention, and it relates not only to Archie's operations but it also relates to certain broader problems with respect to whether or not we want to take the position of interfering with the cheapest way of shipping gold from one country to another. Now, there are unquestionably certain disadvantages, there are possibly certain advantages; or there may be certain broader aspects. Before it even gets to the question of the Post Office, we ought to be in a position to know definitely whether we want to say, "If you can possibly stop this, we would like to have it stopped," or "It doesn't make any difference to us," or "It doesn't make enough difference to us for us to interfere in any way with Post Office considerations."

Now, possibly Archie has already determined that. I don't know whether all the aspects of it have been considered, but there are numerous aspects of it that relate to the broader question of shipping.

Gibbons: You've got to have an international conference, hurry, before you could get anywhere on it.

White: I'm speaking from the point of view of gold policy: do we want to take any step which would interfere with the cheapest way of sending gold from one center to another? I can see Archie's point that there are certain disadvantages.

Customs: How do they come in Customs custody, those parcel post shipments? We could require notice and require them to come in Customs custody.

Hobson: It is in Customs custody.

White: Has clearance in Customs.

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- Foley: It puts the problem before the department that was jurisdiction of the laws, that's all.
- Wheeler: I think we're doing all we ought to do. We're saying to the Post Office department, "Here's a note from England. They'd like to have this stopped. It's a Post Office transportation proposition. We haven't enough interest in it to take a direct position on it."
- Wheeler: We pass it along without recommendation.
- Wheeler: Yes.
- Gibbons: It was intimated to you that this was illegal?
- Wheeler: No, it wasn't that.
- Wheeler: The reason I didn't want to get into it too strong ...
- Wheeler: They said, "If the United States Government is shipping that gold over here by parcel post, this three million dollars worth of gold went down through 5th Street at 11 o'clock at night on a truck that had no guard on it, and nothing on it, was in easy prey if anybody wanted to hold up the truck and take the three million dollars worth of gold."
- Gibbons: It's all insured.
- Wheeler: I said, "So far as I know, the United States Government doesn't ship any gold by parcel post."
- Wheeler: We weren't doing that, and we had no liability.
- Wheeler: Why worry about three million when we've got fifteen billion?
- Wheeler: I'd like to see it stopped for the reason that anything that narrows the gold points, I think, is bad, but that's not the position the secretary has taken.
- Wheeler: One point about it is this. There's been a great

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deal of work done on this by the steamship companies who are losing the freight on it. That's why I don't want to get the Treasury in on doing something in regard to the tripartite.....

- Gibbons: That's why the British have taken such a strong position.
- McNamee: And France. The main thing is, frankly, I don't see, from our own viewpoint, why the Post Office Department has made all these treaties. What the object is that the gold is shipped on the other side, the foreign country gets all the postage, we don't get a single cent out of anything; we don't get a cent out of it.
- Gibbons: Anything that originates here, we get the postage; works both ways.
- McNamee: We don't ship the gold.
- Gibbons: This isn't made on a gold basis; made on a merchandise basis.
- McNamee: The craziest thing is in Australia - all the gold is shipped by mail, not parcel post.
- Gibbons: Don't want to go down to the Post Office and get in an argument with those fellows.
- McNamee: They don't seem to worry very much about it. Therefore, I don't think we want to get in on it. I still can't figure out why they don't object themselves on it. Be up to the Post office to object, not us, as a matter of constant expense and no revenue.
- McNamee: And, you got anything new?
- Gibbons: No.
- McNamee: I talked with Governor Stark.
- Gibbons: How's that?
- McNamee: I said I talked with Governor Stark and reported

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to him that Milligan - is that his name? - ...

Woot:

Yes.

Hines:

... had been notified by the Attorney General's office...

Woot:

The only thing I did was to see that wire went out this morning.

Hines:

Yes. Well, that's all. That buttoned up that.

Woot:

That's buttoned up now.

Hines:

That's closed. That's what I told the Secretary. Everything is in order. They called him up.

Woot:

We've done everything we can do.

Hines:

Governor Stark called the Secretary up on the phone down there, just worried the hell out of him. I just wish they'd leave him alone for a minute.

Woot:

Well, we've capitulated on that.

Hines:

Well, you got anything?

Foley:

No, Johnny.

Hines:

Danny?

Woot:

No.

March 29, 1939.
10:08 a.m.

Operator: Hello.

John Hanes: Hello.

2: Just a moment, sir.

3: Hello.

Governor Stark: Good morning, Mr. Secretary.

4: Good morning, Governor Stark.

5: How are you, sir?

6: Fine, thank you. Governor Stark,.....

7: Yes, sir.

8: I have not reported back to -- to General Watson this fact yet, but we've got that thing in good shape.

9: Thank you very much, sir.

10: And I think that everything is taken care of. I got Attorney General Frank Murphy to work on it yesterday -- late yesterday afternoon.

11: That's fine.

12: And the man that you spoke of, Mr. Hartman....

13: Yes.

14:was notified last night.....

15: That's fine.

16:to -- to stand by and be ready, and the Attorney General, through his Assistant Attorney General, Mr. Morris, got in contact with Mr. -- what is his name out there -- Harrigan -- Milligan.

17: Milligan.

18: That's right. Mr. Milligan, and advised him that Mr. Hartman would be -- although he's not ready to go ahead -- he would be available.

S: Well that's fine, because we've got that thing broken and it ought to all come together, you see.

H: Yes.

S: Hartman -- Hartman will get a lot of information to close your case, undoubtedly, because this thing is breaking, you see.

H: Yes.

S: It would be suicidal to delay it for two reasons. The public opinion out here just wouldn't stand for it; we'd have a scandal; they'd all know about it, you see?

H: Yes. Well now, Governor, I -- I think you'll find everything in order.

S: Thank you, sir.

H: But there's one thing I want to ask you and say to you with all the sincerity at my command.

S: Yes, sir.

H: That is that this man you spoke to me about and you also spoke to the Secretary and you spoke to General Watson about.....

S: Yes, sir.

H: Jim Morris and the other man Brien McMahon.

S: Yes, sir.

H: Neither of those men -- I mean, the inference that I drew from what you had told all three of us was that those men were implicated in some sort of political chicanery. Now I want to assure you that that just is not so.

S: No. Now, this -- this is the report I got; that it was reported to my informant that there would be an attempt made from the Pendgrast organization.....

H: Yeah.

S: Through a political friend of theirs.....

- H: Yes.
- S:to stop it through these men. Whether they could or not I don't know, but that's the report I had and I told the Secretary that I didn't know a thing about it except that was the report.
- S: Well, I just wanted.....
- S: What he had to do was to make sure it wasn't true.
- S: Yes. Well, I just wanted to make -- I just don't like to have that kind of thing against the character of any man -- any man that I know so well as I do those two men.
- S: Well, I'm awfully glad to hear that.
- S: And....
- S: I'm glad to know it because it worried me.
- S: They are men of the very highest character and they wouldn't be a party to any such thing as that and if anybody did try to reach them in any way, I'm just positive that nothing would happen, that's all. They are just too -- men of too fine character to let anything like that happen.
- S: You bet.
- S: And I just didn't want you to -- I didn't want you to go to sleep tonight without knowing that we here have got the most tremendous confidence in those two men and they worked with the Department of Internal Revenue very closely. They are -- they handle our tax legislation over there -- I mean their tax cases over there.
- S: Yes, sir.
- S: And -- and I just didn't want to have you have any misapprehension about either of those men because they are perfectly splendid, patriotic citizens and doing a swell job down here.
- S: Well, I'm awfully glad to know that. Now, the -- I can talk frankly and freely to you now, can't I?

- 4 -

Q: Oh, absolutely. Yes.

A: There seemed to be a plan to try to delay this to keep Hartman out of this case until after the Grand Jury was over, which will be only about two or three weeks now, you see? They close in April some....

Q: Yes.

A: The twentieth.

Q: Yes.

A: And there was a rumor out that -- that they were going to get it stopped and delayed until after that Grand Jury which was practically -- well, let the thing fizzle out; that was the idea we got.

Q: I see.

A: And -- but -- the thing, I believe, now -- to go ahead on that thing -- to straighten the thing out, and the case is broken here.

Q: Yes.

A: And with Hartman I think you are going to clean up on it.

Q: Well, I'm awfully glad everything has turned out the way you wanted it.

Q: Yes.

A: And....

Q: You see, my interest in the case is that eight hundred thousand Missourians have been defrauded out of that money.

Q: Yes.

A: And under my oath and under the Constitution, it's my duty to do what I can to rectify that situation.

Q: Yes.

A: I've been helping Mr. Morgenthau and all you folks all I could. I've given Hartman a tremendous number of leads.

- H: Yes.
- S: And if I can help you at any time I want to do it, sir.
- S: Well, you are very kind and we appreciate it. I -- I'm glad we got it fixed to your satisfaction, and I hope it goes all right, but I -- I was anxious....
- H: You keep your weather eye on it and see that there are no delays, will you please, sir?
- H: Yes, sir. I guarantee you there will be none from our end.
- S: That's fine. Thank you, and if there's any anywhere else you call me long distance at my expense.
- H: You bet I'll do it.
- S: Thank you, sir.
- H: Thank you, Governor.

THE WHITE HOUSE
WASHINGTON

March 29, 1939.

MEMORANDUM FOR H.M. Jr:

The enclosed was brought to me by an American (never mind who) to whom it was handed by your old pal Monick in Europe the other day. You might have somebody put all this stuff into a one page summary and talk with me about it.

F.D.R.

*Forwarded 3/30/39
1939 MAR 29 PM 1 45
9:45*

RECEIVED
MAR 29 1939
Division of
Monetary Research

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MEMORANDUM
SUR LA NECESSITE DE COMPLETER
L'ACCORD TRIPARTITE

Les démocraties ont en face d'elles un certain nombre de problèmes qui leur sont communs - et qu'elles ne peuvent résoudre qu'en commun.

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I - Défense économique et financière des démocraties.

Ce qui est en jeu actuellement pour toutes les démocraties, c'est le salut ou l'écrasement de leur système économique, soutien de leur civilisation et de leurs libertés. En effet, le système économique libéral est fait pour une atmosphère de paix; il repose sur la confiance et sur l'esprit d'entreprise. La tension internationale, maintenue par les pays totalitaires, porte directement atteinte au fonctionnement même du système libéral. Elle sape la confiance, détruit l'esprit d'entreprise, fait fuir les capitaux, menace les monnaies, ruine les finances.

Le problème est de savoir si les démocraties vont rester économiquement à la merci des Etats autarciques et faire dépendre la reprise de leur prospérité d'un apaisement politique qui ne dépend pas d'elles - ou si elles vont, par la coordination de leurs efforts, neutraliser les effets destructeurs de la tension internationale - montrer qu'elles

peuvent, sans danger pour leur économie, "résister aujourd'hui, collaborer demain".

Les grandes démocraties ont pratiquement le monopole de l'or - le monopole du crédit - le monopole de la puissance financière. Si elles consentaient seulement à coordonner leurs efforts, elles pourraient :

- a) défendre leur système économique et leur prospérité, sans qu'il soit au pouvoir d'aucune combinaison de puissances d'y porter atteinte;
- b) déclencher à leur tour une offensive de prospérité à laquelle aucune nation n'est peut-être actuellement en état de résister.

2 - Problèmes communs des démocraties.

Ces problèmes sont les suivants :

- a) Accroissement du revenu national, unique moyen de développer leur réarmement, tout en maintenant leur prospérité et leur progrès social.
- b) Rétablissement du pouvoir d'achat des pays producteurs de matières premières (ou, à l'intérieur de chaque pays, des producteurs de ces matières) avec diminution correspondante du chômage des pays industriels. D'où nécessité de la hausse des matières premières, puisque la déflation des prix industriels est incompatible avec l'accroissement nécessaire du revenu national et la bon (smooth) fonctionnement de l'économie libérale.
- c) Accroissement du volume des affaires accompagné :

- 1°- d'une hausse modérée des prix de gros (moins que celle des matières premières);
- 2°- de la stabilité, autant que possible, des prix de détail;

3^e- de mesures destinées à éviter, dans l'avenir, toutes fluctuations brusques des prix.

d) Rétablissement du financement du commerce international et des investissements internationaux, entraînant un accroissement du volume des échanges ainsi qu'un accroissement des débouchés, ce qui pourrait enfin rendre possible un abaissement graduel des barrières douanières et une suppression graduelle des contingents.

A ces problèmes communs il n'est pas de solution séparée. Le soi-disant succès d'une politique de réarmement, poursuivie dans une économie close, a suffisamment livré aujourd'hui son secret. Il n'est autre que l'abaissement progressif du niveau de la vie de la nation.

Malgré l'accroissement rapide du revenu national dans les démocraties - aussi longtemps qu'elles restent atteintes par le chômage - se trouve lié à la nécessité d'une certaine expansion de crédit. Or, cette politique ne peut produire ses heureux effets - et échapper aux dangers qu'elle comporte (notamment la faiblesse de la monnaie) - que si elle est le résultat d'un plan d'ensemble coordonné entre les grandes démocraties.

Le problème est de savoir par quels procédés techniques de coopération il est possible de promouvoir une telle politique d'expansion de crédit conjuguée entre les grandes démocraties.

3 - Problème de la stabilité monétaire et de la régularisation des mouvements de capitaux.

L'équilibre économique est aujourd'hui sensiblement réalisé entre les monnaies de l'accord tripartite. Les pays participant à cet accord ont donc intérêt à éviter dorénavant toute rupture d'équilibre monétaire.

Car toute baisse des grandes monnaies pèse sur les prix des matières premières. Elle porte ainsi directement atteinte - malgré toute mesure de défense économique et financière - à la prospérité intérieure des autres pays.

Il est dorénavant inadmissible qu'à chaque nouvelle crise économique le seul remède envisagé, soit la dévaluation monétaire. Les pays de l'accord tripartite disposent en fait des sept huitièmes du stock d'or mondial. Puisqu'ils ont le contrôle de l'or, c'est pratiquement d'une politique monétaire et d'une politique de crédit concertées entre ces grandes nations que dépend surtout le pouvoir d'achat de l'or. Dans ces conditions, toute nouvelle variation de l'ensemble des grandes monnaies par rapport à l'or devient inutile.

Il n'est pas question de revenir à l'ancien étalon or, et notamment de chercher à astreindre l'économie des grands pays à supporter des variations des taux d'intérêt destinées uniquement à corriger des mouvements inconsidérés de capitaux.

Il n'est pas question davantage de bannir tout nouvel ajustement des monnaies entre elles, pourvu :

- a) qu'il reste minime,
- b) qu'il ait une cause uniquement économique,
- c) qu'il n'intervienne que comme un complément des autres ajustements nécessaires - économiques et financiers.

On ne peut notamment considérer comme ayant une cause économique des mouvements brusques de capitaux dus uniquement à des tensions politiques. Ces mouvements sont appelés à se renverser et à se compenser ultérieurement. On ne peut admettre que, dans l'intervalle, ils pèsent sur les prix, donnent lieu à des mouvements d'or considérables, ébranlent le système monétaire et fassent peser ainsi une hypothèque étrangère sur

la politique économique et financière des grandes démocraties.

