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GROUP MEETING

January 11, 1940.
9:30 a.m.

- Present: Mr. Graves
- Mr. Sullivan
- Mr. Bell
- Mr. Haas
- Mr. Thompson
- Mr. Cochran
- Mr. Gaston
- Mr. Harris
- Mr. Cotton
- Mr. Schwarz
- Mr. Foley
- Mrs Klotz

H.M.Jr: They are wrong, the business wasn't in excess in '39?

Harris: The business in San Diego is, local merchants in San Diego.

H.M.Jr: San Diego reports the '39 business in excess of the '38, so it is good.

Harris: Yes, so it is really in our favor.

H.M.Jr: But you collected more duties in December, '39 than you did in December, '38?

Harris: But you threw more business into San Diego which apparently had been previously been going over the border.

H.M.Jr: Could you do it again for January?

Harris: I have another report coming in from Los Angeles. I will watch it for January.

H.M.Jr: I have just got a couple of things I would like to clear. I got a memorandum here from Foley as of December 30. This was our famous meeting with Sam Clark, with the Department of Justice, and I just thought - I had a follow-up here, you see. Number one, the Bioff case.

Foley: Indictment.

H.M.Jr: Right. Number two, case against Schenck.

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Foley: He wrote us a letter and asked for additional information. Elmer is getting that now. The information hasn't been supplied to him yet.

H.M.Jr: Well, the move is up to the Attorney General in this thing.

Foley: Yes. He said that he was prepared to go ahead but there were certain additional things he wanted to clear up with Phil and he would get in touch with Phil during that week, Phil Wenchel, and he has written a letter asking for certain information, most of which would come from Elmer Ireys' memorandum and that letter has been referred to Elmer. He is getting that information.

H.M.Jr: How long will it take Elmer, Herbert? Let us know tomorrow morning, will you?

Gaston: Yes.

H.M.Jr: The reorganization case.

Foley: The 90-day letter has gone up.

H.M.Jr: To Mr. Zanuck?

Foley: Yes.

H.M.Jr: What about Mr. Kadis?

Foley: That all depends on the Zanuck case. After they read the record they will determine what they will do criminally against Zanuck, Kadis, Dover, and all the other people involved in that transaction.

H.M.Jr: Then I would like to know tomorrow when Ireys is going to do this.

Now, Bell, would you tell the people what we did on the Hill with Mr. Taylor and Mr. Doughton, just as you can remember? Did you write a memorandum on that?

Bell: I dictated it. It is in the mill.

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H.M.Jr: Just what did I say to them? You remember.

Bell: Well, we went up to see Chairman Taylor of the Appropriations Committee and Chairman Doughton of the Ways and Means and the Secretary told them that he was there at the suggestion of the President to tell them that he had no program with respect to any loan or any other action in Finland. There had been a number of bills introduced.

H.M.Jr: That the President had no program.

Bell: That the President had no program, excuse me. And he would like for the people on the Hill to make up a program and decide what they were willing to do on the Finnish situation. They pressed the Secretary pretty hard as to whether or not the President had anything definitely in mind and he said no, that he did not have, and then they asked him the direct question as to whether if they passed a bill making a loan or taking other action for Finland, whether the President would approve it, and the Secretary said he thought that he would, so they just said that they would talk to the leaders and see what could be done and after they had that talk they might want to go over and discuss the matter with the President before any action was taken. It was left in that form. Does that about cover it?

H.M.Jr: The only other thing - we will put it on the record - I saw the Finnish Minister last night around 6:00 o'clock. I told him in strictest confidence that I had been up there to see Doughton and Taylor and that they were taking the matter under consideration. I impressed upon him that our going up there was a confidential matter. I hope it stays - it is funny. Chairman Taylor was very, very happy over the fact that he had a vote in his committee, 17 to something, that no sub-committee on appropriations in the House could raise the estimate - the combined estimate above the present lump sum in the budget. I said, "Well, is that a secret?"

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"Oh yes," he said, "that is a secret; nobody knows it."

I thought, Dan, unless somebody else thinks otherwise, that at my press conference at 10:30 I was going to congratulate the House Appropriations Committee on what they have done. I was going to say I thought it was a swell move.

Bell: Well, I suppose that is all right. There is a little fight on up there, you know, between the two Houses as to which one will get the credit for all of this. One is trying to set up a committee and the other is opposing it.

H.M.Jr: But this nails it.

Bell: That nails the budget as to the total amount. Of course, what they will do is cripple some other activity and put in what they want and then there will have to be some estimates increased.

H.M.Jr: You don't think this is good?

Bell: Yes, but I don't think it will hold. I think when it gets to the agricultural committee, Cannon will have some pet projects he will put in and reduce others.

H.M.Jr: You think it is a move in the right direction?

Bell: Yes.

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

Gaston: I think particularly if you are asked the question it would be a good thing to say naturally you are gratified, you made the suggestion that they are carrying out, but aside from that fact you think it is a sound principle in government that they should consider then, the whole over-all budget picture, jointly.

Bell: No, I didn't get that....

H.M.Jr: No, this move in the House - it is a House appropriations bill passed by motion, that is all.

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Bell: Sub-committees.

H.M.Jr: Sub-committees, when they bring in their report, the combined total of their recommendations can not exceed the President's budget.

Bell: In other words, the agricultural committee....

Gaston: I am a little doubtful about getting in on that.

Bell: The agricultural committee is confined to the amount specified in the budget for agriculture.

Gaston: It seems to me that is a thing for the President and the House and it seems to me you would be injecting yourself into an internal House situation. I thought you were speaking of the other thing.

H.M.Jr: That I covered.

Gaston: My advice would be no.

H.M.Jr: Chick?

Schwarz: I am just wondering whether there is an opportunity to point out the cooperation between the executive and the legislative branch, but I am inclined to agree with Herbert that it is injecting the Treasury into - they are responding to the President, responding to his plea.

H.M.Jr: Well, we are part of the....

Schwarz:executive branch. I think a passing comment of gratification....

Gaston: Of course, as a part of the general picture of order and tying the whole appropriations picture together, I think you might make some comment on it.

Schwarz: It is an opportunity to reemphasize what so many of them fail to admit, that the budget is a recommendation and it is gratifying to see the recommendations accepted.

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H.M.Jr: We will see.

Thompson?

Thompson: I read of the plan in the paper this morning and I think they are doing a very fine thing and I don't believe it would be out of the way for you to comment.

H.M.Jr: You think it is all right?

Thompson: Yes.

H.M.Jr: I do too.

Bell: If you are asked the question....

H.M.Jr: It can always be stimulated.

Thompson: If the question comes up. I don't believe I would raise it myself. If it comes up, I think it is all right.

H.M.Jr: I had the first good ride in the Buick last night. They took out of the top of the back seat a piece of steel two feet long which the fellow in sewing it up accidentally left in the top of the back seat.

Gaston: That is the rumble back there.

H.M.Jr: Norman Thompson came in and thought he had personally found it. He was so pleased. It was a piece that big (indicating).

Gaston: Just like a surgeon, a few odds and ends.

H.M.Jr: Got anything, Norman?

Thompson: No.

H.M.Jr: Dan?

Bell: I got a letter from the President putting me on the Central Committee of the Red Cross.

H.M.Jr: I recommended that.

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Bell: Did you really? Then I got one from Mr. Davis asking me to be Treasurer, a lot worse. Do I have to be that?

H.M.Jr: I am afraid you do.

Thompson: The Treasurer has more work to do now. This is just to take care of all the detail work.

Gaston: You had better look out, he will take care of it too well.

H.M.Jr: I am afraid you have to. You don't have to go to the meetings.

Bell: O. K. I suppose we will be up against the old question that we had a couple of years ago about investing Red Cross funds.

H.M.Jr: Hot Cross buns.

Bell: I am told, however, that they are fast shifting to Governments, so maybe it won't be so difficult.

H.M.Jr: I don't know what happened while Hanes was in there.

Bell: Elliott Wadsworth told me that they got out of their bonds pretty well last spring and went into Governments. I have Hadley's cable on Postal Savings.

H.M.Jr: Yes. Do you need it today?

Bell: Oh, no. The market was very dull yesterday and nothing happened. Neither did the Federal Reserve.

H.M.Jr: Did you reduce the one hundred fifty to a hundred?

Bell: Yes.

H.M.Jr: We are only going to offer 100 million dollars worth of bills next week.

Harold, did you win or lose on that game?

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Graves: Even.

H.M.Jr: That is always my ambition, to break even. Take a couple of minutes and tell us what you did officially.

Graves: Yes, sir.

Bell: Gee, that is going to be hard.

Graves: I was in Chicago for three days and visited all of the Revenue offices and the State Procurement office. I was in Denver for one day and visited the Revenue offices and the State Procurement office and the Mint. I was in Los Angeles for two days and visited the Revenue office.

H.M.Jr: Did you find any of them good, bad or indifferent?

Graves: I was particularly pleased everywhere with this new Revenue set-up. That is functioning well, as nearly as I can observe. Apparently it is a change that is very satisfactory from the point of view of the taxpayers and practitioners and a great deal of headway is being made in checking up the back tax cases. That goes for the cities that I have mentioned and San Francisco and Seattle.

H.M.Jr: Couldn't we pretty well get out another kind of statement on 1939, comparing it with '38?

Graves: We got out such a statement last summer.

H.M.Jr: How about another one, as soon as Sullivan is in?

Graves: I think the statistics are readily available and favorable.

Sullivan: A certain type. Of course, we are now discovering that we are falling way behind in our field examinations.

Graves: Well, you are not falling behind, that isn't correct. The number of cases being examined is less but the program of examining 1938 returns is in excellent shape and it is not behind. It will be completed without difficulty by the end of this fiscal year.

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- Sullivan: Well, the first five months we are about 35,000 behind.
- Graves: Not behind. The number of examinations is 35,000 less but the Bureau sent to the field only about 60 percent of the number of returns this year that they sent last year.
- Sullivan: Yes, that is true.
- Graves: So it is not correct to say we are behind. We are current.
- H.M.Jr: Let's define the word "behind". What Harold means, the thing that I point to with pride is, that we shorten the length and time of examination of each return. I mean, where it used to take - how long when I came in here?
- Graves: We were years behind.
- H.M.Jr: We have shortened that so that in the year 1939 all late 1938 returns will be examined.
- Graves: In the fiscal year '40 all returns filed in March, '38 will be completed.
- Sullivan: Yes, I think that is right.
- H.M.Jr: If they sent less returns to the field, that doesn't mean they were behind in the examination of each individual return. When you get down to statistics, you want to be sure when you go against this fellow.
- Sullivan: I am aware of that.
- Graves: What the Bureau has done is to exercise much greater care in the selection of returns to be subjected to examination and that means that the field offices are not called upon to make so many examinations as they have in the past. In other words, they are weeding out the non-productive cases before they start instead of wasting their time, so to speak, with a great many non-productive examinations and that means that they are making fewer examinations under this system but more productive ones.

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- H.M.Jr: I say again, let's get up a statement. If you got out one last summer, let's get out a more recent one and let's you and Sullivan and I sit down and take a look at it.
- Schwarz: May I suggest a calendar year of '39 statement? We had a fiscal one.
- H.M.Jr: Let's get up for '39 just what we did do and all of this stuff that you are saying, let's put it in and let Sullivan put in whatever he wants, but let's - the three of us - sit down with Schwarz. I would like to get out a statement for the calendar year '39.
- Sullivan: I think that would be a good idea, sir.
- Graves: There is one further significant thing to me. In the country in 1939 the amount of deficiencies assessed was greater than in any year I now recollect since 1931. So far in the fiscal year '40, that is, through December, we are about eight percent over the fiscal year for a corresponding period, notwithstanding this reduced number of examinations.
- Gaston: You mean in money?
- Graves: In money, which bears out the point I was trying to make, that we are doing better work, more productive work and making fewer "no change" examinations.
- Sullivan: There is still gold in those unexamined returns.
- Graves: Well, there is a lot of basic material in those unexamined returns, where our whole effort has been to cut down the time wasted in unproductive examinations, and of course there is gold but it is on a relative proposition.
- H.M.Jr: Well, Sullivan has an idea that you ought to get together and if you had more men you would collect more money.
- Graves: That is true.
- H.M.Jr: And he doesn't think we have enough men.