Il faut donc prévoir, dans l'intérêt de tous les pays adhérents, la régularisation entre eux des mouvements inconsiderés de capitaux. Cette régularisation est d'ailleurs la seule alternative au contrôle des changes - qui signifie, là où il est véritablement appliqué, la condamnation de tout le système économique libéral. Pris sous cet angle, le problème soulevé, depuis la guerre mondiale, par les mouvements de capitaux flottants, n'est plus insoluble. Ce n'est plus une question de contrainte nationale; c'est un problème de coopération monétaire internationale.

D'une façon générale, depuis l'abandon de l'étalon or, les directions monétaires sont restées uniquement nationales, et par suite souvent divergentes. Il importe aujourd'hui de rétablir à cet égard une certaine discipline internationale, et de voir si les liens qui unissaient autrefois les mécanismes monétaires peuvent être aujourd'hui renoués sous une forme différente.

4 - Problème de l'or et des matières premières.

Enfin, il existe pour les démocraties un problème de l'or et des matières premières - qui a été traité dans une annexe au présent mémorandum, vu l'importance des développements qui lui ont été assignés.

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Pour résoudre ces différents problèmes, certains mettent tous leurs espoirs dans la réunion d'une prochaine conférence économique internationale.

Mais il est une autre négociation - autrement urgente, puisqu'il faut finir ce qui n'a été qu'ébauché dans le premier accord tripartite - autrement aisée, puisqu'il s'agit de s'entendre entre nations qui affirment les mêmes principes - autrement nécessaires, puisqu'elle est la condition même de l'apaisement économique international - et dont il n'est encore question nulle part.

- Il faut sans délai faire un nouvel accord tripartite.

Le projet ci-joint essaie d'indiquer la voie où des solutions pourraient être trouvées à ces problèmes urgents.

Le principe sur lequel a été établi ce projet est le suivant. Il ne s'agit pas de lier par des engagements aucune des démocraties; chacune d'elles doit garder son entière liberté d'action. Il s'agit uniquement d'instaurer une méthode par laquelle pourront être coordonnés des efforts qui, pour l'instant, restent dispersés - et partant inefficaces. Le but recherché est d'améliorer la coopération heureusement instaurée par l'accord tripartite.

Les nouvelles techniques économiques et monétaires qui sont proposées visent essentiellement à neutraliser les menaces de guerre, à les écarter, et finalement à préparer l'apaisement économique international. Elles n'ont en aucune façon un caractère politique, mais uniquement un caractère économique et financier.

PROJET

DE COMPLEMENT

A L'ACCORD TRIPARTITE

TITRE I.

Constitution d'un organisme de coordination entre les Fonds
d'Egalisation des Changes.

Article 1.- Il est constitué entre les différents Fonds d'Egalisation des changes des pays participant au présent accord un organisme de coordination (ci-dessous désigné : Comité Coordinateur)

Article 2.- Le Comité coordinateur est composé d'un certain nombre de trustees, choisis par les Gouvernements représentés. Le rôle des trustees est essentiellement un rôle consultatif. Ils ont un pouvoir de recommandation auprès des différents Gouvernements intéressés. Ils ont un pouvoir d'administration pour la gestion propre des actifs qui peuvent leur être confiés.

TITRE II.

Rôle du Comité Coordinateur ~~des Nations~~ pour la régularisation
des mouvements de capitaux et la coordination de la politique
de crédit entre les pays participants.

Exposé des motifs.- Il est observé que la tension internationale entraîne parfois des mouvements de capitaux considérables, qui sont appelés à se renverser et à se compenser ultérieurement. Il est inadmissible de laisser ces mouvements provisoires, mais violents, de capitaux entraîner des conséquences monétaires durables, telles que dévaluation, baisse profonde du change, etc...

Il est également observé :

- a) que l'équilibre économique est aujourd'hui sensiblement réalisé entre les monnaies de l'accord tripartite;
- b) que les pays adhérant à l'accord ont renoncé entre eux à tout dumping économique, à toute manipulation volontaire de leur monnaie et à tout ajustement monétaire sans consultation préalable avec les co-participants.

En conséquence, les risques de baisse du change entre ces pays apparaissent aujourd'hui étroitement limités. Il reste cependant que les ébranlements monétaires causés par les mouvements violents de capitaux peuvent remettre en question cet équilibre des changes.

Ces mouvements de capitaux peuvent être découragés et, d'autre part, neutralisés, grâce à une nouvelle formule de coopération qui augmente les moyens d'action dont disposent les autorités monétaires des différents pays.

Article I. - Il est stipulé :

a) Lorsque les mouvements de capitaux sont normaux, ou lorsque, même affectant des montants considérables, ils ont lieu d'un pays qui est disposé à perdre de l'or vers des pays qui ont intérêt à en recevoir, les Fonds d'Egalisation des changes nationaux opèrent comme aujourd'hui sans intervention du Comité coordinateur.

b) Mais il est d'autres cas où les capitaux émigrent de pays qui ne peuvent se démunir de leur or sans inconvénients graves. Il se produit alors, d'une part, dans le pays qui perd de l'or soit un fléchissement de la monnaie, soit un phénomène de déflation, lesquels, par suite de la pression sur les prix qui en résulte, portent atteinte à l'équilibre intérieur de tous les pays d'économie libérale. Il se produit, d'autre part, une perte de confiance qui risque de donner une amplitude nouvelle aux mouvements de capitaux et d'accélérer les pertes d'or.

Dans ce cas, si le Comité coordinateur estime qu'il y a intérêt, pour l'ensemble des pays participants, à neutraliser les sorties de capitaux de certains pays et à freiner le phénomène général de déflation qui s'amorce ainsi, il prend l'initiative de recommander l'intervention d'un "Clearing international des changes" qui fonctionne comme il est exposé ci-après.

On peut expliquer le mécanisme de cette intervention en prenant comme exemple une sortie de capitaux anormale de la Grande-Bretagne en direction des Etats-Unis, susceptible de faire baisser sensiblement le change de la livre sterling, et d'entraîner par suite une baisse des prix sur le marché des Etats-Unis et sur ceux des autres pays d'économie libérale.

Au lieu de faire opérer la contre-partie des achats de dollars par le Fonds d'Egalisation britannique qui serait contraint de perdre son or, et de laisser peut-être baisser la livre, la contre-partie serait faite par le Clearing International qui se procurerait les dollars nécessaires en tirant sur un compte courant qui lui serait ouvert à cette occasion par le Fonds d'Egalisation des changes à Washington.

Article 2.- Couverture du risque de change.

Le risque de perte au change du Clearing International serait couvert par un dépôt d'or effectué auprès du Clearing par le Fonds d'Egalisation en faveur duquel le Clearing International est intervenu. La proportion de ce dépôt serait déterminée par les trustees suivant les circonstances (25% par exemple dans le cas du Fonds britannique, lequel ne perdrait, de cette manière, qu'un quart de l'or qu'il aurait perdu dans le système actuel).

Les trustees du Comité Coordonateur auraient la plus entière liberté d'action pour décider du moment à partir duquel il convient de recommander l'intervention du Clearing International. Ils devraient tenir compte, à cet égard, des raisons qui déterminent les mouvements de capitaux, de l'affaiblissement en or de certains Fonds d'Egalisation des changes, de la situation des pays vers lesquels se dirigent les capitaux, etc..

Article 3.- Gestion des devises par le Clearing International.

Le Clearing aura à gérer les devises dont il aura accepté de faire la contre-partie (sterling dans l'exemple donné ci-dessus). Ces devises, il pourra en faire bénéficier le marché monétaire d'origine

dans toute la mesure qu'il estimera utile.

Les devises gérées par le Clearing, d'une part, les comptes courants ouverts au Clearing par les Fonds d'Egalisation participants, d'autre part, pourraient donner lieu à toutes les mesures de stérilisation ou d'activité souhaitables en vue d'une politique de crédit conjuguée sous la coordination des trustees du Comité Coordinateur.

Il est à remarquer que l'ensemble du système ainsi établi ne serait pas sans quelque analogie avec le mécanisme de l'ancien étalon-or, mais alors que, sous ce régime, les variations du taux d'intérêt n'agissaient que par déflation dans le pays exportateur d'or et éventuellement par expansion de crédit dans le pays importateur d'or, les différents pays utilisant cette nouvelle méthode auraient à leur disposition, sur recommandation des trustees, un instrument plus souple de coordination monétaire internationale.

Article 4.- Compensation des mouvements de capitaux.

Pour expliquer le mécanisme de la compensation des mouvements de capitaux, on poursuivra l'exemple adopté ci-dessus d'entrée et de sortie des capitaux entre la Grande Bretagne et les Etats-Unis d'Amérique.

Lorsque le reflux des capitaux se produit des Etats-Unis vers la Grande-Bretagne, les offres de dollars sont absorbées par le Clearing, dont le compte courant ouvert auprès du Fonds d'Egalisation américain et primitivement débité s'apure par des crédits correspondants. Les demandes de sterling sont satisfaites par le Clearing qui les livre au Fonds britannique, lequel apure ainsi son compte courant avec le Clearing.

Si, pour poursuivre l'exemple ci-dessus, le reflux de capitaux des Etats-Unis vers la Grande-Bretagne dépassait le montant des

sterling détenus par le Clearing et entraînait ultérieurement des sorties d'or excessives des Etats-Unis vers l'Europe - comme celles de l'année 1932 par exemple - alors, les Etats-Unis pourraient réclamer à leur tour le bénéfice de l'intervention du Clearing. Cet organisme, dans ce cas, conserverait les dollars offerts et fournirait les sterling demandés en tirant sur un compte courant qui serait ouvert à cette occasion par le Fonds d'Egalisation britannique à Londres.

Article 5.- Garanties du Clearing.

Le passif du Clearing est constitué par le montant des tirages qu'il a effectués sur les différents comptes courants qui lui sont ouverts par les fonds d'Egalisation des changes.

Son actif est constitué par :

- a) les devises dont il a la gestion,
- b) la garantie-or du dépôt fait par chaque nation (jusqu'à concurrence de 25% par exemple, des devises gérées par le Clearing).
Il est clair que, suivant les risques de change, le pourcentage de la garantie-or pourrait et devrait être augmenté.
- c) un fonds de réserve provenant de l'utilisation active de ces devises. Il est à observer que ce fonds de réserve se capitalisera et peut, au bout d'un certain nombre d'années, constituer des sommes nullement négligeables.

Article 6.- Ajustements nécessaires.

Il appartient aux trustees du Comité Coordinateur de recommander de temps à autre les ajustements nécessaires, de manière à faciliter la rectification des mouvements de capitaux, considérée sur un temps assez long.

Ces ajustements peuvent être les suivants :

- a) aménagements dans la politique de crédit des différents pays, et notamment modifications dans la politique de stérilisation ou d'activité des devises gérées par le Clearing;
- b) aménagement tendant à influencer sur la balance commerciale,
- c) modifications légères - au cas où on ne pourrait l'éviter - dans les parités des changes.
- d) Au cas où les ajustements préconisés par les trustees n'amèneraient pas une modification assez sensible dans la direction des mouvements de capitaux, et où le Comité Coordinateur estimerait que le Clearing détient un montant trop important de devises d'un pays déterminé, il appartiendrait aux trustees de procéder à la consolidation de ces devises en monnaies étrangères, pour apurer les soldes des différents comptes courants, en s'inspirant des meilleures conditions de moment et de crédit. Bien entendu, l'or déposé en garantie auprès du Fonds commun continuerait à servir de gage aux titres ainsi émis par le Clearing, lesquels constitueraient ainsi sur les marchés internationaux des valeurs de premier ordre.

Conséquences - Il est clair que le mécanisme ainsi appliqué aurait pour effet :

- a) de permettre une défense efficace des monnaies des pays parties à l'accord.
- b) de marquer un progrès très sensible dans la voie de la stabilité monétaire.
- c) de stimuler la confiance et la reprise des affaires dans tous les pays d'économie libre.

- il y a lieu de penser, d'ailleurs, que la seule annonce de la coopération instituée par le nouvel accord tripartite et des puissants moyens d'action ainsi mis à la disposition des autorités monétaires, découragerait d'avance un renouveau de la spéculation. En ce sens, il n'y aurait que des avantages à préparer, négocier et annoncer la mise en œuvre de cette nouvelle technique dans une période ^{de} calme du marché des changes.

Le mécanisme exposé ci-dessus dégagerait les pays participants de la nécessité d'immobiliser pratiquement une très grande part de leurs stocks d'or, comme une réserve indisponible destinée à la défense de leur monnaie. Il apparaîtra alors évident pour tous que, par suite des dévaluations récentes et de l'accroissement de sa production dans les dernières décades, l'or - dont le rôle et les fonctions se sont limités - est sans conteste devenu un métal surabondant.

Sans doute, ce qui gêne encore la claire perception de ce phénomène nouveau, pourtant décisif pour la prospérité du monde, c'est le fait que la défense des monnaies, en raison de la méfiance internationale et des déplacements accrus de capitaux, nécessite aujourd'hui des stocks d'or considérables. Il n'en sera plus ainsi dès l'instant où une nouvelle technique permettra la régularisation des mouvements de capitaux. La surabondance de l'or apparaîtra à tous les yeux.

Le véritable problème deviendra alors celui des usages nouveaux à donner au surplus d'or. C'est là que le Comité International pourrait encore jouer un rôle précieux, en recommandant et en coordonnant au besoin certains programmes d'action des démocraties, en vue de la prospérité et de l'apaisement économiques.

TITRE III

ROLE DU COMITE COORDINATEUR
DANS LA MISE EN CEUVRE DE CERTAINS PROGRAMMES
D'ACTION DES DEMOCRATIES EN VUE DE
L'APAISEMENT ECONOMIQUE INTERNATIONAL

Sans prétendre énumérer toutes les nouvelles utilisations que l'on pourrait donner au surplus d'or, il est permis d'indiquer, à titre d'exemple, celles qui pourraient avoir immédiatement un objet pratique et facilement réalisable.

L'or et les matières premières.

Le trésor de guerre d'une nation constitué exclusivement en or révèle - comme il est exposé dans l'annexe au présent memorandum - des dangers et des insuffisances.

Il serait dans l'intérêt de la plupart des pays de l'accord tripartite de remplacer une partie de leur stock d'or par un stock de matières premières. L'acquisition et la gestion de ces stocks intéressant à la fois, et dans chaque pays, la Banque d'Emission, le Trésor Public et les industries consommatrices, il serait nécessaire de concierter les multiples intérêts en cause. Des "Compagnies nationales" seraient créées à cette fin ; elles grouperaient les achats de matières premières, céréales et denrées et veilleraient à la conservation et au renouvelle-

ment des stocks ainsi constitués.

Le fonctionnement de ces Compagnies aurait pour résultat ;
a) une certaine amélioration de la répartition de l'or dans le monde,
b) une certaine régularisation des prix des matières premières sur les grands marchés internationaux.

Pour donner à cette action de régularisation des prix toute sa portée, il serait souhaitable que le Comité Coordinateur intervint pour concerter, le cas échéant, l'action des Compagnies Nationales et pour promouvoir leur entente avec les cartels de producteurs.

L'utilisation de l'or pour la solution des grands problèmes économiques.

D'une façon générale, la recherche de l'apaisement économique international pose le grave problème de la transformation des économies de guerre en économies de paix.

De nombreux plans ont été proposés à cet effet ; grands travaux internationaux, mise en valeur de territoires africains et asiatiques par des Compagnies concessionnaires jouissant de droits étendus et de privilèges spéciaux, compagnies favorisant les "settlements" de réfugiés, etc... Tous ces plans partent de cette idée qu'il convient de fournir aux pays autarciques des débouchés nouveaux pour remplacer la suppression des débouchés qu'entraînerait leur désarmement progressif.

Or, jusqu'ici, tous ces plans se sont révélés inapplicables parce qu'ils n'étaient pas assortis du plan de financement qui leur aurait permis d'entrer dans la réalité. Dès l'instant où des surplus d'or importants sont dégagés, l'exécution de certains plans de cet ordre - s'ils étaient reconnus sérieux, après étude du Comité Coordinateur - ne présente plus rien d'impossible.

Dans la mesure où les pays intéressés souhaiteraient sortir

de l'autarcie en donnant les apaisements politiques nécessaires, notamment à l'égard du désarmement, le Comité pourrait, en contre-partie, faciliter l'évolution de leur économie vers des activités pacifiques en recommandant l'emploi de l'or libéré par les pays de l'accord tripartite à de tels financements. Ce n'est pas le lieu de rechercher ici par avance les modalités financières de ces opérations.

Mais il est permis de penser, par exemple, aux emplois suivants : garantie des obligations émises par de grandes sociétés privées d'investissements internationaux. Garantie de grands emprunts internationaux d'équipement et d'outillage - éventuellement avec le gage de matières premières entreposées par les pays emprunteurs. Prêts directs d'Etat à Etat, en principe avec le même gage; en particulier prêts d'or à taux d'intérêt extrêmement réduit - avec "earmarking" le cas échéant - pour aider certains pays dans la voie de la libération des changes. Garantie d'obligations émises par de grandes sociétés de mise en valeur de territoires coloniaux et par de grandes compagnies d'établissement pour les réfugiés.

Le traité tout récent des Etats-Unis d'Amérique avec le Brésil fournit un excellent modèle de l'action qui doit être entreprise dans ce sens.

Encore faut-il, pour réussir dans cette voie, que les démocraties s'entendent pour dégager, par une utilisation concertée et plus rationnelle de leurs stocks d'or, les disponibilités nouvelles qui leur permettront d'entreprendre cette oeuvre de paix.

ANNEXE
AU
MEMORANDUM.

PROBLEME DE L'OR.

(voir page 5 du memorandum § 4)

Written in view of
possible publication
at some future date.

207

10 Mars 1939

L'OR ET LA PAIX

Projet d'extension de l'accord tripartite

Extraits des Mémoires de Marco Polo :

Bagdad est une ville considérable qui fut prise par Houlagou, roi des Tartares, après un long siège. Le calife de Bagdad était renommé pour ses immenses richesses. Il possédait une tour remplie d'or, mais il ne voulut pas y toucher ...

"Insensé, lui dit le Tartare, si tu avais employé ce trésor à te créer des moyens de défense et des ressources, tu aurais pu sauver ton empire".

Le malheureux calife emprisonné dans sa tour mourut de privations au milieu de son or.

I

LA PAIX A AUSSI SES ARMES

Les pays de l'accord tripartite ont le monopole de l'or, le monopole du crédit, le monopole de la puissance financière. N'auront-ils réalisé ce monopole de richesses que pour le stériliser ? Laisseront-ils aux générations à venir la stupéfaction de comparer l'immensité de leurs ressources à l'étendue de leur défaite ?

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Le système économique des nations "libérales" est fait pour la paix, non pour la guerre. La seule crainte de la guerre sape la confiance, restreint le crédit, arrête les affaires, menace la monnaie, ruine les finances. Les nations libérales sont-elles vraiment devant ce dilemme : ou accepter leur déchéance, ou adopter les méthodes de l'autarcie, c'est-à-dire renoncer à leurs libertés pour les défendre ?

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Les autarcies ont adapté leur régime économique à la menace de guerre. Les nations libérales sont-elles incapables de répliquer à ce régime de misère par une offensive de prospérité ? La prospérité est contagieuse; elle entraînerait d'abord les nations hésitantes et peut-être ensuite les nations récalcitrantes.

L'arme de cette offensive de prospérité, elle existe; mais elle est restée accrochée à une panoplie : c'est l'or.

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II

FONCTIONS DE L'OR

Avant la guerre, en plus de ses usages industriels, l'or avait un quadruple rôle :

- a) instrument de règlement de la balance des comptes entre nations,
- b) circulation directe en pièces,
- c) "gage" de la circulation monétaire,
- d) trésor de guerre.

Aujourd'hui :

La première fonction subsiste.

La deuxième a disparu.

La troisième correspond à une conception erronée.

La quatrième est en péril.

III

L'OR N'EST PAS, COMME ON LE CROIT, LE GAGE DE LA MONNAIE

Ce n'est pas l'apanage des dirigeants du III^e Reich d'avoir dégagé l'inexactitude des conceptions relatives à la couverture-or de la monnaie.

Dès avant la guerre, certains économistes avaient compris que la valeur d'une monnaie dépendait de sa limitation, de son pouvoir libérateur légal et de l'équilibre de la balance des comptes, le "gage" métallique étant superflu. C'est ainsi qu'ils avaient observé que la roupie hindoue avait constamment, sur le marché des changes, une valeur largement supérieure à sa parité métallique, du fait que l'Inde avait une balance des paiements favorable et que la frappe libre de l'argent était interdite.

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D'ailleurs, pour faire une démonstration par l'absurde, il suffit d'imaginer un pays où n'existeraient en tout que mille billets ayant seule force libératoire légale; on s'arracherait ces billets qui acquerraient ainsi, en dehors de tout "gage" métallique, une valeur considérable.

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Le fait qu'après la guerre le mark allemand a eu à plusieurs reprises, pendant la période d'inflation, une couverture or de 100% n'a pas empêché sa chute.

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Ce qui a pu faire penser que l'or était le véritable "gage" de la monnaie, c'est que, pendant certaines périodes de mauvaise administration financière, les exportations d'or ont pu "tenir" la devise jusqu'au retour d'une politique financière plus sage. Mais en fait il ne

s'agit là que du maintien de la convertibilité, fonction que l'or conserve à juste titre comme instrument de règlement de la balance des comptes.

Et c'est précisément lorsqu'on maintient cette convertibilité, comme on l'a fait parfois, à des taux artificiels, qu'apparaît clairement l'erreur de conception de l'or considéré comme gage de la monnaie; car les stocks les plus considérables ne peuvent pas, l'expérience l'a montré, empêcher l'ajustement monétaire.

Si l'or n'est pas le gage de la monnaie, comment se fait-il, dira-t-on, que chaque fois qu'un pays a abandonné l'or, sa monnaie s'est dépréciée ? La raison est toute simple : la monnaie ne se dépréciait pas parce qu'on abandonnait l'or, mais on abandonnait l'or parce que la monnaie se dépréciait.

Même si vous aviez raison en théorie, dira-t-on, vous avez tort en pratique, car il faut tenir compte de la psychologie des masses et de leur besoin de savoir qu'une monnaie est "gagée" par de l'or pour avoir confiance en elle. Est-ce bien établi ? Un événement récent pourrait en faire douter. Lorsque la livre sterling a été attaquée récemment, les autorités monétaires britanniques n'ont pas hésité à transférer environ cinquante milliards de francs d'or de la Banque d'Angleterre, où cet or servait de "gage" de la monnaie, au fonds d'égalisation des changes où il remplit son véritable rôle d'instrument de convertibilité extérieure. Loin de saper la confiance, cet acte l'a rétablie.

Le véritable gage de la monnaie, c'est la limitation de son émission, c'est une habile politique financière, c'est-à-dire en dernier ressort la compétence et le caractère de ceux qui sont chargés par le pays de veiller sur elle.

Certains pays ont parfois été moins heureux sur ce stock que sur leur stock d'or.

IV

L'OR, TRÉSOR DE GUERRE

L'or, en cas de guerre, perd une partie de sa valeur; l'expérience a montré que la guerre fait généralement renchérir les marchandises par rapport à l'or. Actuellement, l'or achète beaucoup de marchandises; en cas de guerre il en achèterait moins.

L'or est néanmoins un trésor de guerre; car c'est un moyen de se procurer à volonté les marchandises nécessaires au pays, particulièrement les matières premières importées. Mais qui peut être sûr qu'au début d'un conflit, les lignes de communication seront assez libres pour qu'on ait tout le loisir d'échanger l'or contre les produits nécessaires? De toute façon, ce n'est pas avec de l'or, mais avec les approvisionnements voulus, mis en place à l'avance, qu'une économie de paix peut, en cas de conflit, être transformée instantanément en économie de guerre.

Le danger est plus grave encore.

Qui peut prédire - alors que certains pays sont déjà gorgés d'or - l'attitude, en cas de guerre, des pays ravitailleurs, inondés d'or sous le double effet de l'afflux des capitaux et des achats massifs des belligérants ? Ne faut-il pas se rappeler, comme un avertissement, que la Suède et l'Espagne, à la fin de la grande guerre, ont cessé d'accepter l'or ?

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Y

L'OR EST SURABONDANT

L'or, qui circulait autrefois en pièces, se trouve aujourd'hui concentré en fait dans les banques d'émission : 95% de la production annuelle sont consacrés à des fins monétaires et 5% seulement à des fins industrielles.

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Alors que le commerce international est inférieur, en dollars, au commerce international d'avant-guerre, le stock mondial est double en poids et plus du triple en dollars du stock d'or d'avant-guerre - même en comprenant dans ce dernier les pièces d'or circulant à cette époque.

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L'or est donc surabondant, puisque :

- 1) il y en a trois fois plus, en dollars, qu'avant la guerre;
- 2) il a perdu, en fait, deux de ses fonctions sur quatre.

VI

LES DANGEREUX PARADOXES DE L'OR

Étrange paradoxe : malgré sa surabondance, l'or se trouve posséder actuellement un pouvoir d'achat supérieur à celui qu'il avait avant la guerre. Les motifs de cette anomalie - incidence des crises économiques, des dévaluations, des craintes de guerre, etc. - peuvent être controversés. Mais le fait est là : un même poids d'or achète aujourd'hui une quantité de marchandises plus grande qu'en 1914.

Cet équilibre instable ne doit-il pas se rompre un jour, et peut-être brutalement ?

L'or, ce métal déjà surabondant, on n'a jamais fait autant d'effort pour le produire. La production des mines d'or dépasse largement un milliard de dollars par an; c'est un lourd tribut annuel pour produire un métal qu'on transfère d'un trou creusé en Afrique du Sud dans un autre trou creusé en Amérique du Nord. Actuellement, l'humanité a une prédilection pour deux méthodes de gaspillage de son effort. L'une est la

course aux armements; elle est tragique. L'autre est la course à l'or; elle est comique.

VII

LE MECANISME DE LA MAUVAISE REPARTITION DE L'OR

L'or, dans le monde, est un métal surabondant. Cependant, dans la plupart des nations, il fait presque totalement défaut.

Plus de la moitié du stock d'or mondial est concentrée dans un seul pays (Etats-Unis); plus des trois quarts dans trois pays (Etats-Unis, Grande-Bretagne, France); près des sept huitièmes dans les six pays de l'accord tripartite (Etats-Unis, Grande-Bretagne, France, Suisse, Hollande, Belgique).

Cette concentration de l'or s'est encore récemment accentuée.

Avant la guerre, les réactions bien connues du mécanisme financier international tendaient à rétablir la répartition de l'or lorsqu'une cause accidentelle l'avait troublée. C'était un phénomène analogue à l'"équilibre stable" de la mécanique. Aujourd'hui, au contraire, lorsqu'un pays perd de l'or, cette perte, au lieu de déclencher des forces compensatrices, détermine des réactions psychologiques qui accentuent la fuite de l'or. Le seul fait que l'or se dirige vers un pays accroît les forces qui l'entraînent dans cette direction. C'est un phénomène analogue

à l'"équilibre instable" de la mécanique.



La concentration de l'or dans les pays de l'accord tripartite et particulièrement aux Etats-Unis est une anomalie pour une monnaie internationale; bien plus, c'est un danger pour les pays détenteurs d'or.



VIII

LE DANGER DE MIDAS

Les détenteurs d'or -- Etats ou particuliers -- croient que, possédant de l'or, ils thésaurisent une valeur intangible, indépendante des fluctuations monétaires. C'est une erreur. Les Etats-Unis sont maintenant le seul grand pays acheteur d'or à prix fixe. L'or n'est guère plus aujourd'hui qu'un moyen de se procurer du dollar.

Encore n'est-ce peut-être pas un moyen aussi sûr que l'on pense, car les Etats-Unis ne sont rattachés à l'or que sur la base d'une décision revisable dans les 24 heures.

Qui peut prédire, si l'écoulement de l'or vers les Etats-Unis continue, qu'ils ne modifieront pas leur politique monétaire, qu'ils accepteront toujours de céder librement leurs marchandises contre ce métal dont ils n'ont plus que faire, qu'ils accorderont toujours le même traitement à l'or des thésauriseurs qu'à celui des Instituts d'Emission ?

Des pays apprennent à se passer de l'or. Si ce mouvement s'accroît - et comment ne s'accroîtrait-il pas, puisque la concentration de l'or s'aggrave - l'or deviendrait ailleurs de plus en plus abondant. Il n'échapperait pas à la loi commune de toute marchandise, qui est finalement de s'avilir dans ce cas.

Car il n'existe pas de valeur intangible. C'est une erreur commune - mais c'est une erreur - de penser qu'on peut mettre en conserve de la valeur, comme de la nourriture. Toute valeur est subjective; elle dépend des besoins, de l'époque, des mœurs, des disponibilités, des traditions, en un mot de toutes sortes d'éléments psychologiques. La valeur que l'homme attache à l'or n'échappe pas à cette règle, qui régit tous les attachements humains.

L'or, dira-t-on, a peut-être bien perdu certains de ses rôles traditionnels, mais n'a-t-il pas acquis un rôle nouveau ? Il est devenu un refuge, dont tout le monde est avide, dans les temps troublés que nous traversons. S'il y a un paradoxe, c'est d'insister sur les dangers que court l'or, au moment où il n'a jamais été plus demandé.

Mais ce rôle particulier de l'or comme refuge le rend peut-être plus fragile encore. Car cette demande massive des thésauriseurs ne pourrait-elle pas un jour se transformer en offre ?

Que cherchent en effet les thésauriseurs ? Une police d'assurance. Et que vaudrait cette police si les Etats-Unis ne se considéraient plus comme engagés à payer au porteur le montant inscrit sur cette police ?

IX

FALLAIT-IL LE DIRE ?

Dira-t-on qu'il valait mieux ne pas signaler le danger qui menace l'or, que l'or a un côté mystique auquel il ne faut pas porter atteinte, qu'il n'est peut-être qu'une superstition, mais une superstition qui a cours et à laquelle il ne faut pas toucher ?