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- Graves: He is right.
- Sullivan: What we are doing is getting the cream, the easy money, and not doing the job we are supposed to do.
- H.M.Jr: I still say I think it would be good to get out a statement for the calendar year '39.
- Graves: I will talk with Mr. Sullivan. The only reason I raised the point is that I wanted everybody to have that thing in mind and such a report not to be written in a way that might embarrass us in any effort that we might later make to cure that situation.
- H.M.Jr: This entire thing of decentralizing Internal Revenue is a whole plan which I worked out and which Harold worked on and it is one of the things that when I am through here that I am entirely responsible for and I like to keep watching it to see how well or badly it works.
- Sullivan: I think it is working well.
- H.M.Jr: Let's take another look at it, you see. I would like to keep following it.
- Now, what about Procurement?
- Graves: I visited the Procurement offices in Chicago, Denver, Los Angeles, San Francisco and Seattle, and there is a definite falling off of the amount of work that they are doing and purchases are pending in the direction of being what you might call chicken-feed purchases. I think perhaps 20 percent or a quarter or perhaps more of the purchases they are making are in amounts of less than five dollars, that sort of thing. I am having analyses made at Chicago and San Francisco and Seattle which will give me exactly the statistical picture. The whole trend is naturally downward as the Works Progress burden diminishes.
- H.M.Jr: What impression did you get of these offices?
- Graves: They are very well systematized. They are orderly

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and have good personnel. They have the appearance of being well administered. It is a very creditable situation, I think, as to their availability to do other and more important purchasing for the regular establishments, that is another thing.

White: Did Harold's investigation cover the matter of silver that was taken up here six or eight months ago, about which some further investigations were going to be made?

H.M.Jr: What do you mean, Harry?

White: Do you remember we raised the question of possibilities of reexamining the purchases of domestic silver in view of the much larger incentive for fraud, and at that time it was turned over to....

Graves: I think the Secret Service and the Mint have jointly covered that ground.

White: Has a report been made on that?

Graves: I think so.

Bell: The Mexican Undersecretary told me and repeated to Tommy Thompson, that he believed that there was a great deal of silver being smuggled out of Mexico and put in our domestic purchases. I take it your Mint reports pretty well cover the ore taken out of the ground and the yield from it, so I didn't pay a great deal of attention to it.

Graves: I think it is very unlikely that there is anything important of that kind going on. I will be glad to look up the files.

White: It could amount to 7 million ounces easily.

H.M.Jr: Anything else?

Graves: That is all.

H.M.Jr: Basil?

Harris: Nothing.

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H.M.Jr: George?

Haas: I have nothing this morning.

H.M.Jr: George, how is the new order picture?

Haas: Yes, it is down substantially from what it was in the high of September. In terms of physical quantities, it is about equivalent to 114 in the Federal Reserve Board Index. The Federal Reserve Board Index for December is 128.

H.M.Jr: Harry?

(To Cotton) Did you get Traphagen?

Cotton: Yes, I did. He is going to call the Colombians today.

H.M.Jr: You will get that word to Welles?

Cotton: Yes.

H.M.Jr: Did he say why it happened?

Cotton: He said he was trying to get the approval of Council. I also take it he is going to say substantially what he told you the first time he came down.

H.M.Jr: That is....

Cotton: Two million three or something like that.

H.M.Jr: Chick? Baby talk?

Schwarz: That is right.

H.M.Jr: Merle?

Cochran: I suppose you saw Senator Pittman's endorsement to Mr. Aldrich's recommendation about free circulation of gold.

H.M.Jr: Yes. Harry saw it, too.

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Cochran: I have nothing else.

H.M.Jr: Sullivan?

Sullivan: Last night there was sent out to the house Mr. Doughton's letter on the Morgenthau report.

H.M.Jr: Read that. It is very interesting. Leave out the thank you stuff, but the other thing I think is very interesting.

Sullivan: This refers to what was previously known as the Hanes report, the conferences of taxpayers.

"I have examined with members of the staff the material submitted and am of the opinion that it contains much that will be of benefit to the Committee in the consideration of future tax legislation.

"You emphasize that the recommendations contained in the summary do not purport to represent the views of the Treasury Department, and further, that the views expressed are, in the main, those of taxpayers with relatively large incomes and important business connections, for the reason that such persons are those most keenly conscious of tax problems and have the ability to make themselves effectively vocative. Moreover, you point out that the wider experience of these persons with the application and effective of our tax laws indicates that it is but natural that the greater number of suggestions for changes in our tax structure should come from them.

"I heartily concur in your note of caution as my experience with hearings before Congressional Committees clearly supports your point. For these reasons, I suggest that it would be of aid to the Members of the Committee in helping them evaluate these suggestions if your staff would indicate the connection between the witnesses and the recommendations. For example, a suggestion from manufacturers of an article subject to an excise tax, that the tax on their product be repealed, might not warrant the same consideration as a similar recommendation from the general public.

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"In addition to information regarding the source of these suggestions, it would be of the greatest value to the Committee if your staff would indicate its reaction to each recommendation. Further, it would be desirable if an indication could be had as to whether, in the opinion of the Treasury Department, the material contains any suggestions worthy of the present consideration of the Committee which are not already covered by the studies now being made by the Treasury Staff and the Staff of the Committee."

H.M.Jr: I thought it was an amazing letter and I thought that Mr. Gaston should feel vindicated.

Gaston: I would like to know who wrote it.

Sullivan: I inquired if one gentlemen was friend or foe, here.

H.M.Jr: Meaning?

Sullivan: Stam.

Gaston: I think it is a very gratifying letter coming from Stam.

Sullivan: I don't know. It indicates a possible desire to use this as a springboard for some things.

H.M.Jr: Well, I don't know. Stay suspicious. You should, in your new capacity. But I thought on the record if you just don't try to read anything into it, it is an amazing letter.

Sullivan: We have got to answer that and where do we go from there?

H.M.Jr: That is your job. I didn't expect it, but I wanted the group to know that I thought it was an amazing letter and I think I would just hold it. If there is no publicity, all right, but if there is, Chick, it is available and it can be given out.

Schwarz: It is a corking good letter. I don't think it puts us on the spot at all.

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H.M.Jr: Will you handle it from here on?

Sullivan: I will.

H.M.Jr: It is an amazing letter. It made Gaston feel very much pleased. I want to say this for Doughton, in all the years I have worked with him I have never known him to do a tricky thing. He hasn't got it in him. He has always played absolutely square with me.

Sullivan: Well, I was connecting this letter with another letter I had seen in the file on 102. There are certain phrases that were quite similar and that other letter was written by Stam.

H.M.Jr: You will have to talk with your own staff to find out.

Sullivan: Yes.

H.M.Jr: You ought to apply the acid test to each person that you take it to.

Gaston: I think it puts the thing right back where it ought to be.

White: Moreover, I think it is the sort of letter that we have a right to expect. If they were very competent, that is exactly what they should have replied.

H.M.Jr: It is a peach of a letter.

Sullivan: We are asked to pass on each recommendation.

Gaston: That is the regular routine of our duties, I think.

Schwarz: Take them at face value and give them our opinion.

H.M.Jr: You put your whole brain on it and then we will see. I am available if you want to consult. I think we got over a very difficult situation.

Anything else?

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Sullivan: No, sir.

H.M.Jr: Ed?

Foley: Nothing.

H.M.Jr: Do we or don't we take the oath?

Foley: We don't.

H.M.Jr: Will you explain that to Dan?

Foley: Dan, lawyers representing receivers do not take oaths because they are not employees of the Government in the sense that you and I and the rest of us in this room are and in 1867 when the Comptroller's office was established - since that time that practice has been going on. There is no difference at all between the character of retainer that is being tendered to Mr. Seymour than there is the character of retainer that has been tendered a thousand times over in connection with every lawyer that is retained by a receiver.

Bell: He isn't retained by a receiver.

Foley: That doesn't make any difference, he is paid by the same rule. Those lawyers are not employed by the receiver and the receiver derives all its authority from the Comptroller. The receivers have no more authority than the Comptroller himself. If the receiver, through the Comptroller, can't retain attorneys now with the approval of the Secretary after the reorganization - before it was with the approval of the Comptroller. It is a similar situation.

Thompson: Do I understand that would be the same fund?

Foley: This would be from the going bank fund.

Bell: Going bank fund?

Foley: Yes.

H.M.Jr: Not the insolvent fund.

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- Foley: No, this is not the insolvent bank. The provision of law is exactly the same.
- H.M.Jr: I would like to know for my satisfaction whose idea was it to ask this fellow to take an oath?
- Bell: Well, it was just assumed that he would take an oath.
- H.M.Jr: But I want to know who asked this.
- Foley: I took Seymour to Norman Thompson's office and I said, "Norman, will you get all the papers together? Now, I don't think it is necessary to ask him to take an oath of office."
- Norman said that he would look into it and I looked into it very carefully the night that you offered this retainer to Dean Acheson and the first question he asked me when he got back to his office was whether or not he would have to take an oath of office. If he takes an oath of office, then he is not able to take employment from other clients and represent adverse claimants against the Treasury and against the Government and we worked all night here and I have the opinion that we got up that night and I advised Dean Acheson in the morning that if he took that retainer it would not be necessary for him to take an oath of office.
- Bell: Well, that is right.
- H.M.Jr: Just for a minute now. I asked you (Foley) to ask him, did he ever belong to a communist party.
- Foley: He said no, not any more than any other Republican.
- H.M.Jr: Have you any doubts in your mind? Have you the slightest doubt in your mind, because that is what is behind it.
- Foley: Doubts about what?

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- H.M.Jr: Whether he ever belonged to the communists.
- Foley: I have no doubt at all. He isn't a communist in any sense of the word. He is a conservative lawyer connected with a conservative, well thought of, well trained office in New York. He is number two man to the outstanding fellow in the trial field in New York, Jay Thatcher, formerly Solicitor General of the United States and former District Judge and he understudies him. Thatcher probably gets the cream of the good appellate work in New York now and this fellow is taking - he is 39 years old, is understudying him and taking the stuff he can't handle. It is the very best stuff in New York. I have no doubt about the man's ability.
- H.M.Jr: Here is the point. One minute Cy Upham says he is a Tory, see. The next minute I gather he is a communist. Well now, you can't be both.
- Bell: Cy hasn't told me that. He had some doubt about his ability and fitness for this case but he didn't say he was a communist. I raised the question when he didn't want to take the oath as to why somebody shouldn't want to take an oath of office.
- H.M.Jr: I thought Cy was behind it.
- Bell: I am the one behind it. I always like to know when a person doesn't like to take an oath of office when they come in the Government service.
- Foley: If he does, he will have to separate himself from his firm and he will not do that and I don't think you could get any active practitioner to come in here and handle that case on that kind of a basis and I think if we ask this fellow to sign the oath of office he won't take the retainer and I think that then we will have to select somebody from inside the Government, but if we want to give this retainer to somebody outside the Government to carry on a disinterested hearing, I think we have to face that and....
- H.M.Jr: Are you satisfied?

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Bell: I am satisfied.

Foley: Wood and Marx in Cincinnati don't take any retainer to represent us and we have paid them over a million dollars. The same thing is true of every other lawyer that is engaged for special services by the Comptroller's office and isn't on our regular rolls working all the time.

H.M.Jr: Is that true for the special attorneys for the Department of Justice?

Foley: I don't know about them. I think this is a special situation, so far as the Comptroller is concerned, and I have limited my examination to that situation.

Bell: I am satisfied.

H.M.Jr: How about you?

Thompson: Yes, I am. I simply wanted the legal advice.

H.M.Jr: I think we are very fortunate in getting this man. We have got him, haven't we?

Foley: So far as I know, we have.

H.M.Jr: We are talking about Whitney Seymour, who is to be special counsel for the Comptroller in connection with the Bank of America. Incidentally, unless somebody thinks it is a mistake, I thought I would say, if they asked me about the Giannini statement, that my job, as I saw it, was to look after the interests of the depositors of the national banks and I will continue to do so even though the management of some bank calls me some mean names.

Gaston: That is O. K.

H.M.Jr: That is my job and I am going to continue to do it, no matter even if the management - you see. Or would you say the controlling interests? It is the management, isn't it?

Bell: And that is as far as you would go?

H.M.Jr: Yes..

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Gaston: Even if in the course of that duty I have to take some abuse.

H.M.Jr: That is all right.

Schwarz: Have you ever met Mr. L. M. Giannini?

H.M.Jr: The older Giannini, yes.

Schwarz: That is A. P.

H.M.Jr: He called on me when I was in Farm Credit. No Giannini has ever asked to see me since 1933.

Schwarz: I have in mind that you might be asked if this statement was a personal matter and it seemed that that was an answer.

H.M.Jr: Mr. Giannini called on me in '33 and demanded that he be enabled to deal direct with the Land Bank in California, that his interests must have direct contact. I didn't give him one and from that day to this I have never seen him.

Schwarz: This statement was by his son.

H.M.Jr: I have never met the son, and the older man only once. He has never asked to see me.

Ed?

Foley: Eddie Greenbaum said he would like it much better if that meeting could be later in the week instead of Tuesday, next week.