Dira-t-on que les bons citoyens des pays détenteurs d'or doivent se garder de proclamer la précarité de la valeur du métal que possèdent leurs pays ?

Dira-t-on que c'est rendre un mauvais service à ces pays que de mentionner même la possibilité de refus d'or en certaines circonstances ?

Dira-t-on que c'est faire le jeu des nations autarciques, privées d'or, contre les nations libres gorgées d'or, que de porter atteinte à la mystique du métal "précieux" ?

Qu'on le déplore ou non, la mystique de l'or est en train d'évoluer sous nos yeux. En moins d'une génération, l'or a disparu de la circulation; il a été stérilisé par les grandes nations comme un métal encombrant; le lien qui l'unissait aux monnaies a été considéré comme asservissant et a été répudié par tous les grands pays sauf un seul; l'or enfin a pu être publiquement dénoncé par l'Allemagne même comme superflu. Comment veut-on que, dans de telles conditions, l'opinion publique n'ait pas commencé de reviser ses notions sur le métal "précieux" ?

Le dogme de l'or a perdu son caractère d'intangibilité. On thésaurise toujours le métal; dans les coins les plus reculés d'Europe et d'Asie, le paysan détient de l'or caché; mais dans bien d'autres milieux, ce n'est plus l'attachement traditionnel et profond d'autrefois. C'est une fièvre qui pousse le public de "gold rushes" en "gold scares".

La prospérité des nations libérales dépend directement de la poussée des acheteurs vers les marchandises, c'est-à-dire d'une moindre attraction de l'or. La thésaurisation, c'est pour les économies libérales le ralentissement de la production, la diminution du revenu national, l'alourdissement des charges, la crise. Au contraire, la déthésaurisation, c'est pour les économies libérales l'accélération de la production, l'accroissement du revenu national, l'allègement des charges, la prospérité.

En cas de baisse du pouvoir d'achat de l'or, la perte subie par les nations libérales sur la transformation de leur or en marchandises est négligeable auprès de l'accroissement de puissance et de bien-être que signifient pour ces pays la reprise d'activité économique et l'accroissement de débouchés qui en résultent.

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L'OR DOIT ETRE DEFENDU

La question de l'or est posée. L'erreur serait de traiter l'or comme ces temples sacrés auxquels il est interdit de toucher même pour

les réparer. C'est ainsi qu'ils s'effondrent sûrement. L'or ne gardera ses fonctions monétaires que par une adhésion voulue, consciente, des nations décidées à le défendre.

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Car l'or vaut d'être défendu. S'il a perdu certaines de ses fonctions, celles qu'il a gardées ont pris une importance incoupçonnée jusqu'à notre époque.

L'or préside au règlement pacifique des relations commerciales entre nations. Il est le lien entre les économies libérales, l'antidote contre les nationalismes exagérés. Ce que l'on a longtemps considéré comme le symbole du matérialisme est devenu aujourd'hui un des symboles de la liberté.

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L'or peut être défendu. Les nations adhérant à l'accord tripartite ont actuellement le contrôle de l'or. Elles peuvent, si elles se décident enfin à une politique d'initiative concertée, maintenir son usage et lui redonner dans le monde un rôle plus fécond qu'auparavant.

Au moment où l'argent a été en péril on a fait l'Union Latine. Au moment où le métal jaune est en péril, il faut faire l'Union de l'Or.

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La nouvelle place que l'or doit acquérir dans le monde, elle est déjà désignée.

L'or n'est plus le gage des monnaies. C'est une monnaie - le dollar - qui est devenue le gage de l'or. L'or ne servant plus qu'au règlement de la balance des comptes entre nations est devenu surabondant. Désormais, tout l'immense surplus d'or inutilisé est disponible pour une oeuvre féconde. Le monde cherche en vain une monnaie fiduciaire internationale qui puisse recréer la prospérité. Cette monnaie existe. On a la chance de la trouver toute prête et déjà universellement acceptée sous forme de métal jaune. La monnaie internationale de demain : c'est l'or.

II

LE NOUVEAU STATUT DE L'OR

L'or doit recevoir un nouveau statut. Comme ce statut doit être négocié diplomatiquement, ce n'est pas le lieu de le donner ici. Autant il était nécessaire, pour préparer sa venue, d'exposer les conceptions nouvelles sur lesquelles il doit reposer, autant il serait impolitique d'en révéler ici les modalités d'application.

On peut mentionner toutefois les principes suivants :

Il n'est pas question de revenir purement et simplement à l'ancien étalon or, et notamment de chercher à astreindre l'économie des grands pays à supporter des variations des taux d'intérêt destinées uni-

quement à corriger des mouvements internationaux de capitaux. Les États-Unis et la Grande-Bretagne y ont définitivement renoncé depuis plusieurs années.

La charge de maintenir la valeur de l'or ne peut être laissée tout entière à un seul pays. Les nations qui profitent des fonctions actuelles de l'or doivent assumer leur part des charges correspondantes.

L'or est devenu en fait une monnaie fiduciaire internationale. Les instituts d'émission possèdent ainsi un pouvoir plus grand qu'ils n'osent l'admettre, s'ils veulent concerter leur action. Ils ont donc le devoir d'exercer leur action régulatrice en joignant à une politique concertée du crédit une politique nouvelle et concertée d'utilisation de l'or.

Dans ces conditions, toute nouvelle variation des grandes monnaies par rapport à l'or devient inutile, puisqu'il est aussi efficace et moins dangereux de faire varier l'or par rapport aux marchandises que de faire varier les monnaies par rapport à l'or.

XII

LES NOUVEAUX USAGES DE L'OR

Puisque l'or n'est plus le gage des monnaies, il devient disponible pour d'autres usages. Le monde a découvert, en somme, une nouvelle mine d'or. Il s'agit de savoir quelles destinations nouvelles on peut donner à ce surplus d'or.

Sans prétendre les énumérer toutes, on exposera celles qui peuvent avoir immédiatement un objet pratique et facilement réalisable.

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A) L'or et les matières premières -

Le trésor de guerre constitué exclusivement en or révèle des dangers et des insuffisances. Il est presque invraisemblable, surtout après les expériences de la dernière guerre, de n'avoir pas encore compris le danger de conserver cette réserve vitale en une seule substance, sans aucune division des risques.

Quel est en effet le but de cette réserve, soit en paix, soit en guerre ? C'est de pouvoir se transformer à volonté en marchandises nécessaires au pays, particulièrement en matières premières importées. Le moindre risque est donc d'avoir dès maintenant cette réserve constituée en partie en matières premières non produites dans le pays; d'autant plus que ces matières, l'expérience l'a montré, renchérissement toujours par rapport à l'or en cas de guerre.

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À la différence des stocks constitués à titre temporaire pour la régularisation des prix, ces stocks d'Etat ne sauraient peser sur le marché par la suite, dès lors qu'ils auraient le caractère permanent d'un Trésor de guerre.

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Le caractère périssable d'une partie des matières premières crée assurément une difficulté d'application; mais leur stock peut être constamment renouvelé, les matières emmagasinées étant graduellement utilisées pour la consommation et remplacées au fur et à mesure par de nouveaux achats.

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Faite d'une façon conjointe, une telle politique provoquerait un démarrage économique puissant en raison de l'activité supplémentaire qui en résulterait pendant la période de constitution de ces stocks.

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Une telle politique favoriserait en même temps la redistribution de l'or dans le monde, accroîtrait le pouvoir d'achat des régions productrices de matières premières et améliorerait les débouchés des régions industrielles.

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Cette constitution de stock de matières premières peut contribuer à faire passer le problème des matières premières du plan territorial

et de prestige qui ne peut mener qu'à la guerre, sur le plan économique et financier qui est celui de l'organisation de la paix.

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Observation sur le lien entre l'or et les matières premières.

Bien que le prix de chaque matière première dépende de conditions particulières, le problème du niveau général des matières premières est intimement lié au problème de l'or pour la raison suivante :

Tandis que toute variation de valeur d'un objet, tel que le cuivre par exemple, s'exprime normalement par une variation de son prix en dollars, une variation de valeur de l'or ne peut s'exprimer que par un mouvement en sens inverse du prix des marchandises. Mais cette action ne peut s'exercer efficacement que dans la mesure où les prix de ces marchandises sont effectivement soumis à la loi de l'offre et de la demande : or, un grand nombre de prix n'y sont soumis que partiellement, étant fixés, soit par tradition (un "five cent cigar"), soit par contrat (loyers), soit par dogme (salaires). Seuls les prix des matières premières cotées à terme sur les grands marchés internationaux peuvent fluctuer librement et traduire en sens inverse chaque fluctuation de la valeur de l'or.

Ces fluctuations des matières premières se répercutent, avec un décalage dans le temps et un amortissement dans l'amplitude, successivement sur les prix de gros, sur les prix de détail et sur le coût de la vie.

C'est de l'inégalité de ces diverses répercussions, et de la modification résultante du pouvoir d'achat des différents pays, ainsi que des différentes classes sociales dans chaque pays, que provient le

caractère redoutable de toute fluctuation importante de la valeur de l'or et de la fluctuation concomitante en sens inverse des matières premières.

C'est de là que provient la nécessité profonde d'une action régulatrice économique, et c'est pourquoi cette action se présente sous le double aspect d'une action régulatrice monétaire et d'une action régulatrice des cours des matières premières.

B) L'or et les fonds d'égalisation des changes -

Le nouvel accord tripartite doit, dans l'intérêt de tous les pays adhérents, prévoir la régularisation des mouvements inconsiderés de capitaux.

Cette régularisation est inconcevable sous la forme d'une contrainte nationale; c'est un problème de coopération monétaire internationale. Lorsque les générations suivantes apprendront que les grandes migrations de capitaux qui ont effondré les monnaies n'avaient lieu, dans un cycle régulier, qu'entre les Etats-Unis, l'Angleterre et la France, ils seront stupéfaits de penser qu'il aura fallu vingt ans à ces trois pays pour élaborer entre eux le mécanisme monétaire qui aurait suffi à fixer les capitaux flottants et à assurer les bienfaits de la stabilité monétaire.

Ce mécanisme, les auteurs de la présente note en ont établi un projet, dont le but est d'assurer :

- a) la compensation de certains mouvements de capitaux;
- b) la neutralisation des effets défavorables de ces mouvements;

- c) l'instauration d'une politique d'expansion de crédit conjuguée;
- d) la libération de sommes d'or considérables qui deviennent disponibles pour un usage actif.

C) L'or et la reprise du financement international -

Une partie du surplus d'or pourrait être réservée pour les emplois suivants :

Garantie des obligations émises par de grandes sociétés privées d'investissements internationaux. Garantie de grands emprunts internationaux d'équipement et d'outillage - éventuellement avec le gage de matières premières entreposées par les pays emprunteurs. Prêts directs d'Etat à Etat, en principe avec le même gage, en particulier prêts d'or à taux d'intérêt extrêmement réduit - avec "earmarking" le cas échéant - pour aider certains pays dans la voie de la libération des changes. Garantie d'obligations émises par de grandes sociétés de mise en valeur de territoires coloniaux et par de grandes compagnies d'établissement pour les réfugiés.

Le problème des réfugiés, qui est actuellement un élément de trouble économique, pourrait ainsi devenir un élément de reprise économique, comme dans l'époque d'avant-guerre où les migrations contribuaient à la prospérité.

Au moment où l'Europe industrielle doit élargir ses accès vers les matières premières et où les régions productrices des matières premières doivent élargir leurs accès vers les produits fabriqués, où

l'Espagne doit être reconstruite, où les économies de l'Europe Centrale doivent trouver une assise nouvelle, où des peuples en migration doivent recevoir asile, nourriture et travail, où toutes les nations sans exception doivent être ramenées peu à peu dans le circuit économique international, on voit le rôle fondamental de ces grandes opérations financières internationales rendues possibles par les nouveaux usages de l'or.

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Le résultat d'une large utilisation des réserves d'or à des emplois de cette nature serait non seulement d'accroître le mouvement international de marchandises, d'abaisser les taux d'intérêt, d'augmenter le pouvoir d'achat et le bien-être général, mais de ranimer l'esprit de collaboration, ainsi que la moralité financière internationale et de diminuer les chances de guerre. Car l'alternative, c'est la reconstruction des économies dévastées, ou la guerre.

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ANNEXE
AU
MEMORANDUM.

PROBLEME DE L'CR.

(voir page 5 du memorandum § 4)

Written in view of
possible publication.
at some future date.

231

10 Mars 1939

L'OR ET LA PAIX

Projet d'extension de l'accord tripartite

Extraits des Mémoires de Marco Polo :

Bagdad est une ville considérable qui fut prise par Koulagou, roi des Tartares, après un long siège. Le calife de Bagdad était renommé pour ses immenses richesses. Il possédait une tour remplie d'or, mais il ne voulut pas y toucher ...

- "Insensé, lui dit le Tartare, si tu avais employé ce trésor à te créer des moyens de défense et des ressources, tu n'aurais pu sauver ton empire".

Le malheureux calife emprisonné dans sa tour mourut de privations au milieu de son or.

I

LA PAIX A AUSSI SES ARMES

Les pays de l'accord tripartite ont le monopole de l'or, le monopole du crédit, le monopole de la puissance financière. N'auront-ils réalisé ce monopole de richesses que pour le stériliser ? Laisseront-ils aux générations à venir la stupéfaction de comparer l'immensité de leurs ressources à l'étendue de leur défaite ?

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Le système économique des nations "libérales" est fait pour la paix, non pour la guerre. La seule crainte de la guerre saps la confiance, restreint le crédit, arrête les affaires, menace la monnaie, ruine les finances. Les nations libérales sont-elles vraiment devant ce dilemme : ou accepter leur déchéance, ou adopter les méthodes de l'autarcie, c'est-à-dire renoncer à leurs libertés pour les défendre ?

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Les autarcies ont adapté leur régime économique à la menace de guerre. Les nations libérales sont-elles incapables de répliquer à ce régime de misère par une offensive de prospérité ? La prospérité est contagieuse; elle entraînerait d'abord les nations hésitantes et peut-être ensuite les nations récalcitrantes.

L'arme de cette offensive de prospérité, elle existe; mais elle est restée accrochée à une panoplie : c'est l'or.

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II

FONCTIONS DE L'OR

Avant la guerre, en plus de ses usages industriels, l'or avait un quadruple rôle :

- a) instrument de règlement de la balance des comptes entre nations,
- b) circulation directe en pièces,
- c) "gage" de la circulation monétaire,
- d) trésor de guerre.

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Aujourd'hui :

La première fonction subsiste.

La deuxième a disparu.

La troisième correspond à une conception erronée.

La quatrième est en péril.

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III

L'OR N'EST PAS, COMME ON LE CROIT, LE GAGE DE LA MONNAIE

Ce n'est pas l'apanage des dirigeants du IIIe Reich d'avoir dégagé l'inexactitude des conceptions relatives à la couverture-or de la monnaie.

Dès avant la guerre, certains économistes avaient compris que la valeur d'une monnaie dépendait de sa limitation, de son pouvoir libératoire légal et de l'équilibre de la balance des comptes, le "gage" métallique étant superflu. C'est ainsi qu'ils avaient observé que la roupie hindoue avait constamment, sur le marché des changes, une valeur largement supérieure à sa parité métallique, du fait que l'Inde avait une balance des paiements favorable et que la frappe libre de l'argent était interdite.

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D'ailleurs, pour faire une démonstration par l'absurde, il suffit d'imaginer un pays où n'existeraient en tout que mille billets ayant seule force libératoire légale; on s'arracherait ces billets qui acquerraient ainsi, en dehors de tout "gage" métallique, une valeur considérable.

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Le fait qu'après la guerre le mark allemand a eu à plusieurs reprises, pendant la période d'inflation, une couverture or de 100% n'a pas empêché sa chute.

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Ce qui a pu faire penser que l'or était le véritable "gage" de la monnaie, c'est que, pendant certaines périodes de mauvaise administration financière, les exportations d'or ont pu "tenir" la devise jusqu'au retour d'une politique financière plus sage. Mais en fait il ne

s'agit là que du maintien de la convertibilité, fonction que l'or conserve à juste titre comme instrument de règlement de la balance des comptes.

Et c'est précisément lorsqu'on maintient cette convertibilité, comme on l'a fait parfois, à des taux artificiels, qu'apparaît clairement l'erreur de conception de l'or considéré comme gage de la monnaie; car les stocks les plus considérables ne peuvent pas, l'expérience l'a montré, empêcher l'ajustement monétaire.

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Si l'or n'est pas le gage de la monnaie, comment se fait-il, dira-t-on, que chaque fois qu'un pays a abandonné l'or, sa monnaie s'est dépréciée ? La raison est toute simple : la monnaie ne se dépréciait pas parce qu'on abandonnait l'or, mais on abandonnait l'or parce que la monnaie se dépréciait.

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Même si vous aviez raison en théorie, dira-t-on, vous avez tort en pratique, car il faut tenir compte de la psychologie des masses et de leur besoin de savoir qu'une monnaie est "gagée" par de l'or pour avoir confiance en elle. Est-ce bien établi ? Un événement récent pourrait en faire douter. Lorsque la livre sterling a été attaquée récemment, les autorités monétaires britanniques n'ont pas hésité à transférer environ cinquante milliards de francs d'or de la Banque d'Angleterre, où cet or servait de "gage" de la monnaie, au fonds d'égalisation des changes où il remplit son véritable rôle d'instrument de convertibilité extérieure. Loïn de saper la confiance, cet acte l'a rétablie.

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Le véritable gage de la monnaie, c'est la limitation de son émission, c'est une habile politique financière, c'est-à-dire en dernier ressort la compétence et le caractère de ceux qui sont chargés par le pays de veiller sur elle.

Certains pays ont parfois été moins heureux sur ce stock que sur leur stock d'or.

IV

L'OR, TRÉSOR DE GUERRE

L'or, en cas de guerre, perd une partie de sa valeur; l'expérience a montré que la guerre fait généralement renchérir les marchandises par rapport à l'or. Actuellement, l'or achète beaucoup de marchandises; en cas de guerre il en achèterait moins.

L'or est néanmoins un trésor de guerre; car c'est un moyen de se procurer à volonté les marchandises nécessaires au pays, particulièrement les matières premières importées. Mais qui peut être sûr qu'au début d'un conflit, les lignes de communication seront assez libres pour qu'on ait tout le loisir d'échanger l'or contre les produits nécessaires? De toute façon, ce n'est pas avec de l'or, mais avec les approvisionnements voulus, mis en place à l'avance, qu'une économie de paix peut, en cas de conflit, être transférée instantanément en économie de guerre.

Le danger est plus grave encore.

Qui peut prédire - alors que certains pays sont déjà gorgés d'or - l'attitude, en cas de guerre, des pays ravitailleurs, inondés d'or sous le double effet de l'afflux des capitaux et des achats massifs des belligérants ? Ne faut-il pas se rappeler, comme un avertissement, que la Suède et l'Espagne, à la fin de la grande guerre, ont cessé d'accepter l'or ?



L'OR EST SURABONDANT

L'or, qui circulait autrefois en pièces, se trouve aujourd'hui concentré en fait dans les banques d'émission : 95% de la production annuelle sont consacrés à des fins monétaires et 5% seulement à des fins industrielles.



Alors que le commerce international est inférieur, en dollars, au commerce international d'avant-guerre, le stock mondial est double en poids et plus du triple en dollars du stock d'or d'avant-guerre - même en comprenant dans ce dernier les pièces d'or circulant à cette époque.



L'or est donc surabondant, puisque :

- 1) il y en a trois fois plus, en dollars, qu'avant la guerre;
- 2) il a perdu, en fait, deux de ses fonctions sur quatre.

VI

LES DANGEREUX PARADOXES DE L'OR

Étrange paradoxe : malgré sa surabondance, l'or se trouve posséder actuellement un pouvoir d'achat supérieur à celui qu'il avait avant la guerre. Les motifs de cette anomalie - incidence des crises économiques, des dévaluations, des craintes de guerre, etc. - peuvent être controversés. Mais le fait est là : un même poids d'or achète aujourd'hui une quantité de marchandises plus grande qu'en 1914.

Cet équilibre instable ne doit-il pas se rompre un jour, et peut-être brutalement ?

L'or, ce métal déjà surabondant, on n'a jamais fait autant d'effort pour le produire. La production des mines d'or dépasse largement un milliard de dollars par an; c'est un lourd tribut annuel pour produire un métal qu'on transfère d'un trou creusé en Afrique du Sud dans un autre trou creusé en Amérique du Nord. Actuellement, l'humanité a une prédilection pour deux méthodes de gaspillage de son effort. L'une est la

course aux armements; elle est tragique. L'autre est la course à l'or; elle est comique.

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VII

LE MECANISME DE LA MAUVAISE REPARTITION DE L'OR

L'or, dans le monde, est un métal surabondant. Cependant, dans la plupart des nations, il fait presque totalement défaut.

Plus de la moitié du stock d'or mondial est concentrée dans un seul pays (Etats-Unis); plus des trois quarts dans trois pays (Etats-Unis, Grande-Bretagne, France); près des sept huitièmes dans les six pays de l'accord tripartite (Etats-Unis, Grande-Bretagne, France, Suisse, Hollande, Belgique).

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Cette concentration de l'or s'est encore récemment accentuée. Avant la guerre, les réactions bien connues du mécanisme financier international tendaient à rétablir la répartition de l'or lorsqu'une crise accidentelle l'avait troublée. C'était un phénomène analogue à l'"équilibre stable" de la mécanique. Aujourd'hui, au contraire, lorsqu'un pays perd de l'or, cette perte, au lieu de déclencher des forces compensatrices, détermine des réactions psychologiques qui accentuent la fuite de l'or. Le seul fait que l'or se dirige vers un pays accroît les forces qui l'entraînent dans cette direction. C'est un phénomène analogue

à l'"équilibre instable" de la mécanique.

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La concentration de l'or dans les pays de l'accord tripartite et particulièrement aux Etats-Unis est une anomalie pour une monnaie internationale; bien plus, c'est un danger pour les pays détenteurs d'or.

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VIII

LE DANGER DE MIDAS

Les détenteurs d'or - Etats ou particuliers - croient que, possédant de l'or, ils thésaurisent une valeur intangible, indépendante des fluctuations monétaires. C'est une erreur. Les Etats-Unis sont maintenant le seul grand pays acheteur d'or à prix fixe. L'or n'est guère plus aujourd'hui qu'un moyen de se procurer du dollar.

Encore n'est-ce peut-être pas un moyen aussi sûr que l'on pense, car les Etats-Unis ne sont rattachés à l'or que sur la base d'une décision revisable dans les 24 heures.

Qui peut prédire, si l'écoulement de l'or vers les Etats-Unis continue, qu'ils ne modifieront pas leur politique monétaire, qu'ils accepteront toujours de céder librement leurs marchandises contre ce métal dont ils n'ont plus que faire, qu'ils accorderont toujours le même traitement à l'or des thésauriseurs qu'à celui des Instituts d'Emission ?

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Des pays apprennent à se passer de l'or. Si ce mouvement s'accroît - et comment ne s'accroîtrait-il pas, puisque la concentration de l'or s'aggrave - l'or deviendrait ailleurs de plus en plus abondant. Il n'échapperait pas à la loi commune de toute marchandise, qui est finalement de s'avilir dans ce cas.

Car il n'existe pas de valeur intangible. C'est une erreur commune - mais c'est une erreur - de penser qu'on peut mettre en conserve de la valeur, comme de la nourriture. Toute valeur est subjective; elle dépend des besoins, de l'époque, des moeurs, des disponibilités, des traditions, en un mot de toutes sortes d'éléments psychologiques. La valeur que l'homme attache à l'or n'échappe pas à cette règle, qui régit tous les attachements humains.

L'or, dira-t-on, a peut-être bien perdu certains de ses rôles traditionnels, mais n'a-t-il pas acquis un rôle nouveau ? Il est devenu un refuge, dont tout le monde est avide, dans les temps troublés que nous traversons. S'il y a un paradoxe, c'est d'insister sur les dangers que court l'or, au moment où il n'a jamais été plus demandé.

Mais ce rôle particulier de l'or comme refuge le rend peut-être plus fragile encore. Car cette demande massive des thésauriseurs ne pourrait-elle pas un jour se transformer en offre ?

Que cherchent en effet les thésauriseurs ? Une police d'assurance. Et que vaudrait cette police si les Etats-Unis ne se considéraient plus comme engagés à payer au porteur le montant inscrit sur cette police ?

II

FALLAIT-IL LE DIRE ?

Dira-t-on qu'il valait mieux ne pas signaler le danger qui menace l'or, que l'or a un côté mystique auquel il ne faut pas porter atteinte, qu'il n'est peut-être qu'une superstition, mais une superstition qui a cours et à laquelle il ne faut pas toucher ?

Dira-t-on que les bons citoyens des pays détenteurs d'or doivent se garder de proclamer la précarité de la valeur du métal que possèdent leurs pays ?

Dira-t-on que c'est rendre un mauvais service à ces pays que de mentionner même la possibilité de refus d'or en certaines circonstances ?

Dira-t-on que c'est faire le jeu des nations autarciques, privées d'or, contre les nations libres gorgées d'or, que de porter atteinte à la mystique du métal "précieux" ?

Qu'on le déplore ou non, la mystique de l'or est en train d'évoluer sous nos yeux. En moins d'une génération, l'or a disparu de la circulation; il a été stérilisé par les grandes nations comme un métal encombrant; le lien qui l'unissait aux monnaies a été considéré comme asservissant et a été répudié par tous les grands pays sauf un seul; l'or enfin a pu être publiquement dénoncé par l'Allemagne même comme superflu. Comment veut-on que, dans de telles conditions, l'opinion publique n'ait pas commencé de reviser ses notions sur le métal "précieux" ?

Le dogme de l'or a perdu son caractère d'intangibilité. On thésaurise toujours le métal; dans les coins les plus reculés d'Europe et d'Asie, le paysan détient de l'or caché; mais dans bien d'autres milieux, ce n'est plus l'attachement traditionnel et profond d'autrefois. C'est une fièvre qui pousse le public de "gold rushes" en "gold scares".

La prospérité des nations libérales dépend directement de la poussée des acheteurs vers les marchandises, c'est-à-dire d'une moindre attraction de l'or. La thésaurisation, c'est pour les économies libérales le ralentissement de la production, la diminution du revenu national, l'alourdissement des charges, la crise. Au contraire, la déthésaurisation, c'est pour les économies libérales l'accélération de la production, l'accroissement du revenu national, l'allègement des charges, la prospérité.

En cas de baisse du pouvoir d'achat de l'or, la perte subie par les nations libérales sur la transformation de leur or en marchandises est négligeable auprès de l'accroissement de puissance et de bien-être que signifient pour ces pays la reprise d'activité économique et l'accroissement de débouchés qui en résultent.

I

L'OR DOIT ETRE DEFENDU

La question de l'or est posée. L'erreur serait de traiter l'or comme ces temples sacrés auxquels il est interdit de toucher même pour

les réparer. C'est ainsi qu'ils s'efforcèrent sûrement. L'or ne gardera ses fonctions monétaires que par une adhésion voulue, consciente, des nations décidées à le défendre.

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Car l'or veut d'être défendu. S'il a perdu certaines de ses fonctions, celles qu'il a gardées ont pris une importance insoupçonnée jusqu'à notre époque.

L'or préside au règlement pacifique des relations commerciales entre nations. Il est le lien entre les économies libérales, l'antidote contre les nationalismes exagérés. Ce que l'on a longtemps considéré comme le symbole du matérialisme est devenu aujourd'hui un des symboles de la liberté.

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L'or peut être défendu. Les nations adhérent à l'accord tripartite ont actuellement le contrôle de l'or. Elles peuvent, si elles se décident enfin à une politique d'initiative concrète, maintenir son usage et lui redonner dans le monde un rôle plus fécond qu'aujourd'hui.

Au moment où l'argent a été en péril on a fait l'Union Latine. Au moment où le métal jaune est en péril, il faut faire l'Union de l'Or.

*

La nouvelle place que l'or doit acquérir dans le monde, elle est déjà désignée.

L'or n'est plus le gage des monnaies. C'est une monnaie - le dollar - qui est devenue le gage de l'or. L'or ne servant plus qu'au règlement de la balance des comptes entre nations est devenu surabondant. Désormais, tout l'immense surplus d'or inutilisé est disponible pour une oeuvre féconde. Le monde cherche en vain une monnaie fiduciaire internationale qui puisse recréer la prospérité. Cette monnaie existe. On a la chance de la trouver toute prête et déjà universellement acceptée sous forme de métal mou. La monnaie internationale de demain : c'est l'or.

II

LE NOUVEAU STATUT DE L'OR

L'or doit recevoir un nouveau statut. Comme ce statut doit être négocié diplomatiquement, ce n'est pas le lieu de le donner ici. Autant il était nécessaire, pour préparer un terrain, d'exposer les conceptions nouvelles sur lesquelles il doit reposer, autant il serait impolitique d'en révéler ici les modalités d'application.

On peut mentionner toutefois les principes suivants :

Il n'est pas question de revenir purement et simplement à l'ancien étalon or, et notamment de chercher à astreindre l'économie des grands pays à supporter des variations des taux d'intérêt destinées uni-

quement à corriger des mouvements internationaux de capitaux. Les États-Unis et la Grande-Bretagne y ont définitivement renoncé depuis plusieurs années.

*

La charge de maintenir la valeur de l'or ne peut être laissée tout entière à un seul pays. Les nations qui profitent des fonctions actuelles de l'or doivent assumer leur part des charges correspondantes.

*

L'or est devenu en fait une monnaie fiduciaire internationale. Les instituts d'émission possèdent ainsi un pouvoir plus grand qu'ils n'osent l'admettre, s'ils veulent concerter leur action. Ils ont donc le devoir d'exercer leur action régulatrice en joignant à une politique concertée du crédit une politique nouvelle et concertée d'utilisation de l'or.

Dans ces conditions, toute nouvelle variation des grandes monnaies par rapport à l'or devient inutile, puisqu'il est aussi efficace et moins dangereux de faire varier l'or par rapport aux marchandises que de faire varier les monnaies par rapport à l'or.