H.M.Jr: How are you fellows making out?

Bell: Smith and Spencer will be here. Mr. Ottley is away on a hunting trip and the secretary said she would get in touch with him last night and write me a letter.

H.M.Jr: Better leave it.

Foley: He said he would have to make some sacrifice. He said he has stockholders' meetings and some other matters.

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H.M.Jr: Have you got any others of the three advisers?

Foley: I haven't heard. Bates is going to be here.

H.M.Jr: Did you get one of the other three? If you do, don't insist on Eddie coming this time. I wouldn't insist on it.

Foley: All right.

H.M.Jr: Herbert?

Gaston: Al Cohn asked if it would be possible to borrow Harold Graves to reorganize the city government of Los Angeles.

H.M.Jr: We ought to organize a pool here, see, of all of us and we will sell Harold, provided we each get whatever it is, a ninth or a tenth. Let's say we will give Harold two-tenths if he does the work and then we will divide the rest equally. I think he ought to have an extra one percent for doing his services and the rest to be divided.

Sullivan: I think sending him up is carrying decentralization too far, sir.

H.M.Jr: Incidentally, you were going to show me that letter.

Gaston: Yes, I will. I have got another one also.

George Creel was in yesterday for more than an hour. He had been talking to Farley. He is very distressed about our reluctance to appoint his candidate, Mrs. Rossiter, for Comptroller of Customs in San Francisco. I told him that it was the belief of Mr. Harris and the Bureau of Customs that they didn't need any Comptroller at this time. Is that right, Basil?

Harris: Yes, that is right.

Gaston: But it is politically very important to him. He has been talking to Jim Farley and Jim Farley was going to call me up right away. He wants me to call Jim up and I haven't heard from Jim. The way we had left it previously was that we would do nothing until some action was taken on the

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Leek appointment as Collector. I am inclined to say we ought to continue to leave it that way unless we get some very intense pressure from somewhere.

H.M.Jr: Talking of Leek, when you go to see George Creel I thought I ought to send you in the recipe I read about halitosis. Did you see Johnson's column on how to cure it?

Gaston: No.

H.M.Jr: He said the best way to cure it was to take some over-ripe cheese and some garlic. When George Creel and Bob Watson came through, I kept backing away from them.

Gaston: He is going to call me up at noon today. I think I had better tell him that we had rather wait a while.

H.M.Jr: I will leave it entirely with you and Basil.

Harris: We are in a mess on that Leek thing.

Gaston: Are you getting any progress on that?

Harris: Oh yes, the thing is....

Gaston: It is not our fight, why don't we sit by?

Harris: I mean in accepting Downey's and Creel's suggestion that he put forward a man that he knew in the beginning had no possible chance of getting through. That is the reason I haven't got much confidence in some of his statements.

H.M.Jr: You two fellows get together and let me know if I am to do anything, will you?

Gaston: Yes.

You asked me to bring up this letter from former Senator Coolidge in regard to his former secretary, O'Connell, Daniel F. O'Connell, whom the Collector in Boston wishes me to appoint as a Field Deputy, Assistant Chief Field Deputy. Coolidge is under

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the impression that the reason he was not appointed was because it requires an executive order to appoint a man over a certain age, but it is a Bureau regulation and not an executive order. The man is 64. The Bureau has been adhering strictly to a policy, I understand, of not appointing - not permitting the appointment of Deputy Collectors who are over 55 and this reply is along that line.

- H.M.Jr: Will you give me something to write Pa Watson on it?
- Gaston: This reply had been prepared in the Bureau.
- H.M.Jr: Who signs it?
- Gaston: It is a letter for your signature transmitting a letter to the President which carries this information, that we don't appoint people over 64.
- Sullivan: Fifty-five.
- H.M.Jr: Anything else?
- Gaston: Yes....
- H.M.Jr: I think we will have to stop, Herbert, unless it is emergency.
- Gaston: No, it is nothing important.

THE WHITE HOUSE
WASHINGTON

January 11, 1940

PERSONAL AND CONFIDENTIAL

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

This confirms in writing what I told you over the phone. Will you please return it, as I have not yet showed it to the President.

Pa

EDWIN M. WATSON
Secretary to the President


WAR DEPARTMENT
OFFICE OF THE ASSISTANT SECRETARY
WASHINGTON, D. C.

January 11, 1940.

MEMORANDUM FOR GENERAL WATSON.

Subject: Airplanes for the French
Government.

1. In accordance with your instructions, efforts have been made to secure earlier deliveries for the French Government of the first 25 planes on their contract with the Curtiss-Wright Corporation for 100 French Hawk 81-A pursuit planes quite similar to the Army P-40 type, also under manufacture by the same corporation.
2. A conference was held between Army Air Corps officers and Mr. Burdette Wright of the above corporation and tentative plans were made to assist the French. These plans would have expedited delivery of the first 25 planes by some two to three months. However, the plans required the acceptance by the French Government of the designs and specifications, practically in their entirety, of the American Army P-40 type of plane.
3. Colonel Jaquin of the French Air Mission stated that the French could not accept the P-40 model without certain definite changes being made in gun fire and electrical installations.
4. Mr. Wright stated in substance that the demand for above changes eliminates the possibility of helping the French as outlined above through the conversion of Army Air Corps P-40's.
5. Mr. Wright also stated that if he should do everything possible, using all of his facilities, it is doubtful if he could advance delivery dates to the French by more than two weeks, provided the French insist on the changes indicated.


J. H. BURNS,
Colonel, Ordnance Department,
Executive.

January 12, 1940.

Confidential and Personal

MEMORANDUM FOR

GENERAL WATSON

Secretary Morgenthau has read the enclosed memoranda and, in accordance with your wishes, I am returning them to you for your files.

Secretary to the Secretary.

January 12, 1940.

Confidential and Personal

MEMORANDUM FOR

GENERAL WATSON

Secretary Morgenthau has read the enclosed memoranda and, in accordance with your wishes, I am returning them to you for your files.

Secretary to the Secretary.

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE January 11, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Before sending to the State Department this afternoon a reply to cablegram #45 of January 10 from Ambassador Bullitt, I discussed our draft with Dr. Harry White, and also mentioned to the latter the Secretary's interest in having the two of us get together with Dr. Feis to talk over the idea which Feis advanced some time ago to the Secretary in regard to an undertaking by certain foreign countries with respect to gold.

I telephoned Dr. Feis while Dr. White was in my office and brought up this subject. Feis stated that he had prepared no memorandum setting forth his views, and preferred not to put these views in writing, since they were strictly personal and should not be interpreted in any way as emanating from the State Department. He said that he had talked the question over with Dr. Jacob Viner a few weeks ago, and would be willing to talk further with White and Cochran whenever convenient. He stated that the basic idea was that England and France should be asked to undertake to impose no impediments to the importation or use of gold for a certain period, say five years, after the termination of the war. He realized that this raised many questions, but he thought these could be dealt with satisfactorily once the general question was opened.

Dr. White expressed to Mr. Cochran his concern lest any discussion by the Treasury Department of such a policy even suggesting the possibility of our fearing restrictions on the use of gold might give rise to harmful rumors. He felt likewise that it is impossible for a warring country to give now an undertaking of the sort desired. Mr. Cochran mentioned to the Secretary the opinions advanced by Dr. White, which Mr. Cochran is inclined to share in the absence of any convincing arguments from Dr. Feis, and the Secretary agreed that no immediate meeting is necessary.

When Mr. Cochran mentioned to Dr. Feis that he was sending over this afternoon to Dr. Feis a cablegram for despatch by the State Department to Ambassador Bullitt, in answer to the latter's #45, Dr. Feis asked that this be held up until tomorrow since such important questions were involved. When Mr. Cochran read the proposed cablegram, Dr. Feis immediately agreed that this was an appropriate answer and could go forward at once.

Feis volunteered the opinion that he did not like the attitude assumed by Reynaud in his conversation with Ambassador Bullitt.



TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE January 11, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The foreign exchange market was very dull with the rate for sterling fluctuating in a narrow range. In New York, the opening quotation for sterling was 3.95-1/4. Shortly thereafter, it touched the low of 3.95, and then moved up to 3.95-1/4. It remained steady until just before the close, when the rate further strengthened. The final quotation was 3.95-5/8.

Sales of spot sterling by the four reporting banks totaled £274,000 from the following sources:

By commercial concerns.....	£ 153,000
By foreign banks (Europe).....	£ 121,000
Total.....	£ 274,000

Purchases of spot sterling amounted to £280,000, as indicated below:

By commercial concerns.....	£ 161,000
By foreign banks (Europe and Far East).....	£ 119,000
Total.....	£ 280,000

The Federal Reserve Bank of New York reported to us that the Guaranty Trust Company had purchased sterling for forward delivery from cotton exporters on the basis of the open market rate in New York. On our inquiry as to the reason for the sale of forward sterling by such exporters in the open market, when the British Control has been consistently purchasing sterling cotton bills on the basis of the official rate, Mr. McKeon stated that the sterling sold here for forward delivery covered cotton that was not ready to move immediately. Since the American exporter cannot know until the cotton is ready for shipment whether the British Control will buy the sterling bills at the official rate, he protects himself by selling cotton for forward delivery in Liverpool, at the same time selling sterling forward in the open market here. When ready to ship the cotton, the exporter will offer the sterling bills to the British Control. Upon acceptance of the sterling bills by the Control, the exporter reverses the sale of cotton in the Liverpool market and the forward sale of sterling in New York.

The following reporting banks sold cotton bills totaling £133,000 to the British Control on the basis of the official rate of 4.02-1/2:

£ 130,000 by the Guaranty Trust Co.
2,000 by the National City Bank
1,000 by the Chase National Bank
<u>£ 133,000 Total</u>

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The rate for the Cuban peso was slightly better at 10-1/8% discount.

The other important currencies closed as follows:

French francs	.0224-1/4
Guilders	.5339
Swiss francs	.2243
Belgas	.1683
Canadian dollars	12% discount

There were no gold transactions consummated by us today.

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

\$30,000,000 from Canada, shipped by the Bank of Canada to the Federal Reserve Bank of New York for account of the Bank of England. Of this amount, \$20,000,000 is to be sold to the U. S. Assay Office and \$10,000,000 is to be earmarked at the Federal for account of the Bank of England.

985,000 from England, shipped by Samuel Montagu and Company to the Bankers Trust Company, New York.

440,000 from England, shipped by Samuel Montagu and Company to the Manufacturers Trust Company, New York.

280,000 from England, shipped by Samuel Montagu and Company to the Chase National Bank, New York.

\$31,706,000 Total

The last three shipments will be sold to the U. S. Assay Office at New York.

The State Department forwarded to us a cable from the American Embassy in London stating that the Bank of England was shipping \$2,247,000 in gold to the Federal Reserve Bank of New York, to be earmarked for account of the Swiss National Bank.

The London fixing prices for spot and forward silver were both 22-1/4d, an improvement of 1/4d in the spot price and 5/16d in the forward price. The U. S. equivalents were 39.55¢ and 39.25¢ respectively.

A London report on today's Dow Jones ticker stated that about 2,000,000 ounces of silver were being shipped from London to India, making a total of about 4,000,000 ounces now on the water. According to this news item, it is believed that these shipments represent Indian purchases of silver which were made some months ago from stocks in London, and are not new business. It is understood the Indian owners of the silver have found the London market too small to absorb such large amounts and have decided to ship the metal to India before the close of February, when the decision will be taken by the Indian Government whether or not to alter the silver import duty. The news item further states that the bull position in the Bombay silver market is estimated to be around 52,000,000 ounces, of which 46,000,000 ounces are believed to be carried on bank money.

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The prices fixed for foreign silver by both Handy and Harman and the Treasury were unchanged at $34\text{-}3/4\phi$ and 35ϕ respectively.

We made six purchases of silver totaling 525,000 ounces under the Silver Purchase Act. Of this amount, 150,000 ounces represented a sale from inventory by one of the refining companies, and the remaining 375,000 ounces consisted of new production silver from foreign countries purchased for forward delivery.

A handwritten signature in black ink, appearing to be 'B. M. F.', is centered on the page.

CONFIDENTIAL

January 11, 1940.
2:25 p.m.

H.M.Jr: Hello, hello.

Operator: Go ahead.

H.M.Jr: Hello.

Bob
Wagner: Hello Henry.

H.M.Jr: Hello Bob?

W: Yes.

H.M.Jr: How are you?

W: Oh pretty good. How are you?

H.M.Jr: All right.

Bob, I called you up for this reason. I need a little advice and help. If you thought well of it, I'd like to have an opportunity to present to the whole or part of the banking and currency committee in the Senate and in the House, just what we've been doing for the last year in regard to the Bank of America, and I'd like to tell it to them executive session.

W: Yes.