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XII

LES NOUVEAUX USAGES DE L'OR

Puisque l'or n'est plus le gage des monnaies, il devient disponible pour d'autres usages. Le monde a découvert, en somme, une nouvelle mine d'or. Il s'agit de savoir quelles destinations nouvelles on peut donner à ce surplus d'or.

Sans prétendre les énumérer toutes, on exposera celles qui peuvent avoir immédiatement un objet pratique et facilement réalisable.

*

A) L'or et les matières premières -

Le trésor de guerre constitué exclusivement en or révèle des dangers et des insuffisances. Il est presque invraisemblable, surtout après les expériences de la dernière guerre, de n'avoir pas encore compris le danger de conserver cette réserve vitale en une seule substance, sans aucune division des risques.

Quel est en effet le but de cette réserve, soit en paix, soit en guerre ? C'est de pouvoir se transformer à volonté en marchandises nécessaires au pays, particulièrement en matières premières importées. Le moindre risque est donc d'avoir dès maintenant cette réserve constituée en partie en matières premières non produites dans le pays; d'autant plus que ces matières, l'expérience l'a montré, renchérissement toujours par rapport à l'or en cas de guerre.

*

A la différence des stocks constitués à titre temporaire pour la régularisation des prix, ces stocks d'Etat ne sauraient peser sur le marché par la suite, dès lors qu'ils auraient le caractère permanent d'un Trésor de guerre.

Le caractère périssable d'une partie des matières premières crée assurément une difficulté d'application; mais leur stock peut être constamment renouvelé, les matières accumulées étant graduellement utilisées pour la consommation et remplacées au fur et à mesure par de nouveaux achats.

Faite d'une façon conjointe, une telle politique provoquerait un démarrage économique puissant en raison de l'activité supplémentaire qui en résulterait pendant la période de constitution de ces stocks.

Une telle politique favoriserait en même temps la redistribution de l'or dans le monde, accroîtrait le pouvoir d'achat des régions productrices de matières premières et améliorerait les débouchés des régions industrielles.

Cette constitution de stock de matières premières peut contribuer à faire passer le problème des matières premières du plan territorial

et de prestige qui ne peut mener qu'à la guerre, sur le plan économique et financier qui est celui de l'organisation de la paix.

*

Observation sur le lien entre l'or et les matières premières.

Bien que le prix de chaque matière première dépende de conditions particulières, le problème du niveau général des matières premières est intimement lié au problème de l'or pour la raison suivante :

Tandis que toute variation de valeur d'un objet, tel que le cuivre par exemple, s'exprime normalement par une variation de son prix en dollars, une variation de valeur de l'or ne peut s'exprimer que par un mouvement en sens inverse du prix des marchandises. Mais cette action ne peut s'exercer efficacement que dans la mesure où les prix de ces marchandises sont effectivement soumis à la loi de l'offre et de la demande : or, un grand nombre de prix n'y sont soumis que partiellement, étant fixés, soit par tradition (un "five cent cigar"), soit par contrat (loyers), soit par dégne (salaires). Seuls les prix des matières premières cotées à terme sur les grands marchés internationaux peuvent fluctuer librement et traduire en sens inverse chaque fluctuation de la valeur de l'or.

Ces fluctuations des matières premières se répercutent, avec un décalage dans le temps et un amortissement dans l'amplitude, successivement sur les prix de gros, sur les prix de détail et sur le coût de la vie.

C'est de l'inégalité de ces diverses répercussions, et de la modification résultante du pouvoir d'achat des différents pays, ainsi que des différentes classes sociales dans chaque pays, que provient le

caractère redoutable de toute fluctuation importante de la valeur de l'or et de la fluctuation concomitante en sens inverse des matières premières.

C'est de là que provient la nécessité profonde d'une action régulatrice économique, et c'est pourquoi cette action se présente sous le double aspect d'une action régulatrice monétaire et d'une action régulatrice des cours des matières premières.

•

B) L'or et les fonds d'égalisation des changes -

Le nouvel accord tripartite doit, dans l'intérêt de tous les pays adhérents, prévoir la régularisation des mouvements inconsidérés de capitaux.

Cette régularisation est inconcevable sous la forme d'une contrainte nationale; c'est un problème de coopération monétaire internationale. Lorsque les générations suivantes apprendront que les grandes migrations de capitaux qui ont effondré les monnaies n'avaient lieu, dans un cycle régulier, qu'entre les Etats-Unis, l'Angleterre et la France, ils seront stupéfaits de penser qu'il aura fallu vingt ans à ces trois pays pour élaborer entre eux le mécanisme monétaire qui aurait suffi à fixer les capitaux flottants et à assurer les bienfaits de la stabilité monétaire.

Ce mécanisme, les auteurs de la présente note en ont établi un projet, dont le but est d'assurer :

- a) la compensation de certains mouvements de capitaux;
- b) la neutralisation des effets défavorables de ces mouvements;

- c) l'instauration d'une politique d'expansion de crédit conjuguée;
- d) la libération de sommes d'or considérables qui deviennent disponibles pour un usage actif.

5) L'or et la reprise du financement international -

Une partie du surplus d'or pourrait être réservée pour les emplois suivants :

Garantie des obligations émises par de grandes sociétés privées d'investissements internationaux. Garantie de grands emprunts internationaux d'équipement et d'outillage - éventuellement avec le gage de matières premières entreposées par les pays emprunteurs. Prêts directs d'Etat à Etat, en principe avec le même gage, en particulier prêts d'or à taux d'intérêt extrêmement réduit - avec "earmarking" le cas échéant - pour aider certains pays dans la voie de la libération des changes. Garantie d'obligations émises par de grandes sociétés de mise en valeur de territoires coloniaux et par de grandes compagnies d'établissement pour les réfugiés.

Le problème des réfugiés, qui est actuellement un élément de trouble économique, pourrait ainsi devenir un élément de reprise économique, comme dans l'époque d'avant-guerre où les migrations contribuaient à la prospérité.

Au moment où l'Europe industrielle doit élargir ses accès vers les matières premières et où les régions productrices des matières premières doivent élargir leurs accès vers les produits fabriqués, où

l'Espagne doit être reconstruite, où les économies de l'Europe Centrale doivent trouver une assise nouvelle, où des peuples en migration doivent recevoir asile, nourriture et travail, où toutes les nations sans exception doivent être ramenées peu à peu dans le circuit économique international, on voit le rôle fondamental de ces grandes opérations financières internationales rendues possibles par les nouveaux usages de l'or.

Le résultat d'une large utilisation des réserves d'or à des emplois de cette nature serait non seulement d'accroître le mouvement international de marchandises, d'abaisser les taux d'intérêt, d'augmenter le pouvoir d'achat et le bien-être général, mais de ranimer l'esprit de collaboration, ainsi que la moralité financière internationale et de diminuer les chances de guerre. Car l'alternative, c'est la reconstruction des économies dévastées, ou la guerre.

EG

GRAY

London

Dated March 29, 1939

Rec'd 3 p.m.

Secretary of State,
Washington.

115, March 29, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

The Prime Minister announced in the House of Commons this afternoon that the territorial army would be expanded forthwith from 130,000 men to 340,000 men and that supplementary estimates covering the necessary expenditure would be brought in. Chamberlain also stated: "We shall endeavor to take such steps as will enable us to furnish in due course equipment for the territorial army without in any way interfering with the equipment for the regular forces".

This is the first development arising out of "the inauguration" of the changed British position promised by the Prime Minister (reported in paragraph two of my telegram 359, March 18, 1 p.m.) entailing heavy additional expenditure. The previous budget estimate of armament expenditure for the financial year beginning April 1 of pounds (sterling) five hundred eight millions

of

-2- 3415, March 29, 6 p.m. from London

of which pounds (sterling) three hundred fifty million was to be borrowed will now have to be revised.

The London stock market was idle and uncertain. The foreign exchange market was also not very active but periodically there were moderately heavy demands for dollars which the British authorities supplied. But it is noteworthy that the three months forward rate moved out from $1 \frac{15}{16}$ to $2 \frac{5}{16}$ without intervention by the British authorities and in this connection reference is made to Phillips' remarks contained in paragraph two of my No. 374, March 20, 6 p.m. The French fund acquired rather larger amounts of sterling today than has been usual in the recent past. Of the 182 bars sold at gold fixing 134 were married and the British fund supplied 56.

KENNEDY

CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 29, 1939, 4 p.m.

NO.: 591

FROM COCHRAN.

The French control by four o'clock had gained one million pounds (omission) sterling which is also the amount acquired yesterday (Tuesday). More bids for the forward French franc. Because of uncertainties in British domestic and external politics, there is a definitely bearish sentiment here on sterling. Somewhat erratic rente and share market, pending the speech by Daladier tonight. Trading is light. The continued repatriation of French capital despite threatening international situation is pointed to with pride by the French press. The press attributes this to the confidence in the franc inspired by Reynaud, as well as to his policy of freedom of capital movement.

For the month of February the French tax returns show improvement over January. There is a slight excess over estimates, but still reveals that there is only gradual pick-up in French economic recovery.

Mention is made in the financial press of the increasing interest of the British in trading with Finland, Sweden

- 2 -

Sweden and Denmark. The press stresses the importance of the German exhibit at the Trade Fair in Helsinki, Finland. Early this month when I traveled from Stockholm to Berlin, there were large groups of Swedish industrialists proceeding to the Leipzig Fair with particular interests in German motorcars, Opel in particular.

A report has come to Paris-American bankers that recent gold shipments have been made from Amsterdam and that there was no war risk insurance on these shipments.

END OF MESSAGE.

BULLITT.

EA:LWW

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 30, 1939.

TO CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH

FROM L. W. Knoke

SWISS NATIONAL BANK.

I called Mr. Schnorf at 10:45 to tell him that we had this morning, in accordance with the tripartite arrangement, bought Swiss francs 250,000 cable Zurich, delivery Saturday, at 22.42, at a time when both Paris and London were free sellers here with no buyers in sight. We would probably request him before the day was over, on receipt of these francs, to convert them into gold and ship it for our account at an early opportunity. Schnorf replied that they were not the least bit worried about the situation, that they had matters completely in hand, that they weren't a bit unhappy to see speculation against Swiss francs, which was entirely engineered by foreigners, get its knuckles rapped from time to time, and that if he decided to make the rate 22.47 or 22.50 or any such figure for that matter, he could do so "playingly" in a minute.

I repeated that we had, of course, acted under the tripartite accord which seemed to call for just that kind of intervention. Schnorf replied that he was awaiting our instructions. However, he seemed to be anxious to make it clear to me that they were so abundantly confident of their ability to arrange all necessary intervention from their end that he would just as soon we would not intervene in the future unless and until we first heard from him by telephone or by cable. He would not fail to contact us immediately the moment he felt that intervention by us under the tripartite accord became necessary and desirable. If rather than take gold in Berne we would

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 30, 1929.

To CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

From L. W. Knobe

SWISS NATIONAL BANK.

■

prefer to turn the Swiss francs over to him, he would gladly buy them from us at 22.42 or 22.43 or any price we wanted him to pay for them. I replied that our action had not been prompted by a desire to make money and we would, therefore, turn the francs over to him at cost price, that is, 22.42 and arranged that we charge his special account on our books with the cost and he, in turn, would book the Swiss francs in and out over our special account in Zurich.

In conclusion I stated that in future we would be guided by his wishes as expressed above but that, nevertheless, we would, of course, reserve the right to act under the tripartite arrangement if ever special, sudden and entirely unexpected developments should, in our judgment, render action under that accord compelling.

LWK:KW

JR

PLAIN

London.

Dated March 30, 1939

Rec'd 3:32 p.m.

Secretary of State,
Washington.

422, March 30, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

1. The Chancellor of the Exchequer was asked in the House of Commons this afternoon "whether in view of the fact that our reserve of gold is liable to be dissipated in operations offsetting the transference of money by individuals and companies from British to foreign securities and that this transference serves no useful purpose from the national point of view, he will take immediate steps to use the major part of this gold to purchase stores of commodities of vital need in time of war".

Simon replied "The answer is in the negative".

A supplementary question (i.e. without prior notice) was then asked as to whether "it is not a fact that the gold reserves in the exchange equalization account are standing in a very grave position having regard to the international situation and would it not be better to have a big supply of foodstuffs and commodities in the country rather than gold."

To

-2- #422, March 30, 6 p.m., from London.

To this Simon replied "It is a difficult and technical question which I have examined very carefully with my advisers".

Should this cryptic and dubious reply attract attention it may further stimulate the movement of foreign funds out of the United Kingdom.

2. The announced expansion of the British territorial army (No. 415, March 29, 6 p.m.) and the character of Deladier's speech have made a good impression in the city and as a result the London stock exchange was slightly firmer.

The foreign exchange market has been more active today and the Bank of France again acquired a considerable number of pounds. Likewise the dollar has been bid except in the afternoon when the Swiss franc moved from 20.83 to 20.89 which caused Swiss speculators to re-purchase Swiss francs by selling dollars thus causing the dollar to be offered for a time. Of the 241 bars sold at gold fixing 52 were married and the British fund supplied a fair amount.

KENNEDY

CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 30, 1939, 5 p.m.

NO.: 800

FROM COCHRAN.

Fairly active Paris exchange market. At five o'clock the Bank of France told me that the French control had a very good day acquiring sterling. As for the continental markets, today's feature was the slip in the Swiss franc that was permitted when the market opened, as a result of yesterday's severe pressure on the Swiss franc. It is reported that sentiment in Switzerland is quite nervous because of rumors that there is German mobilization on the Swiss frontier, and because of reports of the Swiss military measures such as the mining of bridges along the Rhine.

It is felt on the Paris market that the speech by Daladier was reasonable. However it registered no positive reaction; rentes and shares have practically no customers. March 23 statement of the Bank of France showed important increases in discounts and in note circulation, the ratio being 62.50 versus 63.37. American bank notes in Paris are at a premium of around 3/4 percent, but the demand for them is not nearly so great as that reported from Amsterdam and London.

END MESSAGE.

BULLITT.

EA:LWW

JR

PLAIN

London

Dated March 30, 1939

Rec'd 3:32 p.m.

Secretary of State,
Washington.

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KENNEDY

CSE



DEPARTMENT OF STATE
WASHINGTON

April 1, 1939.

My dear Mr. Secretary:

Just a line to call your attention particularly to the first part of Butterworth's No. 423 of March 30 from London in regard to the use of gold for the purchase of stores of commodities of vital need in time of war.

I feel that the action of the Senate in reducing the contemplated appropriation to \$40,000,000 may prove to be a mistake.

It may be that after weighing this you might want to discuss it with the President, and therefore I take the liberty of dropping you this line. I hope you are thoroughly enjoying your stay in Georgia.

Sincerely yours,

Herbert Feis

Herbert Feis,
Adviser on International
Economic Affairs.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

P.S. On the chance that you have not got the cable with you, I append text of the pertinent part of

the

- 2 -

the cable. Butterworth adds the following comment:
"Should this cryptic and dubious reply attract attention
it may further stimulate the movement of foreign funds
out of the United Kingdom."

H.F.

Enclosure;

Pertinent part of
No. 422 of March 30.

Excerpt from telegram No. 422 of March 30, 1939,
from London. FOR TREASURY FROM BUTTERWORTH.

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To this Simon replied "It is a difficult and technical question which I have examined very carefully with my advisers".



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
30

March 30, 1939

My dear Mr. Secretary:

I acknowledge the receipt of your letter of March 24, 1939, in regard to the issuance of licenses authorizing the exportation of "arms, ammunition, and implements of war" to Germany.

In reply, I have to inform you that the legal question to which you refer has been carefully examined by the Department. As the pertinent provision of the Neutrality Act seems to be perfectly clear I have not referred the matter to the Attorney General.

Sincerely yours,

A handwritten signature in cursive script, reading "Cordell Hull".

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

April 1, 1939.

My dear Mr. Secretary:

On behalf of the Secretary, who is away from Washington, I am acknowledging your letter of March 30th, which alludes to a legal question in regard to exportation of arms to Germany. In the absence of Mr. Morgenthau this has been referred to the proper Treasury official.

Sincerely yours,

(Signed by G. E. Forbush)

H. E. Flots,
Private Secretary.

Honorable Cordell Hall,
Secretary of State,
Washington, D. C.

GWF/dba

270

Mrs. Forbush:

(Miss McGuire brought this in to me this morning and said Mr. Foley had made a notation of it. She said it has not been acknowledged.

McH

Mar. 31/39

OFFICIAL BUSINESS

271

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury,

Washington, D. C.

Friday, March 31, 1939

In telephone conversation with Secretary Morgenthau today mentioned that the Chinese had managed to ship about twelve to fourteen million ounces of silver out of Haiphong to Manila. This silver was now enroute to the United States from Manila on an American steamer and they had requested a bid from us for it. The Secretary authorized that a bid for this silver be made.



13

**FEDERAL RESERVE BANK
OF NEW YORK**

March 31, 1939.

Dear Mr. Secretary:

Corporate issues of securities for new capital during the first three months of 1939 have totaled only \$45,000,000, or about one-fifth of the monthly average of \$70,000,000 during 1938. The closing week of the quarter saw security offerings at a low ebb, with only \$3,850,000 placed in the market. Most of this total was the common stock offering of the Farnsworth Television and Radio Corporation, now quoted below the syndicate price.

Unless issues now in registration are postponed, however, owing to severe war scares or unforeseen developments of whatever character, the month of April is likely to show a marked increase in the volume of new issues. Next week, stockholders will receive rights to subscribe to \$25,700,000 of Eastman Kodak Company common stock, and \$25,800,000 of Commonwealth Edison Company 3 1/2% convertible debentures. (The former offering is the largest common stock offering since 1936.) Large issues for Texas Corporation, National Steel Corporation, Gattineau Power Company, and two or three other utility companies are expected to follow. Issues now scheduled for April are expected to total \$250,000,000 or more, and will raise over \$70,000,000 for new capital purposes. Not all of the funds borrowed for new capital, however, will be expended immediately.

Awards of new municipal bonds this week were about \$5,500,000. Public offering was made, however, of \$73,444,000 serial 3 1/2 and 4 1/4 per cent bonds of the Metropolitan Water District of Southern California. A syndicate purchased these bonds from the Reconstruction Finance Corporation. Maturing in 1948-37 and priced to yield 2.70 to 3.60 per cent, the issue was well received. Fifty million dollars have been sold, including all of the bonds maturing from 1978-37, despite the adverse market conditions, growing out of the renewed European "crisis."

Yours faithfully,


Allan Spradl,
First Vice President.

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

April 1, 1939.

Dear Mr. Sproul:

On behalf of the Secretary I am acknowledging your letter of March 31st, commenting on corporate issues of securities during the past three months, particularly stressing transactions of the past week.

This information will be brought to Mr. Morgenthau's attention as soon as he is back in the office again.

Sincerely yours,

(Signed by G. W. Forbush)

G. G. Klotz,
Private Secretary.

Mr. Allan Sproul,
First Vice President,
Federal Reserve Bank of New York,
New York, New York.

GZF/dba

REB

GRAY

London

Dated March 31, 1939

Rec'd 3:38 p. m.

Secretary of State,
Washington.

428, March 31, 6 p. m. (answer to) # 62
FOR TREASURY FROM BUTTERWORTH. *Butterworth 4/1/39*

STRICTLY CONFIDENTIAL.

Since Europe is again moving into the danger zone of conflict I reviewed today with the British Treasury the financial steps they intend to take in the event of war.

The general considerations and plans set forth in my No. 922, September 24, 5 p. m., No. 1032, September 26, 5 p. m. and particularly No. 1054, September 27, 6 p. m. still hold good. But in certain matters more detailed arrangements have been worked out since September and therefore it may be useful briefly to summarize the position.

One. Immediately upon the outbreak of a war the British Government will requisition all foreign securities, foreign balances and gold belonging to British residents (the term British resident includes foreigners who are normally British residents). The British Government will

not

REB

2-#428, From London, Mar. 31, 6p.m.

not (repeat not) take steps to liquidate any American securities thus acquired without prior consultation with the appropriate American authorities.

Two. The British Government does not intend to declare a general moratorium but expects to close all banks and financial institutions for one day. The banks consider that they need such a period to make the necessary adjustments but the British Treasury is of the opinion that should war eventuate towards the end of a given week it would be necessary for the banks to make arrangements whereby payroll wages could be met.

Three. It is now planned that the Bank of England should announce, probably daily, foreign exchange rates for sterling and the other banking institutions would be authorized to supply foreign exchange in suitable amounts for bona fide reasons. Therefore American citizens who happen to be in the United Kingdom upon the outbreak of a war would be able, after the banking institutions reopen, to cash travellers checks, dollar drafts and draw on dollar letters of credit, et cetera, and thus obtain not only such pounds as they may require but necessary (repeat necessary) amounts of American dollars.

My

REB

3-#428, From London, Mar. 31, 6p.m.

My own impression is that there are two schools of thought as to the rate at which the pound will be evaluated in terms of dollars when dealings begin after the outbreak of a war. But I feel reasonably sure that those who favor an immediate and sharp depreciation of the pound will prevail and that the sterling dollar rate as first announced by the Bank of England after the outbreak of a war would show a very considerable depreciation of the pound as compared with the present level.

Four. The stock exchanges will be shut upon the outbreak of a war. The British Treasury intends to reopen them as soon as practicable but realizes it is impossible now to set any definite period inasmuch as the object of shutting the stock exchanges would be to prevent panic selling from developing.

Five. Under the present war plans the British Treasury will attempt to continue to function in its present building in Whitehall, in the basement of which bomb shelters have been constructed; but it is not really known whether this tentative arrangement will in fact prove feasible under actual war conditions.

THE

REB

4-#428, From London, Mar. 31, 6p.m.

The above information has been obtained on the explicit understanding that it would be treated most carefully and confidentially. In this connection the Ambassador suggests that the head of the Securities and Exchange Commission might be informed of the stock market information but in the strictest confidence.

KENNEDY

CSB

REB

TELEGRAM SENT

GRAY

April 1, 1939

1 p. m.

AMBASSY

LONDON (ENGLAND)

225

FOR BUTTERNORTH FROM TREASURY.

Mail copy your 428 to Cochran to reach him Monday morning.

HULL
(10)

ED:MP:LSM

REB

TELEGRAM SENT

GRAY

April 1, 1939.

1 p. m.

AMEMBASSY

PARIS (FRANCE)

221

FOR COCHRAN FROM TREASURY.

Reference Butterworth's cable to Secretary 428.
Ascertain from French Treasury what steps they contemplate
in similar circumstances and cable not later than Monday
evening.

HULL
(HF)

ER:HF:LWV

REB

SPECIAL GRAY

Paris

Dated April 3, 1939

Rec'd 2:30 p. m.

Secretary of State,
Washington.

620, April 3, 3 p. m. (SECTION ONE)

FROM COCHRAN.

Department's 221, April 1, 1 p. m. Without mentioning the plans of any one I asked RUEFF this noon what steps the French Ministry of Finance contemplated taking in the event of war and specifically requested information on the points included in Butterworth's 423, March 31, 6 p. m. He said that definitive replies in the premises were impossible simply because no precise plans had been made. The general idea remained the same as last September, that is to keep awake to developments and to employ possible expedients but to follow the basic policy of taking the least possible excesses or unusual measures. In my telegrams of last September I reported this policy particularly my No. 1645, September 29, 3 p.m.

BULLITT

CSB

REB

SPECIAL GRAY

Paris

Dated April 3, 1939

Rec'd 2:45 p. m.

Secretary of State,
Washington.

620, April 3, 3 p. m. (SECTION TWO)

Since I had an appointment to see Governor Fournier of the Bank of France a few minutes after speaking with Rueff I raised the same questions with him since he would naturally be consulted by the Treasury and share in any plans. Fournier gave the same answer as Rueff. Last September he had studied possible measures ^{with} ~~against~~ Marchandeau who was then Minister of Finance and with Rueff. Fournier's personal ideas had been accepted at that time and remain the same at present. He has not been consulted by Reynaud but is convinced that the present Minister of Finance would, considering the liberal policy he has so successfully followed, be even more reluctant than his predecessor to take restrictive steps. Certainly no final plans would be consummated until actual war circumstances were encountered.

Last autumn no plans were envisaged which involved a general moratorium, closing of banks or stock exchanges,
or

REB

2-#620, From Paris, Apr. 3, 3p.m.
(Sec. Two)

or requisitioning of gold, foreign securities and foreign balances. American travellers obtained the funds they required on travellers checks, et cetera. It was considered essential that French productive activity should be accelerated in case of war and every effort was to be made to avoid acts that might retard it.

BULLLET

CSB

JR

SPECIAL GRAY

Paris

Dated April 3, 1939

Rec'd 3 p.m.

Secretary of State,
Washington.

620, April 3, 3 p.m. (SECTION THREE).

Furthermore France has a peculiar position as a socialist country. Not only are there practically no foreign funds held in France but even an important part of France's own capital is held abroad. During the current crisis the tendency to repatriate French funds which began with Reynaud's new program of last fall has continued. The authorities would hope for such repatriation to be prolonged and even augmented, through patriotic instincts if war came. Consequently they would be very reluctant to adopt or even to let it be suggested that they might adopt measures for seizing such assets which might work against their repatriation.

Naturally the authorities would have to act quickly if panics developed but the policy is to wait and see.

The location of the French Ministry of Finance would necessarily depend upon the general decision of the Government

-2- #620, April 3, 3 p.m. (SECTION THREE) from Paris.

Government as to where the site would be if Paris were attacked or threatened. Fournier would plan to keep the head office of the Bank of France at Paris and open. It has immense callers equipped for any emergency. (END OF MESSAGE).

BULLITT

CSB

REB

PLAIN

London

Dated March 31, 1939

Rec'd 3:28 p. m.

Secretary of State,
Washington.

429, March 31, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

One. The Prime Minister's declaration respecting Poland was made in the House of Commons at too late an hour in the afternoon for the city to realize its full significance and inasmuch as the initiative now passes primarily to Berlin and secondly to Warsaw the city finds it difficult "to take a view". For instance the jobbers of the London stock market first put prices up after the publication of the announcement probably because a definite statement of government policy has been for so long awaited and then with second thoughts prices moved down to close with small losses on the day. A leading British banker characterized the city as "numb and dumb". Nevertheless, the realization is growing

(a) That traditional British policy vis-a-vis eastern Europe has been superseded;

(b) That the spectre of encirclement of Germany
raised

REB

2-#429, From London, Mar. 31, 6p.m.

raised up by the British declaration will tend to unite all Germans behind the Nazi Government;

(c) That Europe is again entered into the danger zone of conflict.

Two. The foreign exchange market was also slow in evaluating the situation but the three months forward dollar which was offered at 2-1/8 this morning became bid in the late afternoon at 2-5/16. The repatriation of funds from London to Paris was again large today. Of the 200 bars sold at gold fixing 28 were married and about 45 were supplied by the British fund.

Three. Incidentally, the British Treasury states in confidence that the amount of hoarded gold in London totals about 185,000,000 pounds and is, as previously reported, now on the decline.

Four. The average rate for today's treasury bill tender was just over 25S. 6D. per cent as compared with 14S. 7D. last week and just over 10S. the week before. As was the case last week the syndicate received over 70% of their applications which indicates that outside bidders again largely refrained from tendering, their funds being probably still largely tied up in dollar swap operations and arbitrage.

KENNEDY

WWC

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 31, 1939, 8 p.m.

NO.: 808

FROM COCHRAN.

Today the French control continued to gain sterling. There was also improvement in the forward franc as a result of the more calming news regarding Italy and the Eastern part of Europe. There were gains in French rentes and shares. Particularly weak forward belga.

There is much comment in the press on the changes in the structure of the Reichsbank anticipated in my telegram No. 472 of March 14.

Tonight I go to Basel where this weekend the B.I.S. directors hold their meeting.

BULLITT.

EA:LWW

Laws School of Harvard University,
Cambridge, Mass.

OFFICE OF THE DEAN

March 31, 1939

Confidential
Wmh

Dear Mr. Secretary:

I have been thinking over your problem with reference to the General Counselship and I have been wondering whether you have examined the qualifications of Chester Lane in that connection. Lane is now General Counsel of the Securities and Exchange Commission and I can heartily underwrite him for a post such as you suggest. He is an indefatigable worker besides possessing qualities of exactitude and imagination. I know that he likes his present job, but he might be induced to take another one.

You made me so envious of some southern sunshine with your call from Sea Island that I decided to pack up and go tomorrow to Southern Pines for a few days.

With my best regards,

Sincerely yours,



Hon. Henry Morgenthau, Jr.
Sea Island, Georgia

TELEGRAM RECEIVED

GRAY

Rio de Janeiro

Dated March 31, 1939

Rec'd 10:45 a.m.

Secretary of State,
Washington.

95, March 31, 11 a.m.

My 87, March 24, noon.

As a result of informal representations made by the Embassy, the Minister of Finance has instructed the Bank of Brazil to except from the two percent increase in the exchange tax on commercial bills all transactions represented by milreis deposited before effective date of the decree law.

Please inform Department of Commerce.

SCOTTEN.

~~MA~~
March 31, 1939

291

FOR THE SECRETARY:

Conversations with a dozen or more bankers here and in St. Paul today can be summarized as follows:

Business is slightly below expectations and a shade of doubt about the future is discernable. Europe is unanimously cited as a cause for business hesitation, and Republican bankers also blame the New Deal. With one exception bankers agreed that banks generally are wondering about continuation of present high Government bond prices. A war in Europe, they believe, would bring bond prices down at least temporarily. Opinion is divided evenly over whether banks would all try to dump their Governments if prices broke, and also is divided over how well banks are prepared to withstand a break in bond prices. Banks here are beginning, with varying degrees of enthusiasm, to make "term-loans" of longer maturity than ordinary commercial loans. Tax revision -- preferably reduction -- is applauded, but spending was never mentioned unless I asked about it, in which case, everyone was against it.