H.M.Jr: See?

W: Yes. You mean about - because of that controversy you had.

H.M.Jr: Oh well it's being going on now for two years.

W: Yes.

H.M.Jr: And it'll take us maybe six months more and I'd like the Congress to know and have a chance to question us.

W: Yes.

H.M.Jr: We can't say anything publicly any more than we can about an income tax case.

W: Yes.

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H.M.Jr: But if we have a difficult income tax case I can go before the joint committee on taxation in the Senate and the House and have the opportunity to explain and we do occasionally.

W: Yes.

H.M.Jr: And so we go up there and ask their advice.

W: Yes.

H.M.Jr: Now why can't we do that where it affects the fourth largest bank in the country.

W: Well you certainly can. All you've got to do is suggest it.

H.M.Jr: Well I want to suggest it if you think well of it.

W: Yes. Well I think it is a good idea. I mean all those things - the more in matters as important of that kind that you show a willingness to have the Senate understand it. I think it always helps the good feeling that exists, don't you think so?

H.M.Jr: Well I think so, but I'd like to, if it could be done, to do it both in the Senate and the House at the same time.

W: I see. Well then it'll take - are you going to talk to Steagall about it?

H.M.Jr: I wondered if you wouldn't want to sound him out.

W: All right. All right. I'll do that and then let you know.

H.M.Jr: Right.

W: That hasn't got to be done today or tomorrow.

H.M.Jr: We'd like to do it next week.

W: Yes. Some time next week. I have a meeting of the committee on Tuesday.

H.M.Jr: Yes.

W: And - because we want to talk about this study. Say, incidentally, while you're on the phone, I

always hate to bother you with these things, but I've got a friend of mine in New York who is a candidate for - as a successor to Sullivan. Have you considered anybody yet or is that all out or what?

H.M.Jr: No, that's up to Guy. I let him do the picking on that.

W: Who's that?

H.M.Jr: Guy Helvering. Helvering.

W: Oh, I see. Yes. Maybe - well I'll send this man to him. I don't know what he is. He's not a politician, he's a lawyer, prominent lawyer and one - and would like that kind of work, and he's a first class fellow.

H.M.Jr: He's a statesman.

W: He's a damned good lawyer.

H.M.Jr: I say he's a statesman.

W: I don't know whether he's a statesman or not - who the hell is.

H.M.Jr: Well if you're not a politician you're a statesman aren't you? You and I are a couple of statesmen.

W: Well I hope not because they say that's a damn politician.

H.M.Jr: Oh I see.

W: Henry, I threw a little potato under your lap today - the committee -

H.M.Jr: You laid an egg.

W: Finland.

H.M.Jr: Finland?

W: Yes.

H.M.Jr: What did you do?

W: Well we got a bill there suggesting a loan and we're sending it to the Treasury and to the RFC.

H.M.Jr: I see.

W: For a report.

H.M.Jr: Yes.

W: I'm just going to see somebody in connection with that. Of course it's a ticklish thing isn't it? I don't know what to do and the committee doesn't either.

H.M.Jr: Well -

W: We're just holding it open for a while.

H.M.Jr: Bob -

W: I'd like to get your personal views about it.

H.M.Jr: Well -

W: I know you've got to be very cautious in your report.

H.M.Jr: Yes.

W: And I haven't - I hate to go to that other fellow, you know who I mean.

H.M.Jr: No.

W: Up at - up at the head. With every damned thing, I hate - I'm the last fellow to go to him you know.

H.M.Jr: Well I know how he feels on this thing, and he feels - he'd like Congress to take the leadership.

W: Well that's it. I tried to get that today but they wouldn't do that. They said oh no, we're entitled to have these departments advise us as to what they -

H.M.Jr: No.

W: Because we don't want to do anything contrary to their policies you know.

H.M.Jr: Uh, no, well there you are. The President, very distinctly, would like Congress to indicate to him what they want to do on that.

W: Yes, yes. I said to him, I said, "Why can't we have an opinion about these things" you know, but some of them are trying to shift the - you know, the responsibility.

H.M.Jr: Bob. If you call that a potato, what kind of an egg did you lay today when you decided to go ahead with your banking study?

W: Why do I what?

H.M.Jr: I see by the ticker, news ticker, you're going to go ahead with that banking study.

W: Well we're - here's what I suggested today that these because there's some of them on there that think something ought to be done, we just shouldn't die. We're talking about getting a report asking you for a report or any suggestion you may have to make of the different agencies and then during the summer maybe study them. I'll talk to you about that.

H.M.Jr: On thinking it over maybe I'll call Henry Steagall myself.

W: Yes.

H.M.Jr: And tell him the same thing and then ask if he'd get in touch with you.

W: All right.

H.M.Jr: And that some time next week if he thinks well of it I'd like to have a chance to come up there.

W: Yes. Swell.

H.M.Jr: I don't know whether you want both - the whole committees or whether you have executive committees or what.

W: Well I think a thing like this you - we'd better have the full committee, I don't know.

H.M.Jr: Well, but we'd want it in executive session.

W: Oh of course. Well now maybe that would be better. You talk to him and then he'll get in touch with me I suppose. If he don't I'll call him.

H.M.Jr: Will you do that Bob?

W: I'll call him later today. I'll give you a chance to talk to him first.

- 6 -

H.M.Jr: Yes, because he's - I remember he's another one of these, you know fellows.

W: I know.

H.M.Jr: Yes.

W: Oh yes, and I'm not a prima dona as you know.

H.M.Jr: Oh you're just a swell guy.

W: Oh the hell, I - life is too short to be a prima dona. I notice you're not one either. That helps you a little.

H.M.Jr: Thank you.

W: All right Henry.

H.M.Jr: O.K.

W: Thank you.

H.M.Jr: Goodbye.

January 11, 1940.
3:40 p.m.

Henry B. Steagall: How do you do.

H.M.Jr: I'm fine, how are you?

S: Thank you, a happy New Year to you, a hundred of them.

H.M.Jr: And many to you.

S: Thank you sir. Sorry I was out when you called. Been in a little conference that had me out of the office for two or three years.

H.M.Jr: Well I know you're busy, now -

S: Very.

H.M.Jr: I'd like to get your advice.

S: Well I'm afraid you're going to get in trouble but go ahead, you might risk it.

H.M.Jr: You may or may not know, for oh, a number - several years, the Comptroller's office has been having trouble off and on with the Bank of America.

S: Yes.

H.M.Jr: And when we have a very troublesome tax case we go before a joint committee in the Senate and the House, and in an executive session, tell them what our troubles are you see?

S: Yes.

H.M.Jr: And get their advice. Now what I'd like to do, if you feel it would be a good thing would be to ask you and Bob Wagner. If we could come up there in executive session and just tell the Congress what we've done up to date and what our troubles have been.

S: Would you want, you mean Bob and me, or you mean just Bob?

H.M.Jr: I think - well I was thinking in terms of the two committees.

S: Yes.

- 2 -

H.M.Jr: You see we do that, we can do that in tax cases.

S: I know what you have in mind.

H.M.Jr: And you see in tax cases I can't ever make public statements.

S: Oh you can't make public statements much about banking.

H.M.Jr: That's the thing.

S: Delicate you know, it's like talking about a woman.

H.M.Jr: Well -

S: I'm just wondering if you have anything that's exceedingly confidential, it's mighty difficult to ever have meetings of committees, I hate to say this, I'm afraid that it's one of my weaknesses to talk too much, but I do think I can keep an executive session, but I swear to you it's hard to get it done down here.

H.M.Jr: Well I don't know but I certainly wanted to get it over to you, Bob Wagner and Carter Glass, you see?

S: Yes.

H.M.Jr: And then if you do that I've got to - ought to tell it to one or two Republicans.

S: Yes, that's true.

H.M.Jr: But I wondered if you and Senator Wagner would talk it over you see.

S: Let me - is Senator Glass here now, do you know?

H.M.Jr: Yes, but I - this morning, he being my own Senator, I called up Bob Wagner.

S: Yes.

H.M.Jr: And he said that he'd wait until this afternoon until I had a chance to get to you, and that he'd call you if you didn't call him.

- 3 -

- S: Suppose we do this. Let me ask you this. I'd love for Senator Glass to sit in on this if he wants to because bank legislation over there goes to his sub-committee. He's so much our senior here, in different ways that we like to defer to him and sometimes we have to.
- H.M.Jr: Yes.
- S: I'm wondering if possibly you and I and the Senator and Bob might not sit down for a little while together and let both of them join in making a decision about whether you'd call the committees together and what you should do if you -
- H.M.Jr: Well -
- S: If you'd like don't you think that might be well.
- H.M.Jr: That would be fine. To tell you the story will take a couple of hours.
- S: Well we - as far as I'm concerned I'll give you the time any time you want it if it suits them.
- H.M.Jr: Well if I -
- S: Now I have this in mind, let me tell you this, I'm going down home in the next three or four days, to make a speech and don't think I'm running away to Alabama to get to make a speech, but this was a speech I kind of had to make. Then I'm going to make another speech that I promised to make that I don't have to make, and I'm going to be away from here for a week beginning about oh, probably Tuesday, something like that, so if you wish or if you care to do it you might yourself talk with both the Senators, maybe Senator Glass would like for us to go to his hotel.
- H.M.Jr: You mean between now and Tuesday?
- S: Yes, any time. I just mentioned that so that I would not be gone. It wouldn't matter to me if it were delayed a few days but I was only suggesting so as to meet your situation.
- H.M.Jr: Well I'm here Saturday and Sunday and I could do

- 4 -

it any time that would be agreeable.

S: Well now -

H.M.Jr: Except Saturday morning. I mean from ten to eleven I'm busy.

S: Yes, well now -

H.M.Jr: That's the only appointment I have.

S: You can set a time either Saturday or Sunday as you see fit and I'll be very glad to meet with you just any time suits our convenience and yours.

H.M.Jr: Well I don't - I tell you, I just - I can do it late Sunday afternoon.

S: That would be all right with me if you want to do it then.

H.M.Jr: Well, four or five o'clock.

S: Do it any time you say. I'll keep myself - all I want is just a little notice ahead so that I won't be out of pocket.

H.M.Jr: You wouldn't want to call up Bob Wagner.

S: I don't mind doing that. I'll talk with him about it and let him consult with the Senator or I will.

H.M.Jr: Would you call him for me?

S: I'll do that.

H.M.Jr: He knows all about it.

S: I'll do that and talk with him and then we talk to you again.

H.M.Jr: Maybe your idea of having a little preliminary talk is good.

S: I kind of think maybe before we rush into an open hearing, I have this thought about it, that maybe Senator Glass would think that they ought not to have called all this without first conferring about it.

- 5 -

H.M.Jr: Well you may be right and if we - I said I wanted your advice.

S: Well -

H.M.Jr: And it maybe I can sit down with the three of you, that would be fine and I'd adjust myself to whatever you people wanted.

S: Then I'll talk to Bob Wagner and we'll call you again.

H.M.Jr: Thank you. Goodbye.

S: Goodbye.

KLP

PLAIN

London

Dated January 11, 1940.

Rec'd. 2:03 p.m.

Secretary of State,
Washington.

98, January 11, 6 p.m.

FOR TREASURY FROM BUTTERWORTH

The Stock Exchange Committee has circularized members drawing their attention to the recent amendment of the exchange regulations affecting transfers of securities to non-residents reported in my 29, January 5, 6 p.m. From this circular it is obvious that the intention of the British Treasury is not merely to simplify the procedure of non-residents in their transactions with respect to their sterling security holdings and receipts of interest but also to stop any evasion of the exchange regulations through transfers of British securities to non-residents free of consideration or for a nominal consideration. The circular is as follows:

"The

- 2 -

98 from London - January 11, 6 p.m.

"The committee for general purposes, in compliance with the request of His Majesty's Treasury, has authorized the Share and Loan Department to allow transfers of this nature to be completed, if submitted for this purpose by members, in all cases in which that department is satisfied that the transfer is in respect of a bona fide purchase for full value and that the purchase price has been paid in full in sterling out of moneys belonging to a non-resident. Like authority has been given by His Majesty's Treasury to certain of the banks. It will be the responsibility of the stockbroker or bank acting on behalf of a non-resident buyer to obtain permission for the transfer from the Share and Loan Department, or an appointed bank, and complete a declaration in the approved form. The Share and Loan Department or appointed bank, when allowing the transfer, will impress on the reverse of the instrument of transfer a stamp 'transfer allowed,' and this stamp will be accepted by registrars as evidence of Treasury consent."

KLP

JOHNSON

TO THE SECRETARY
 OF THE TREASURY
 LONDON
 11 JAN 1914

RECEIVED
 11 JAN 1914



CK

GRAY

Berlin

Dated January 11, 1940

Rec'd 3:40 a.m.

Secretary of State

Washington

74, January 11, 4 p.m.

My 2222, December 8, 6 p.m.

On October 31, 1939, the floating debt of the Reich was 11,053 million marks. This does not include 14,832 million marks of new finance plan tax certificates and 108.2 million marks of loan stock tax certificates which are always listed separately but actually represent short term obligations so that the Reich's total short term debt on October 31 was 15,993 million marks. The increase during October amounted 1,911 million marks of which 784 million marks were treasury certificates and treasury bills 324 million borrowed directly from the Reichsbank and 803 million tax certificates. This represents an increase over the amount borrowed on short term during September (1,763 million marks) but is less than the August figure (1,995 million marks).

The increase in treasury certificates and bills during
October

-2-#74, January 11, 4 p.m. from Berlin.

October was much less than the previous month (784 million compared with 1019 million) but whereas in September there had been a sharp reduction in the Reich's operating credit at the Reichsbank there was an increase of 324 million marks in October. The Reich's operating credit at the Reichsbank has shown very frequent changes ever since the limitation to hundred million marks on this form of borrowing was removed last June. Although accurate information as to the amount thus borrowed can be obtained only from the Reich's statements of short term debt indications thereof which have the advantage that they may be obtained sooner and more frequently are available in the weekly statements of the Reichsbank through the changes in the miscellaneous assets item. As a rule this item is largest in the end of the month statements declines in the following two or three weeks but invariably shows an increase in the last statement of the month. This indicates that the reichmarks use of its facilities for obtaining direct credit from the reichsbank at the end of each month when its demands are greater and the liquidity of the money market is lowest only to repay this credit or a part of it during the following weeks with funds obtained from current tax collections and through issuance of treasury certificates and bills when money

market

-3-#74, January 11, 4 p.m. from Berlin.

market conditions are more favorable.

October was the last month in which new finance plan tax certificates were issued as their issuance was discontinued on November 1st. This plan was in force for exactly six months and during this period 4,832 million marks of tax certificates were issued almost evenly divided between types one and two. Their character as means of payment is no longer of great significance since due to the existing liquidity of the money market and the fact that the total amount issued is now known they have become an attractive investment.

Repeat to Treasury.

KIRK

RR

THE WHITE HOUSE
WASHINGTON

January 11, 1940

CONFIDENTIAL AND PERSONAL

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

You can see by the accompanying memorandum that the Boss wants you to read this and send it back to me to put in our secret files.

Many thanks.


EDWIN M. WATSON

Secretary to the President

THE WHITE HOUSE
WASHINGTON

January 10, 1940.

MEMORANDUM FOR
GENERAL WATSON

Will you show this to
Henry Morgenthau, Jr., in
confidence and file?

F. D. R.

Federal Bureau of Investigation
United States Department of Justice
Washington, D. C.

January 6, 1940

Brigadier General Edwin M. Watson Personal and
Secretary to the President Confidential
The White House
Washington, D. C.

Dear General Watson:

As of possible interest to you and to the President, I am transmitting herewith a photostatic copy of a memorandum showing the withdrawals made from the account of the Amtorg Corporation at the Chase National Bank during the week ending December 22, 1939.

You will recall that the Amtorg Corporation is the trading and commercial agency for the Soviet government and the transcript of this account report recently indicates the identity of persons from whom the Soviet is making purchases, as well as the amount of the purchases. I am advised that the payments to the J. S. Roche & Company, which have reached a large total during the course of past months, grew out of purchases of copper which the Soviet has made in the United States recently. I am advised that approximately \$2,000,000.00 worth of copper is presently stored in New York City awaiting transportation to Russia.

With assurances of my highest regards,

Sincerely yours,



Enclosure

AN OFFICIAL SECRET

\$145.30	G. E. Pepper, Inc.	
197.68	S. K. F. Industries, Inc.	
188.52	The Heald Machine Co.	
6,848.80	J. S. Bache & Co.	
28,683.00	Seneca Falls Machine Co.	
35.62	Bankers Trust Co.	
16,782.43	National City Bank	
521,190.00	Climax Molybdenum Co.	
3,154.50	Chemical Bank & Trust Co.	
10,963.29	Irving Trust Co.	
955.80	Chemical Bank & Trust Co.	\$750,000.
.66	Wire charge	
45,105.00	Electric Furnace Co.	
35.00	Madison Street Terminal Warehouse Corp.	
97.42	Braeburn Alloy Steel Corp.	
413.76	Mall Tool Co.	
26.25	Reilly Tar & Chemical Corp.	
255.60	Aviation Equipment & Export, Inc.	
28,793.59	Barnes Drill Co.	
46,125.00	Engineering & Research Corp.	
10,938.55	National City Bank	\$750,000.
351,325.44	Climax molybdenum Co.	
1,006.84	The Cleveland Twist Drill Co.	
127.20	Pioneer Instrument Co., Div. of Bendix Aviation Corp.	
1,932.00	J. S. Bache & Co.	
1,183.65	General Motors Overseas Operations	
589.00	Sperry Gyroscope Co., Inc.	
54.68	John McQuade & Co., Inc.	
98.92	Ford Motor Co.	
262.53	Ford Motor Co.	
97.35	The Hammarlund Mfg. Co., Inc.	
750.00	Morgan Construction Co.	
29.23	Marks Brothers Co.	
76.25	Sterling Wheelborrow Co.	
11,840.16	Norton Co.	
18,180.00	Universal Boring Machine Co.	
3,117.60	Ford Motor Co.	
34,244.00	J. S. Bache & Co.	
5,794.36	United States Steel Products Co.	
13,497.42	Driver-Harris Co.	
174,736.64	E. J. Schwabach & Co.	
9,956.75	Draft - W. F. & John Barnes Co.	
34,933.21	Draft - Revere Copper & Brass Co.	\$750,000.
33,665.84	Bridgesport Brass Co.	
28,985.38	Guaranty Trust Co.	
2,620.00	Irving Trust Co.	
1,856.11	To meet eventual drawings against L/C #24583 in f/o Howell Electric Motors Co.	
42.14	Missouri-Illinois Warehouse Co.	
21.09	Missouri-Illinois Warehouse Co.	
102.46	National Company, Inc.	
294.62	The Vafair Bearing Co.	
28.00	Roy M. Hall	
2,223.69	General Cable Corp.	
41.21	Marsh & McLennan, Inc.	
232,432.13	E. J. Schwabach & Co.	
13,697.60	J. S. Bache & Co.	
80,000.00	Briggs Mfg. Co.	
4,622.17	The Carborundum Co.	
48,045.46	National Broach & Machine Co.	
16,587.15	Ex-Cell-O Corporation	
35,008.07	National City Bank	
29,673.41	National City Bank	
14,553.50	Guaranty Trust Co.	
23,640.75	New York Trust Co.	
41,781.24	To meet eventual drawings against L/C #24632 f/o American Machine & Metal Co., E. Moline, Ill. \$35,625. and L/C #24631 f/o Greeley Bros. & Co., E. Rockford, Ill. \$6,156.24.	

\$4,457.70	- To open L/C #24614 f/o Snyder Tool & Engineering Co., Detroit, Mich.	
5.00	Our minimum commission on L/C #24141 cancelled by us.	38,915.40
251.20	Safway Steel Scaffolds New York, Inc.	\$750,000.00
63.01	Harry W. Dietert Co.	
38.23	Remington Rand, Inc.	
230.40	Special Machine Tool Engineering Works, Inc.	
56.24	The Hickok Electrical Instrument Co.	
301.75	Toledo Scale Co.	
889.55	General Motors Overseas Operations	
54.15	Bausch & Lomb Optical Co.	
22.40	Madison Street Terminal Warehouse Corp.	
42.00	Madison Street Terminal Warehouse Corp.	
7.00	Madison Street Terminal Warehouse Corp.	
18.75	Istrandtsen-Moiler Co., Inc.	
105.00	Bureau Veritas	
1,322.28	Associated Metals & Minerals Corp.	
80,509.80	Federated Metals Div. American Smelting & Refining Co.	
25,107.84	Associated Metals & Minerals Corp.	
31,461.52	Associated Metals & Minerals Corp.	
57,060.46	E. J. Schwabach & Co.	
34,244.00	J. S. Bache & Co.	
3,624.39	Polak Trading Company	
8,000.00	Mogor Industrial Diamond Corp.	
4,971.83	The Oilgear Co.	
176,163.69	American Smelting & Refining Co.	
200,539.90	To meet eventual drawings against -	
	L/C #24657 f/o Allegheny Ludlum Steel Corp. \$135,236.65	
	L/C #24656 f/o Engineering & Research Corp. 46,250.00	
	L/C 24655 f/o U.S. Steel Export Co. - 219,053.25	
142,788.80	J. S. Bache & Co.	
7,307.04	Draft - Lewin Mathes Co.	
11,923.20	Draft - Hendey Machine Co.	
400.74	Draft - Leas & Northrup Co.	
102.37	Norma-Hoffman Bearings Corp.	
77.55	Hanson Van Winkle Munning Co.	
1,865.00	Brown & Sharpe Mfg. Co.	
208.00	Detroit Tap & Tool Co.	
7.84	Ohmite Manufacturing Co.	
7,408.61	Hanchett Mfg. Co.	
40,850.11	Standard Oil Company of California	
58,786.00	To meet eventual drawings against -	
	L/C #24696 f/o American Wool Stock Corp., N.Y.C.	
8,063.00	To meet eventual drawings against -	
	L/C #24688 f/o Barber-Colman Co., Rockford, Ill. \$500.00	
	L/C #24687 f/o National Tool Co., Cleveland, Ohio. \$7,563.00	
2,434.00	L/C #24218 increased by \$1,653.00	
	L/C #23802 increased by \$781.00	
	Credits f/o Sundstran Machine Tool Co., Rockford, Ill.	
201,112.80	J. S. Bache & Co.	
3,601.50	Durex Abrasives	
11,459.95	Transferred to Regular Account	\$500,000.00

12/16/39 - Balance - \$859,903.96
 Plus Credits - 3,508,915.40
 4,368,819.36
 Minus Debits - 3,122,435.62
 12/22/39 - Balance - \$1,246,383.74

Bache Totals = 434,768
 Other M " = 172,515

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris

NO.: 29

DATE: January 11, 1940, 5 p.m.

STRICTLY CONFIDENTIAL FOR THE AMBASSADOR
FROM THE SECRETARY OF THE TREASURY

With reference to the questions set forth in your telegram no. 45, dated January 10, I have told the Financial Counselor of the British Embassy at Washington and also Leroy-Beaulieu what my feelings are. When Leroy-Beaulieu arrives he can explain in a more satisfactory way than we can discuss the matter by means of telegrams.

HULL

TO THE SECRETARY
OF THE TREASURY
WASHINGTON

JAN 11 1940

RECEIVED
JAN 11 1940

EA:EB



DEPARTMENT OF STATE
WASHINGTON

January 12, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses one copy of a paraphrase of telegram no. 29, dated January 11, 1940, to the American Embassy at Paris, with reference to financial matters.

Enclosure:

To Paris, no. 29, January 11,
1940.

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

12 11 JAN 15 1940

DEPARTMENT OF STATE
RECEIVED

28

January 11, 1940

Dr. Feis

Mr. Cochran

Will you kindly send the following cablegram:

"AMERICAN EMBASSY, PARIS.

STRICTLY CONFIDENTIAL FOR THE AMBASSADOR FROM THE SECRETARY OF THE
TREASURY.

I have informed Leroy-Beaulieu, as well as the British Financial
Counselor in Washington, how I feel on the questions mentioned in your
number 45, January 10, and Leroy-Beaulieu can explain the matter more
satisfactorily than it can be discussed by cable."



HHC:enk

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

NO.: 59

DATE: January 11, 1940

FOR TREASURY FROM MATTHEWS

Monsieur D. Havernas, Finance Inspector called on me this afternoon. He is one of the intelligent young assistants of Couve de Murville in the Mouvent General des Fonds. I brought up the point, which was discussed in my telegram no. 3024 of December 21, 1939, 8 p.m., that in making the declarations of holdings abroad, it is not required that either the client or the pertinent bank include any assets which are carried in the dossier or account of said bank in France. Havernas said that he had been working on an arrete which would fill this gap in the inventory of French holdings and probably this arrete would be published sometime within the next few days. Banks will be required to report to the authorities the totals of all foreign exchange holdings or foreign currency accounts belonging to their clients and also the total amount of their clients' foreign securities which are carried in their dossier, even though physically located in a foreign country. He

referred

-2-

referred, by way of explaining the above, to the well known dislike of the French of having the Government know anything about their private money matters and the Government's great desire not to do anything at this time to frighten the French people. Therefore the general policy with reference to exchange control administration has been to gradually adopt new restrictions; it was his feeling that it was apparent that this policy had been successful. The banks even now, in furnishing the totals mentioned above, will not be required to give their clients' names.