First National Bank, Minneapolis -- (Mr. Wakefield, the president, was on vacation.) Mr. Grangaard, chief loan officer of the bank, said business is slow and the demand for business loans almost non-existent. His bank has outstanding lines of credit amounting to \$44 million of which the borrowers have seen fit to utilize only \$8 million. This failure to use credit which is made available to them shows

- 2 -

that business men are not being hindered by a lack of credit, Mr. Grangaard believes, and he is of the opinion that Government loans to small business would be useless. His bank is beginning rather reluctantly to make "term-loans", but he said a loan running for eight years had been rejected by the bank today because the loan committee felt that it could not take a chance on the trend of business over as long a period as eight years. He admitted that Government insurance of such a loan might have reassured the bank sufficiently so that the loan would have been approved, but, he added, such insurance schemes as FHA had yet to be tested by bad times.

Other loan officers of the bank, when asked about the businessmen who are their customers, all mentioned Europe as a cause for hand-to-mouth business operations. They also mentioned high costs, particularly taxes and especially social security taxes which must be paid whether the company has any net earnings or not. They heartily approved your social security statement. One man said that the most discouraging thing for him was to see these higher costs gradually sinking old established firms. He mentioned a local department store, an old customer of the bank, which has been losing money and which the bank may soon have to cut off. Another officer said he thought that the burden of wage-hour, labor relations, SEC and similar regulation was more than the average business mentality could cope with on top of ordinary raw material, labor, financing and selling problems.

- 3 -

Mr. Grangaard thought that most Government bond accounts are in good shape so that a break in Government bond prices would disturb but not hurt most banks. He believes that very few banks have sold out at a profit, disbursed the profit as dividends and then reinvested at high prices. His own bank has amortized all Governments down to par and evidently holds very few long-term bonds. War, he thought, was the only disturbing possibility.

Mr. Washburn, chief legal officer, said the bank was much opposed to the Barkley trust indenture bill; he also spoke strongly in favor of repealing the capital gains and losses section of the income tax saying that he thought repeal would cost the Government nothing and would start venturesome capital working. He thought spending should be cut down.

Northwest National Bank, Minneapolis -- Mr. Ford, president of the bank, also thought Government bond portfolios were in good shape, that banks were resigned to having prices high and yields low and that banks would not stampede into selling bonds unless war or commercial demands for credit developed. He expressed a preference for intermediate-term Governments and said that his bank had taken the new, shorter-term bonds in March although they had considered not exchanging when the exchange offer was announced at a premium. The exchange offering at a premium seems to have caused more surprise than resentment.

- 4 -

Mr. Ford said that his bank was making quite a few "term-loans" and would like to get more of them. His bank had offered, for instance, to finance a new "tin train" for the Rock Island railway, but the RFC and a Chicago bank had underbid them and taken the business. Other types of business loans are dead, he said, although I am told the bank has made many corn loans with the CCC standing back of them. Country banks in the Northwest Bancorporation are keeping alive on service charges and bonds, but they all are making money, he said. For that reason he laughed at the argument against a bank holding company bill which insists that small, independent banks can not keep alive in the Northwestern states, but he feels pretty sure that there will be no bank holding company legislation.

Federal Reserve Bank, Minneapolis -- John Peyton, president, had held a conference last week of all member banks in the district. He said the bankers were much interested in Europe, in the Government bond market and in the possibility that the Government would go into the industrial loans business. To illustrate what interests the bankers, Mr. Peyton gave me the attached list of questions which the bankers had asked to have discussed at the conference.

Unlike the private bankers, Mr. Peyton feels that, although bankers have been watching the high Government bond market closely, the small banks have failed to protect themselves against a possible bond decline.

- 5 -

Business loans are hard for the banks to find and part of this difficulty is due to the increased competition of Government lending agencies like the CCC, the Farm Security Administration and the Production Credit Associations, Mr. Peyton believes. He adds that bankers greatly fear increased competition from some Government lending agency for small business.

Quite a discussion of the loans-to-small-business problem took place at a luncheon at the Reserve Bank attended by the Bank's officers and some local bankers. The consensus was that the demand for loans was being met by banks but that business wanted capital which was too risky and too long in maturity for banks to provide. Mr. Peyton said that the Federal Reserve Bank had stretched the law in its endeavor to make industrial loans, had investigated every application and had not necessarily tried to avoid losses. In spite of all this, the Bank had been able to approve only about 400 of the 1,300 applications received. The remaining 900 applicants had really wanted somebody to invest capital and take a long-term risk, he said. The luncheon group agreed that the only opening for a Government agency was in the supplying of capital, an undertaking which would eventually involve the Government in accounting and managerial control of countless businesses.

As to Europe, the group at luncheon said that the region was thoroughly isolationist and that the bankers at last week's conference had cheered remarks about letting Europe fight its own battles. One or two persons at the luncheon expressed the belief that if Hitler were allowed to swallow the Balkans he would be so busy with internal problems that he would leave the rest of the world alone.

American National Bank, St. Paul -- Otto Bremer, chairman of the board, says the Northwest never complains about business. The president of the bank, however, says that business loans are hard to find and that businessmen are deterred from making commitments because of the European situation.

Mr. Bremer is very proud to have bought long-term Governments over a year ago when Eastern banks, which are now buying them, advised against it. He says the bank has had the best year in its history as a result and that the 35 or 40 small country banks which he owns have kept alive on long-term Governments and service charges. He recently sold out \$9 million of Governments to realize the profit on them, but he has set the profit aside as a reserve. Since the sale, however, he has been trying to reinvest, but the market is too high for him. He thinks war would bring it down.

The bank bought the June Treasury notes at 102 with the idea of exchanging them, and Mr. Bremer doesn't understand

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why the Comptroller's Office required him to charge off the 2-point premium, writing the notes down to par, when he could have made a profit on the deal by selling out the new bonds which he got in exchange for the notes.

Mr. Bremer's bank evidently handles all the internal revenue tax checks in addition to about 100,000 checks monthly for unemployment insurance. Thus far, the president of the bank says, they have had only a \$5,000 internal revenue balance, and he is asking for a Government balance of \$750,000 on which he thinks they could earn enough to compensate them for the work they are doing.

Mr. Bremer approves very highly of the new internal revenue decentralization, but he is against the Treasury's effort to sell the old St. Paul post office (which he regards as architecturally superb) when the Government is paying rent for offices "to the Republicans at the First National and Northwest who are against your Administration day and night." He also feels that the Treasury and Board of Tax Appeals treated himself and his brother very arbitrarily in asserting a "2,500,000 tax claim against them in 1936 under section 104. He says that he collapsed at his desk from the worry the day that he was finally able to settle for \$725,000. He is also against the undistributed profits tax. He is still a staunch supporter of the Administration, however, and speaks very proudly of you.

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Empire National Bank, St. Paul -- Mr. Highland, president, says the businessmen he sees are finding things rather slow but are not buried under heavy inventories as they were a year ago. A wholesaler was in his office yesterday displaying a list of the free surplus food distributed in Minnesota last year by WPA and complaining about such competition with his wholesale grocery business. Mr. Highland said the wholesalers like the new "orange and blue ticket" system of food distribution, which is being started in St. Paul, much better. Nevertheless, he said, a grocer had told him that, although he normally sold a crate or two of grapefruit a day, he barely sold a dozen on the day that the relief agency gave him a truckload for free distribution. With business loans slack, the bank has been dealing heavily in FHA mortgages and in automobile finance loans.

First National Bank, St. Paul -- (Mr. Lilly, president, was on vacation.) Mr. Baird, chief operating officer, said most businessmen were getting less business than they had budgeted and that conditions generally were below expectations. Inventories, however, have not begun to accumulate. Consumers goods industries, Mr. Baird feels, have pushed up to the 1929 levels and can not advance or even be maintained unless heavy goods industries depends on removing uncertainties and restoring confidence in the long-term outlook. Europe is the chief cause of uncertainty, he feels, but he adds frankly that the New Deal, whether it deserves to be or not, is an unsettling

factor in many people's minds. In this connection, he spoke highly of the work done by Mr. Hanes and of the position of the Treasury generally, saying that he had always felt that the Treasury's influence within the Administration had been on the right side.

His bank has made \$4 million of "term-loans" running for as long as 10 years, he said. These loans were of a type which previously were floated by local investment bankers, he explained, but private investors were no longer interested in such offerings, the price of SEC registration was high and the banks were able to give the borrowers better terms than the underwriters could give them.

Mr. Baird was of the opinion that all banks would jump into the Government bond market at the sign of a decline, each bank trying to sell out at the top. Against this disposition to cash in at the largest possible profit is a growing willingness among banks to hold more long-term Governments and to retain them rather than trade in them, Mr. Baird said. His own bank has given up arbitraging Governments.

In response to my question, he said he thought the people were more willing to see Government spending curtailed now than they would have been five years ago.

He also agreed that small business needed capital, not loans, and that in many instances the Government, if it advanced money to small business, would have to put in new management and even develop new products if it wanted to stand a chance of recovering its money. His bank, he said, had been

willing to lose some money on such loans if it could help employment and business in St. Paul but had found very few loan prospects even on this liberal basis.

Mr. Baird was critical of the type of semi-banking which is growing up under Government tutelage in the Federal Savings and Loan Associations.

He was against giving the Comptroller to the Federal Reserve Board under the Reorganization Act and spoke highly of the Comptroller's Office as now set up. Mr. Peyton, at the Reserve Bank, had said that he expected the Comptroller's Office, if it were put anywhere, to go to the Federal Deposit Insurance Corporation; he is in favor of a central bank examining agency wholly independent of the Federal Deposit Insurance Corporation, the Reserve System and the Treasury.

Mr. Baird agreed with the Administration foreign policy, especially with international lending which he said he thought was a logical and powerful stimulant for American business.

ESP

Questions submitted by bankers for Minneapolis Reserve Bank Conference, 3/23/39

301

What effect, if any, will the National Debt have on the value of U. S. Government securities within the next 12 months?

We have devalued our dollar; we have had a credit inflation; and it is a fact that coffee, butter, and other costs of living are not greater than on the date of such devaluation. History tells us when a nation devalues its moneys it cannot escape actual inflation within a limited number of years. What is the outlook for our country?

In your opinion will the government indefinitely be able to maintain the market for its long term bonds at or near a 3% yield basis; in other words has it the ability through its various agencies to take the offerings of governments out of the market so as to keep the price for governments firm when they reach a 3% yield basis?

Would the return to the gold standard either at the present parity price or at the old parity price have a derogatory effect on governments and other high grade obligations, or would it ultimately work toward a benefit to that type of security?

Would a composition of differences among European nations, so that active and unrestricted international trade could be resumed, increase our national income sufficiently to balance the Federal budget - assuming that expenditures do not increase further?

What will be the trend in interest rates over the next fifteen years?

What will happen to the price structure of government bonds in the immediate future? Will the trend be upward or downward?

If a bank has for three years been pursuing a short-term government bond policy in its bond portfolio, is there a sound or logical reason for a change in that policy under present conditions?

- (a) What effect did the devaluation of the dollar have upon commodity prices?
- (b) What effect upon commodity prices would follow the Federal government going onto a gold basis with impounded gold freed of all restrictions?

Would you advise the buying of bonds at this time as secondary reserve and, if so, would you advise government or municipal bonds? If municipal, what type of municipal bond? Are there any indications that there will be a change in the price of bonds sometime in the near future?

Would you favor repeal of the gold hoarding law and establishment of a free market for gold in the United States?

With a free gold market established in the United States, what provision could be made to stabilize the value of the dollar in relation to the value of gold (that is, the price of gold in terms of dollars)?

Explain the Silver Purchase Law, under which the United States Treasury is regularly purchasing large amounts of silver bullion and storing it in immense vaults at West Point, New York.

Is there any plan for disposing of this silver in the future? What is the effect of the law on foreign trade at the present time?

In view of the large volume of Government securities in banks, and in view of the sensitiveness of bond prices to changes in volume of excess reserves, will these facts deter or prevent the Board from using the credit controls available should the need for them arise?

Would an increase in use of Barter in International Trade agreements diminish the use of gold for international settlements and consequently the demand for same, thus cheapening our gold hoard eventually?

What can the stockholders of the Federal Reserve Bank do, individually, or as a corporation, to bring about the elimination of inequalities of rights, duties, expenses, and receipts between member and nonmember banks?

In view of the discussion in Washington and the bills which have been introduced, such as Senator Pepper's bill, do you think that a system of Industrial Loan banks for small industry will be established; and if so, will it compete unfairly with commercial banks?

Define clearly Regulation "Q" with respect to payment of time certificates of deposit by the issuing bank before maturity.

How are you handling the Wage and Hour Law?

Referring to the law recently passed by the Minnesota Legislature, and signed by Governor Stassen, authorizing a charge of 3% per month on small loans in loan agencies to be licensed - who are the sponsors of this law? Who can operate under it? Who will benefit by it?

We used to receive shipments of cash from the Federal Reserve Bank on the 8:05 train on the morning after we ordered it. Recently such shipments do not arrive until the afternoon train and we have to get our currency orders in a day early or send them by telegraph to avoid running short. Can anything be done to put us back on our old schedule?

Can we turn in Corn Loans to the RFC before they are due and still get the interest to maturity?

Your circular mentions "direct sending of checks". What does this mean?

What effect, if any, will the Old Age assistance and the relief expenditures have on municipal bonds?

Recently the PCA and similar agencies have been authorized to make loans to farmers at 4%. This is an unwarranted type of government competition with business. Said organizations use tax payers' money and are not required to pay taxes themselves. The present administration states on one hand a desire to cooperate with private business, and on the other hand uses government credit to obtain funds to loan at destructive rates. When can any relief from such unwarranted competition be expected? Could not the bankers through their various associations back proper legislation to eliminate this along with other similar competitive policies?

We have two major problems in **** County and west and north therefrom. One is, What is the cheapest feed that we can raise for the hoppers? The other: What shall we do with the surplus moisture?

How great a factor will crop insurance prove to be in improvement of the credit of wheat farmers?

Is it possible to reclaim our Latin-American trade (South America) from the dictator countries and at the same time improve our financial position and maintain our present standard of living? Or will this trade have to be obtained with government subsidies and at the expense of our tax payers?

The banks of this country for their stockholders and their customers are tremendously interested in the railroad situation. It has been bad for years and it seems inexcusable that the income has been and is being allowed to be eaten up by the receiver-ships and other expenses while the stockholders and bondholders of the roads get nothing. What can the bankers do now to help this situation? It seems it should be corrected immediately without more inexcusable and disgraceful delay.

If an automobile loan made on a new passenger car is a good bank loan, why is not a loan made against a '35, '36, '37, or '38 car made on the same basis also a good loan? We are assuming that in both cases the party making the loan has ample use for the car either from a business or a pleasure standpoint, and also that the car is in good mechanical shape and that the loan is made on a basis of not to exceed 50 to 60% of the actual market price of the car at the time the loan is made. Also the party making the loan must have income sufficient to make the monthly installment payments.

Page and Hour Bill:

- Proper records.
- Are banks complying with the Bill?
- How are banks going to comply next year?

Is it advisable to have the borrower on an unsecured line of credit sign "a confession of judgment" at the time of making the loan?

Can you attach property on a "confession of judgment" signed at the time of making a loan, without further legal proceedings under the Michigan laws?