A second arrete is proposed which will deal with leakages which have occurred through arbitrage operations arising from the disparity in quotations of identical foreign securities on different markets; this question is a more difficult one. Havernas said that there was a tendency for investors to be slightly discouraged from buying French armament bonds because of higher quotations of certain internationals in Paris than in London, for example. The problem, on the other hand, is complicated and affects French interests in other centers. He is finding it difficult to work out general regulations which will prohibit the more objectionable operations but which will permit "legitimate" ones.

I

-3-

I inquired of Havernas whether since the Anglo-French financial accord had gone into effect the same formalities had to be fulfilled and the same proofs submitted by French applicants for sterling exchange as were required for dollars or for other foreign exchange. He replied that this is the case at the present time (but I feel confident that sterling applications are not scrutinized as carefully as demands for other currencies) but he said that attempts were being made to do away with such restrictions. However, he feels that the British may be expected to offer some opposition to this.

END SECTION FIVE.

BULLITT

EA:EB

TO THE DIRECTOR
FROM THE FIELD
JULY 15 1944
RECORDED

JT

GRAY

PARIS

Dated January 11, 1940

Rec'd 4:40 p.m.

Secretary of State,
Washington.

59, January 11, 6 p.m. (SECTION SIX)

The securities market recovered moderately today, rentes gaining from 30 centimes to 1 franc 20 and other French securities gaining from two to three per cent. The 1937 exchange guaranty issue which was under pressure yesterday recovered 2 francs 35.

The official Belga rate is 735-741 as against 732-738. Other rates are unchanged.

The Bank of France statement dated January 4 reveals that the Treasury has drawn a further 550,000,000 francs on its advance account at the bank. The balance remaining available to the Treasury under the 25,000,000,000 authorized under the decree of September 1, 1939 therefore amounts to 10,250,000,000.

(END OF MESSAGE)

BULLITT

NK

TO THE SECRETARY
TECHNICAL SERVICE
DEPT. OF STATE
JAN 15 1940
RECEIVED

January 11, 1940

A little after seven o'clock, Mr. Paul Fagan of San Francisco called through the Treasury switchboard. We knew him in Honolulu.

He said, "I would like to give \$10,000 to Paul McNutt's campaign. What do you think?" I said, "I think your question is highly improper." He said, "Well, if you don't want me to give it to McNutt, whom should I give it to?" I said, "As Secretary of the Treasury, I am not recommending that you give it to anybody. It's none of my business."

He pressed me very hard and I said, "I am sorry. I can't tell you to whom to give it to." He said, "Will you write me?" and I said, "No, I won't."

He said, well, he was leaving for Honolulu and he wanted to contribute before he left. He wanted to know. Then he hung up.

I had the call traced and the operator said it was from Apartment "G" in the St. Francis Hotel. I gave it to Chief Wilson and Wilson is tracing it.

I was immediately suspicious that it was some kind of a trap. The last time he called up it was in connection with something to do with Anglo-California and the Fleisbackers.

JT

PLAIN

STOCKHOLM

Dated January 11, 1940

Rec'd 9:25 p.m.

Secretary of State,
Washington.

13, eleventh.

Refer our One.

Partial relaxation of regulation affecting foreign selling orders planned probably effective by fifteenth. Committee will regulate total of each days sales to amounts not likely cause precipitate declines and consistent with Riksbank's desires concerning sales of foreign exchange.

INFORM COMMERCE.

STERLING

JRL

JAN 1 1934

Secretary Morganthau

E. H. Foley, Jr.

My preliminary inquiries about Mr. John Bright Hill, who is recommended for the Customs Court of New York by Senator Robert R. Reynolds, shows the following:

Hill was appointed Collector of Customs, Collection District 15, Wilmington, N. C., at a salary of \$4,600 per annum, on June 8, 1933. He has done a reasonably satisfactory job in that comparatively unimportant customs post.

Senator Reynolds in his letter to General Watson states that Hill completed his law at Harvard University and that he is one of the outstanding members of the North Carolina bar.

Mr. Harrison Dismitt, the Secretary of the Harvard Law School, states the following: John Bright Hill did not finish his law work at Harvard, nor did he graduate there. He entered the Harvard Law School in February 1919 and left in August 1919. Out of the five courses which he took he failed four very badly and passed one with a mark of fifty-five. His over-all average on his five courses was forty-nine.

As far as my office has been able to check, it has obtained the following confidential appraisal of Hill from an able North Carolina lawyer who has good judgment and knows Hill well: "As a lawyer, Hill is a 'frost'. He is downright lousy. At one time he was an aspirant for the position of U. S. Attorney for the district which includes Wilmington. The bar of the district was strong and quite unanimous in its opposition on the ground that he was unqualified for the job. The general impression in and around Wilmington is that Hill got his present job primarily as a result of his having managed Senator Reynolds' campaign."

If a full investigation of Mr. Hill has not been made, I think that one should be made in this case. As you know, it is our usual practice to have an investigation made even before we appoint a \$2,000 a year lawyer. It would seem to me that our usual investigation should be made of the person or persons being considered for this more important position.

OSG:rdh
1-11-40

JAN 11 1940

MEMORANDUM FOR THE PRESIDENT

About John Bright Hill, who is being recommended for the Customs Court of New York by Senator Robert R. Reynolds:

A preliminary investigation of Mr. Hill has been made by the General Counsel of the Treasury. Annexed is a copy of his report.

As suggested by the General Counsel, we can have our usual investigation made of Mr. Hill if you wish it.

Senator Reynolds' letter of January 4, 1940 and General Watson's memorandum of the same date are returned herewith.

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Attachments (3)

OSC:wdh
1-11-40

By hand 4³⁰ pm
1/11/40

JAN 11, 1940

Secretary Morgenthau

E. H. Foley, Jr.

My preliminary inquiries about Mr. John Bright Hill, who is recommended for the Customs Court of New York by Senator Robert R. Reynolds, shows the following:

Hill was appointed Collector of Customs, Collection District 15, Wilmington, N. C., at a salary of \$4,600 per annum, on June 8, 1935. He has done a reasonably satisfactory job in that comparatively unimportant customs post.

Senator Reynolds in his letter to General Watson states that Hill completed his law at Harvard University and that he is one of the outstanding members of the North Carolina bar.

Mr. Harrison Dimmitt, the Secretary of the Harvard Law School, states the following: John Bright Hill did not finish his law work at Harvard, nor did he graduate there. He entered the Harvard Law School in February 1919 and left in August 1919. Out of the five courses which he took he failed four very badly and passed one with a mark of fifty-five. His over-all average on his five courses was forty-nine.

As far as my office has been able to check, it has obtained the following confidential appraisal of Hill from an able North Carolina lawyer who has good judgment and knows Hill well: "As a lawyer, Hill is a 'frost'. He is downright lazy. At one time he was an aspirant for the position of U. S. Attorney for the district which includes Wilmington. The bar of the district was strong and quite unanimous in its opposition on the ground that he was unqualified for the job. The general impression in and around Wilmington is that Hill got his present job primarily as a result of his having managed Senator Reynolds' campaign."

If a full investigation of Mr. Hill has not been made, I think that one should be made in this case. As you know, it is our usual practice to have an investigation made even before we appoint a \$2,000 a year lawyer. It would seem to me that our usual investigation should be made of the person or persons being considered for this more important position.

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

OSC:wdh
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COPI

UNITED STATES SENATE

January 4, 1940

Brigadier General Edwin M. Watson,
Secretary to the President,
The White House,
Washington, D. C.

My dear General:

This is in confirmation of my conversation with you a few moments ago over the telephone in reference to my friend, the Honorable John Bright Hill of Wilmington, N. C., whom I have highly recommended for appointment to fill one of the vacancies on the bench of the United States Customs Court in the City of New York.

If you will pardon the repetition, I wish to say that Mr. Hill is a graduate of the University of North Carolina academically. He completed his law at Harvard University. He is one of the outstanding members of the North Carolina Bar. He is now Collector of Customs for the State of North Carolina with headquarters at Wilmington. This position he has held since 1933, at which time he was recommended by my colleague Senator Bailey and myself. Mr. Hill is an authority on Customs law. He is a deep student, a gentleman of the very highest character, and if appointed to the high court to which his friends aspire for him I am confident he would serve with credit to the Administration and credit to himself.

On July 1 I wrote the President in reference to this matter, which letter was acknowledged by Secretary Stephen Early on July 4. In addition to my letter of endorsement there are in his file at the White House endorsements from Hon. Josephus Daniels, Ambassador to Mexico; Hon. Clyde R. Hoey, Governor of North Carolina; Hon. J. C. B. Ehringhaus, former Governor of North Carolina; Hon. W. C. Stacy, Chief Justice of the Supreme Court of North Carolina, and innumerable other distinguished gentlemen including Hon. Gregg Cherry, Chairman of the North Carolina State Democratic Executive Committee, and Hon. A. D. Folger, Member of Congress, who is the National Democratic Committeeman from my State.

January 4, 1940

Brigadier General Edwin M. Watson,
Page 2.

My dear General, as I told you over the telephone, I have just entered upon my third term in the United States Senate, and since my having been in Washington I have never to this hour been favored with one single major appointment, and I would greatly appreciate his Excellency, President Roosevelt, giving favorable consideration to my recommendation of Mr. Hill. Fact is, I would personally appreciate this favorable consideration and in passing, may I add that of the nine members of the United States Customs Court, only two come from the South, one from Kentucky and the other from Georgia. Therefore, I shall be obliged to you personally if you will be good enough to favor me by bringing personally to the attention of the President Mr. Hill's file.

With assurances of my esteem, and reassurances of my best wishes for a New Year providing an abundance of good health, happiness, contentment and prosperity, I beg to remain,

Most sincerely yours,

(Signed) Robt. R. Reynolds.

Robert R. Reynolds, U. S. S.

RRR/mch

COPY

THE WHITE HOUSE
WASHINGTON

January 4, 1940.

MEMORANDUM FOR THE PRESIDENT:

Senator Reynolds of North Carolina called me up and said that in July he wrote a letter recommending Honorable John Bright Hill, now Collector of Customs at Wilmington, North Carolina, for the Customs Court of New York.

Ambassador Josephus Daniels recommended Mr. Hill for the same job at the same time, and this in addition to the recommendation of Governor Hoey for Mr. Hill.

Senator Reynolds says he might have gone off the reservation in the past, but if he gets this appointment it would sweeten his mouth so that he would follow the President like a dog after a bone.

He says this is the outstanding man in North Carolina and he, Reynolds, has never had a major appointment given him during his eight years in Congress.

(Initialed) E.M.W.

E.M.W.

January 11, 1940.

Dear Mr. Berle:

Appended is a suggested draft of by-laws for an Inter-American Bank which has been prepared at your request by the technical staff in the Treasury. Mr. Gardner of the Division of Research of the Federal Reserve Board and Mr. Lincoln of the Securities and Exchange Commission participated on an entirely informal basis in some of the discussions and the suggested draft does not necessarily represent either their individual views or the views of their respective organizations.

Secretary Morgenthau has not had an opportunity to examine carefully the draft, but he did run over some of the high spots and has indicated his tentative approval of the outstanding features. However, he wishes it definitely understood that the Treasury is not at this time making any commitments as to the desirability of any of the specific provisions, nor is it giving approval to the draft as a whole at this time.

I am also sending a copy of the draft to Mr. Collado.

Sincerely yours,

Hugh H. White

H. D. White,
Director of Monetary Research.

The Honorable Adolf A. Berle, Jr.,

Assistant Secretary of State.

Enclosure

1/11/40 (2:00) Sent from Mr. White's office to messenger
(Initialed by: Mr. Baston, Mr. Bernhardt, Mr. Fairly)

HQ:ls
1/11/40

January 11, 1940

The proposed Inter-American Bank would be set up somewhat in the following manner:

All participating American countries will subscribe to a convention which will be approved in each country according to its laws. By the terms of the convention the participating countries will grant the bank, its assets, employees, and operations certain tax immunities and protection from expropriation and exchange controls (to be considered further), and the countries will agree to pass any legislation necessary to effectuate such immunities and protection. The United States will undertake to grant the bank a charter for a specified time and agree not to abrogate or amend the charter during such time otherwise than pursuant to a resolution of the bank approved by a four-fifths majority vote of the Board of Directors. Each participating country will agree to permit the functioning in its territory of the bank, through a branch or otherwise, and to enact any necessary legislation. The charter setting up the bank will approve the by-laws, a draft of which is annexed.

When five or more countries subscribe to the convention and agree to subscribe for the minimum stock, the bank will be organized. Any American countries which do not originally participate in the bank but later desire to do so would have to subscribe to the convention at the time of entry as well as subscribe for the minimum shares of stock and comply with any other terms and conditions imposed by the Board of Directors.

January 11, 1940

Draft of By-laws of a Bank to be
called the Inter-American Bank

1. Location

The principal office of the bank shall be in the United States of America and branches may be established anywhere in the Western Hemisphere.

2. Capital Structure and Participation

A. The capital stock shall be expressed in United States dollars (hereafter referred to as dollars) and shall be authorized in the amount of \$100,000,000 consisting of 1000 shares having a par value of \$100,000 each, to be paid for in gold or in dollars. 50% of the issue price of each share shall be paid up at the time of subscription. The balance may be called up at a later date or dates at the discretion of the Board of Directors of the Bank. Two months' notice shall be given of any such calls.

B. Stock shall be available for subscription only to independent American governments. For a government to participate in the bank it must subscribe for a minimum number of shares depending upon the population of the country. The populations of the eligible countries are estimated as follows:

2,000,000 or less	Costa Rica, Dominican Republic, Honduras, Nicaragua, Panama, Paraguay, Salvador.
Over 2,000,000 and up to 5,000,000 -	Chile, Bolivia, Cuba, Ecuador, Guatemala, Haiti, Uruguay, Venezuela.
Over 5,000,000 and up to 10,000,000 -	Colombia, Peru.
Over 10,000,000	- United States, Mexico, Argentina, Brazil.

The minimum number of shares shall be: 10 shares for countries having a population of 2,000,000 or less; 20 shares for countries having a population over 2,000,000 and up to 5,000,000; 30 shares for countries having a population over 5,000,000 and up to 10,000,000; 50 shares for countries having a population over 10,000,000. Each participating country may subscribe for stock in addition to the minimum. Where the demand for such additional stock exceeds the amount to be issued by the bank, the demands, in excess of the minimum, will be met on an equal basis.

C. Eligible governments which do not participate in the bank at the time of its formation shall be permitted to participate in the bank upon subscribing for the minimum number of shares, subscribing to the convention and after complying with any other terms and conditions designated in regulations of the bank.

D. Liability of a shareholder on its shares shall be limited to the issue price of the shares held by it.

E. If a government fails to pay any call on a share on the day appointed for payment thereof, or defaults on any obligation to the bank, the bank may, after giving reasonable notice to such government, forfeit an appropriate number of such government's shares. The fair value of the shares shall be determined by the bank, and such value shall be applied to the payment of the amount due by such government to the bank. The bank may also sell such forfeited shares to any other participating or eligible government. The value of the shares or the proceeds of the sale over and above the amount due to the bank shall be paid to the government whose shares were forfeited.

F. Shares of stock may be transferred only to the bank or to other participating governments at a price to be agreed upon between the parties and upon the approval of the transfer by a four-fifths majority vote of the Board of Directors. If, as a result of the transfer or forfeiture of shares of stock, or for any other reason, a government holds less than the minimum amount of shares of stock required of it, such government shall cease to participate in the bank, but its obligations and duties with respect to the bank shall continue.

G. The capital structure of the bank, including the number and par value of shares and the minimum holdings of participating governments, may be increased or decreased by a four-fifths majority vote of the Board of Directors.

H. The voting power of each government on the Board of Directors shall be distributed as follows: 10 votes for each government for its minimum shares, and 1 vote for each additional share. However, regardless of the amount of stock owned by it, no government shall exercise more than 35% of the total voting power of the outstanding stock.

3. Management

A. The administration of the bank shall be vested in the Board of Directors composed of one director and one alternate appointed by each participating government. Each government shall have complete freedom in the method selected by it in appointing its director and alternate. Such director and alternate shall serve for such period or periods as shall be determined by their government.

B. Meetings of the Board of Directors shall be held not less than four times a year and may be held either at the principal or any branch office or at any other city in a participating country as the Board of Directors may determine.

C. The Board shall select a president of the bank who will be the chief of the operating staff of the bank and who also shall be ex officio chairman of the Board of Directors, and one or more vice presidents, who shall be ex officio vice chairman of the Board of Directors. The president and vice presidents of the Bank shall hold office for one year and shall be eligible for reelection.

D. The Departmental organization of the bank shall be determined by the Board. The heads of departments and other stellar officers shall be appointed by the Board on the recommendation of the president. The remainder of the staff shall be appointed by the president.

E. The Board may also appoint from among its members an executive committee to supervise the administration of the bank.

F. The Board may appoint advisory committees chosen wholly or partially from persons not regularly employed by the bank.

G. The Board shall be regulations prescribe the reserves to be established and maintained against demand deposits and other obligations of the bank; and such regulations shall not be amended, modified or revoked except by a four-fifths majority vote of the Board.

H. Before the Board approves an intermediate or long-term loan or extension of credit it shall have before it a full written report on the merits of the proposed transaction prepared by a committee of experts which may include officers and employees of the bank.

I. Except as herein otherwise provided, decisions of the Board shall be by simple majority of the votes cast. In the case of equality of votes, the chairman shall have a deciding vote. The Government may vote at meetings either through the director or alternate or through a nominee or proxy in such manner as the Board may provide by regulations. When deemed by the president to be in the best interests of the bank, decisions of the Board of Directors may be made without a meeting by polling the directors on specific questions submitted to them in such manner as the Board of Directors shall by regulations provide. The Board of Directors shall by regulations determine what constitutes a quorum for a meeting.

J. Approval by four-fifths majority vote of the Board of Directors shall be required for the making and granting of intermediate and long-term

loans and credits, including intermediate and long-term loans and credits guaranteed by the bank; the acquisition and sale of intermediate and long-term obligations and securities; the discounting or rediscounting of intermediate or long-term paper; the issuance of debentures and other securities and obligations of the bank; the determination of the functions and duties of the officers and principal employees of the bank; the calling up of the balances due on stock; and for amending the by-laws, Four-fifths majority vote of the Board of Directors, as used herein, means four-fifths of the votes cast.

4. Accounts and Profits

A. The financial year of the bank shall end on December 31.

B. The books and accounts of the bank shall be expressed in terms of the United States dollar.

C. The bank shall publish an annual report and at least once a month a statement of account in such form as the Board may prescribe. The Board shall cause to be prepared a profit and loss account and a balance sheet for each financial year. All published documents shall be printed in the official languages of the participating governments.

D. The yearly net profits of the bank shall be applied as follows:

1. Not less than 25% of such net profits shall be paid into surplus until the surplus is equal in amount to the par value of the authorized capital stock of the bank;

2. The remainder of such net profits shall be applied towards the payment of a dividend of not more than 3% per annum on the paid up amount of the stock of the bank: Provided, however, that dividends shall be non-cumulative and no dividends shall be paid so long as the capital of the bank is impaired.

3. The balance of such profits shall be paid into surplus and be designated a dividend reserve.

E. The Board of Directors by a four-fifths majority vote may declare dividends out of the dividend reserve in surplus of the bank, provided, however, that total dividends in any one year shall not be more than 3% of the paid-up amount of the stock.

F. The bank may not be liquidated except by a four-fifths majority vote of the Board of Directors. Upon liquidation of the bank and after discharge of all the liabilities of the bank, the assets remaining shall be divided among the shareholders.

G. The shares shall carry equal rights to participate in the profits of the bank and in any distributions of assets upon liquidation of the bank.

5. Purposes and Powers

A. The bank is created by the American States to carry out the following purposes:

- (1) Facilitate the prudent investment of funds and stimulate the full productive use of capital.
- (2) Assist in stabilizing the currencies of American States; encourage the maintenance of adequate monetary reserves, promote the use and distribution of gold and silver; and facilitate monetary equilibrium.
- (3) Function as a clearing house for, and in other ways facilitate, the transfer of international payments.
- (4) Increase international trade, travel and exchange of services in the Western Hemisphere.
- (5) Promote the development of industry, agriculture, commerce and finance in the Western Hemisphere.
- (6) Foster cooperative action among the American States in the fields of agriculture, industry, marketing, commerce, transportation and related economic and financial matters.
- (7) Encourage and promote research in the technology of agriculture, industry and commerce.
- (8) Engage in research and contribute expert advice on problems of public finance, exchange, banking and money as they relate specifically to the problems of American States.
- (9) Promote publication of data and information relating to the purposes of the bank.

B. In order to carry out the foregoing purposes, the bank shall have specific power to:

- (1) Make short-term, intermediate and long-term loans in any currency and in gold or silver to participating governments and to fiscal agencies, central banks, political subdivisions and nationals thereof on such security as the bank may require; provided that the government of the borrower shall specifically recommend and guarantee any such loan to such fiscal agency, central bank, political subdivision and national.

(2) Buy, sell and deal in the obligations and securities of participating governments and of fiscal agencies, central banks, political subdivisions and nationals thereof provided such obligations and securities are guaranteed by participating governments; and provided, further, that the bank shall not buy obligations and securities that are in default in whole or in part as to principal or interest.

(3) Guarantee loans made from any source to participating governments and to fiscal agencies, central banks, political subdivisions and nationals thereof, provided that the loans are guaranteed by the government of the borrower.

(4) Act as a clearing house of funds, balances, checks, drafts, and acceptances.

(5) Buy, sell, hold and deal in precious metals, currencies and foreign exchange for its own account and for the account of others.

(6) Issue debentures and other securities and obligations to secure additional assets for the purposes of the bank.

(7) Borrow from participating governments and from fiscal agencies, central banks and political subdivisions thereof if approved by the government of the lender.

(8) Accept demand and time deposits and custody accounts from governments and fiscal agencies, central banks, political subdivisions and nationals thereof if approved by the government.

(9) Discount or rediscount for participating governments bills, acceptances and other short-term obligations and instruments of credit of participating governments and fiscal agencies, central banks, political subdivisions and nationals thereof and rediscount with any participating government or any fiscal agency or banking institution designated by such government bills, acceptances and instruments of credit taken from the bank's portfolio.

(10) Open and maintain time and demand deposits and custody accounts with governments and banking institutions and arrange with governments and banking institutions to act as agent or correspondent for the bank.

(11) Act as agent or correspondent for any participating government and fiscal agencies, central banks and political subdivisions thereof if approved by the government.

(12) Engage in financial and economic studies and publish reports thereof.

C. The Board of Directors shall determine the nature of the operations which may be undertaken by the bank in the exercise of its powers and in order to effectuate its purposes. The operations of the bank shall at all times, so far as possible, be conducted in conformity with the policies of the participating government directly concerned.

Suggested Outline for a Bank to
be Called the Pan-American Bank

1. Location

The principal office of the bank shall be in the U.S.A. and branches may be established anywhere in the Western Hemisphere.

2. Capital Structure and Participation

A. The capital stock shall be expressed in U. S. dollars (hereafter referred to as dollars) and shall be authorized in the amount of \$100,000,000 consisting of 1000 shares having a par value of \$100,000 each to be paid for in gold or in dollars. The stock shall be issued at par and 50% of the par value of each share shall be paid up at the time of subscription. The balance may be called up at a later date or dates at the discretion of the Board of Directors of the Bank. Two months' notice shall be given of any such calls.

B. Stock shall be available for subscription only to independent American governments. For a government to participate in the bank it must subscribe to a minimum number of shares depending upon the population of the country. The population of the eligible countries are estimated as follows:

2,000,000 or less	Costa Rica, Dominican Republic, Honduras, Nicaragua, Panama, Paraguay, Salvador.
Over 2,000,000 and up to 5,000,000 -	Chile, Bolivia, Cuba, Ecuador, Guatemala, Haiti, Uruguay, Venezuela.
Over 5,000,000 and up to 10,000,000 -	Colombia, Peru.
Over 10,000,000	- United States, Mexico, Argentina, Brazil.

The minimum number of shares shall be: 10 shares for countries having a population less than 2,000,000; 20 shares for countries having a population of from 2,000,000 to 5,000,000; 30 shares for countries having a population of from 5,000,000 to 10,000,000; 50 shares for countries having a population over 10,000,000. Each participating country may subscribe to stock in addition to the minimum. Where the demand for such additional stock exceeds the amount to be issued by the bank, the demands, in excess of the minimum, will be met on an equal basis.

C. Eligible governments which do not participate in the bank at the time of its formation shall be permitted to participate in the bank, upon subscribing for the minimum number of shares, subscribing to the convention and after complying with any other terms and conditions designated in regulations of the bank.

D. Liability of a shareholder on its shares shall be limited to the par value of the shares held by it.

E. If a government fails to pay any call on a share on the day appointed for payment thereof, or defaults on any obligation to the bank, the bank may, after giving reasonable notice to such government, forfeit an appropriate number of such government's shares. The fair value of the shares shall be determined by the bank, and such value shall be applied to the payment of the amount due by such government to the bank. The bank may also sell such forfeited shares to any other participating or eligible government. The value of the shares or the proceeds of the sale over and above the amount due to the bank shall be paid to the government whose shares were forfeited.

F. Shares of stock may be transferred only to the bank or to other participating governments at a price to be agreed upon between the parties and upon the approval of the transfer by a four-fifths majority vote of the Board of Directors. If, as a result of the transfer or forfeiture of shares of stock or for any other reason, a government holds less than the minimum amount of shares of stock required of it, such government shall cease to participate in the bank, but its obligations and duties with respect to the bank shall continue.

G. The capital structure of the bank, including the number and par value of shares and the minimum holdings of participating governments, may be increased or decreased by a four-fifths vote of the Board of Directors.

H. The voting power of each government on the Board of Directors shall be distributed as follows: 10 votes for each government for its minimum shares, and 1 vote for each additional share. However, regardless of the amount of stock owned by it, no government shall exercise more than 35% of the total voting power of the outstanding stock.

3. Management

A. The administration of the bank shall be vested in the Board of Directors composed of one director and one alternate appointed by each participating government. Each government shall have complete freedom in the method selected by it in appointing its director and alternate. Such director and alternate shall serve for such period or periods as shall be determined by their government.

B. Meetings of the Board of Directors shall be held not less than four times a year and may be held either at the principal or any branch office or at any other city in a participating country as the Board of Directors may determine.

C. The Board shall select a president of the bank who will be the chief of the operating staff of the bank and who also shall be ex officio chairman of the Board of Directors, and one or more vice presidents, who shall be ex officio vice chairmen of the Board of Directors. The president and vice presidents of the bank shall hold office for one year and shall be eligible for reelection.

- 3 -

D. The Departmental organization of the bank shall be determined by the Board. The heads of departments and other similar officers shall be appointed by the Board on the recommendation of the president. The remainder of the staff shall be appointed by the president.

E. The Board may also appoint from among its members an executive committee to supervise the administration of the bank.

F. The Board may appoint advisory committees chosen wholly or partially from persons not regularly employed by the bank.

G. Before the Board approves an intermediate or long-term loan or extension of credit it shall have before it a full written report on the merits of the proposed transaction prepared by a committee of experts which may include officers and employees of the bank.

H. Except as herein otherwise provided, decisions of the Board shall be by simple majority of the votes cast. In the case of equality of votes, the chairman shall have a deciding vote. The Government may vote at meetings either through the director or alternate or through a nominee or proxy in such manner as the Board may provide by regulations. When deemed by the president to be in the best interests of the bank, decisions of the Board of Directors may be made without a meeting by polling the directors on specific questions submitted to them in such manner as the Board of Directors shall by regulations provide. The Board of Director shall by regulations determine what constitutes a quorum for a meeting.

I. Approval by four-fifths majority vote of the Board of Directors shall be required for the making and granting of intermediate and long-term loans and credits, including intermediate and long-term loans and credits guaranteed by the bank; the acquisition and sale of intermediate and long-term obligations and securities; the discounting or rediscounting of intermediate or long-term paper; the issuance of debentures and other securities and obligations of the bank; the determination of the functions and duties of the officers and principal employees of the bank, and who may legally commit the bank vis a vis third parties and in what manner; and for amending the by-laws. Four-fifths majority vote of the Board of Directors, as used herein, means four-fifths of the votes cast.

4. Accounts and Profits

A. The financial year of the bank shall end on December 31.

B. The books and accounts of the bank shall be expressed in terms of the United States dollar.

- 4 -

C. The bank shall publish an annual report and at least once a month a statement of account in such form as the Board may prescribe. The Board shall cause to be prepared a profit and loss account and a balance sheet for each financial year. All published documents shall be printed in the official languages of the participating governments.

D. The yearly net profits of the bank shall be applied as follows:

1. Not less than 25% of such net profits shall be paid into surplus until the surplus is equal in amount to the par value of the authorized capital stock of the bank;

2. The remainder of such net profits shall be applied towards the payment of a dividend of not more than 3% per annum on the amount of the paid-up capital of the bank: Provided, however, that dividends shall be non-cumulative and no dividends shall be paid so long as the capital of the bank is impaired.

3. The balance of such profits shall be paid into surplus and be designated a dividend reserve.

E. The Board of Directors by a four-fifths majority vote may declare dividends out of the dividend reserve in surplus of the bank provided, however, that total dividends in any one year shall not be more than 3% of the paid-up stock.

F. The bank may not be liquidated except by a four-fifths majority vote of the Board of Directors. Upon liquidation of the bank and after discharge of all the liabilities of the bank, the assets remaining shall be divided among the shareholders.

G. The shares shall carry equal rights to participate in the profits of the bank and in any distributions of assets upon liquidation of the bank.

V. OBJECTIVES AND POWERS

The Bank is created by the American States to carry out the following purposes:

(a) Facilitate the prudent investment of funds and stimulate the full productive use of capital.

(b) Assist in stabilizing the currencies of American States; encourage the maintenance of adequate monetary reserves, promote the use and distribution of gold and silver; and facilitate monetary equilibrium.

(c) Function as a clearing house for, and in other ways facilitate, the transfer of international payments.

(d) Increase international trade, travel and exchange of services in the Western hemisphere.

(e) Promote the development of industry, agriculture, commerce and finance in the Western hemisphere.

(f) Foster cooperative action among the American States in the fields of agriculture, industry, marketing, commerce, transportation and related economic and financial matters.

(g) Encourage and promote research in the technology of agriculture, industry and commerce.

(h) Engage in research and contribute expert advice on problems of public finance, exchange, banking and money as they relate specifically to the problems of American States.

(i) Promote publication of data and information relating to the objectives of the bank.

For the purpose of carrying out the foregoing objectives the bank shall have the following specific powers:

(a) Make short-term, intermediate and long-term loans in any currency and in gold or silver to participating governments and to fiscal agencies, central banks, political subdivisions and nationals thereof on such security as the bank may require; provided that the government of the borrower shall specifically recommend and guarantee any such loan to such fiscal agency, central bank, political subdivision and national.

(b) Buy, sell and deal in the obligations and securities of participating governments and of fiscal agencies, central banks, political subdivisions and nationals thereof provided such obligations and securities are guaranteed by participating governments.

(c) Guarantee loans made from any source to participating governments and to fiscal agencies, central banks, political subdivisions and nationals thereof, provided that the loans are guaranteed by the government of the borrower.

(d) Act as a clearing house of funds, balances, checks, drafts, acceptances.

(e) Buy, sell, hold and deal in precious metals, currencies and foreign exchange for its own account and for the account of others.

- 6 -

(f) Issue debentures and other securities and obligations to secure additional assets for the purposes of the bank.

(g) Borrow from participating governments and from fiscal agencies, central banks and political subdivisions thereof if approved by the government of the lender.

(h) Accept demand and time deposits and custody accounts from governments and fiscal agencies, central banks and political subdivisions thereof if approved by the government.

(i) Discount or rediscount for participating governments bills, acceptances and other short-term obligations and instruments of credit of participating governments and fiscal agencies, central banks, political subdivisions and nationals thereof and rediscount with any participating government or any fiscal agency or banking institution designed by such government bills, acceptances and instruments of credit taken from the bank's portfolio.

(j) Open and maintain time and demand and custody accounts with governments and banking institutions and arrange with governments and banking institutions to act as its agent or correspondent.

(k) Accept deposits and act as trustee in connection with arrangements that may be made in connection with inter-American settlements.

(l) Act as agent or trustee of any participating government and fiscal agencies, central banks and political subdivisions thereof if approved by the government.

(m) Engage in financial and economic studies and publish reports thereof.

5. The Board of Directors shall determine the nature of the operations which may be undertaken by the bank in the exercise of its powers and for the purpose of effectuating its objects. The operations of the bank shall at all times, so far as possible, be conducted in conformity with the policies of the participating government directly concerned.

The proposed Pan-American Bank would be set up somewhat in the following manner:

All participating American countries will subscribe to a convention which will be approved in each country according to its laws. By the terms of the convention the participating countries will grant the bank, its employees, and its operations certain tax immunities (to be considered further) and protection from expropriation and exchange controls (to be considered further), etc., and the countries will agree to pass any legislation necessary to effectuate such immunities, etc. The United States (where the bank will have its principal office) will undertake to grant the bank a charter for a specified time and agree not to abrogate or amend the charter during such time otherwise than pursuant to a resolution of the bank approved by a four-fifths majority vote of the Board of Directors. Each participating country will agree to permit the functioning in its territory of the bank, through a branch or otherwise, and to enact any necessary legislation. The charter setting up the bank will approve the by-laws, a draft of which is annexed.

When five or more countries subscribe to the convention and agree to subscribe to the minimum stock, the bank will be organized. Any American countries which do not originally participate in the bank but later desire to do so would have to subscribe to the convention at the time of entry as well as subscribe for the minimum shares of stock and comply with any other terms and conditions imposed by the Board of Directors.

January 11, 1940

Dear Walter:

The Treasury staff has drawn up a tentative draft of the by-laws for an Inter-American Bank. The Secretary asked me to send a copy to you for your examination. He would appreciate it if you would let him have your criticisms and suggestions.

Inasmuch as the Inter-American Committee is going forward with their consideration of the matter, he would appreciate your comments at your earliest convenience.

Sincerely yours,

(Signed) H. D. White
H. D. White,
Director of Monetary Research.

Dr. Walter Stewart,
Gladstone, New Jersey.

Enclosure

1/11/40 - Mailed from Mr. White's office.

HDW:esh

January 11, 1940

Dear Jack:

The Treasury staff has drawn up a tentative draft of the by-laws for an Inter-American Bank. The Secretary asked me to send a copy to you for your examination. He would appreciate it if you would let him have your criticisms and suggestions.

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Sincerely yours,

(Signed) H. D. White

H. D. White,
Director of Monetary Research.

Dr. Jacob Viner,
Social Science Building,
University of Chicago,
Chicago, Illinois.

Enclosure

1/11/40 - Mailed from Mr. White's office.

HDW:esh

January 11, 1940

Dear Win:

The Treasury staff has drawn up a tentative draft of the by-laws for an Inter-American Bank. The Secretary asked me to send a copy to you for your examination. He would appreciate it if you would let him have your criticisms and suggestions.

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Sincerely yours,

(Signed) H. D. White

H. D. White,
Director of Monetary Research.

Dr. Winfield W. Reifler,
Princeton, New Jersey.

Enclosure

1/11/40 - Mailed from Mr. White's office

HDW:esh

January 11, 1940

Dear Mr. Lincoln:

Appended is a draft of the by-laws of the Inter-American Bank which I believe takes care of some, if not all, of the questions you raised with us.

Possibly Mr. Berle of the State Department may get in touch with your organization for more formal comments on the draft, but I appreciate that your participation so far has been purely on an informal basis.

Sincerely yours,

(Signed) H. D. White

H. D. White,
Director of Monetary Research.

Mr. Francis P. Lincoln,
Securities Exchange Commission,
Washington, D. C.

Enclosure

1/11/40 - Mailed from Mr. White's office

HDW:esh

JAN 12 1940

My dear Mr. Secretary:

Reference is made to Under Secretary Waller's letter (RA 834.01A/9) of December 13, 1939, in which he refers to previous correspondence concerning the desire of the Government of Paraguay to obtain the services of an expert on fiscal accounting under the provisions of Public No. 63, 76th Congress.

I do not feel that the Treasury should permit one of its employees who is qualified to undertake this work, to be away from the Department for a period of a year, which is the time suggested by the Paraguayan Government as necessary to reorganize the accounting procedure, to institute modern methods and to train the necessary personnel. I am willing, however, to designate Mr. A. L. Peterson, Assistant Commissioner of Accounts and Deposits of this Department, as the Treasury representative to undertake this work for the Paraguayan Government. I am also willing for the Department to continue to pay Mr. Peterson's salary as Assistant Commissioner while he is on this detail, but there is no money available in the Treasury to pay him any additional sum as contemplated by Public No. 63. I assume that whatever arrangements are necessary to provide Mr. Peterson with additional compensation for traveling expenses, etc., will be made by your Department.

I believe that this detail should not be for a period of longer than three months, and Mr. Peterson feels that this time will be ample to complete the work contemplated.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

File to Mr. Thompson

The Honorable,
The Secretary of State.

DMB:ELK

ORIGINAL FORWARDED TO ADDRESSEE
FROM OFFICE OF THE SECRETARY
by hand 4²⁰ pm 1/12/40

○ This should be
filed as of
1-11-40

89

MEMORANDUM.

NOTES ON DIAMOND TRADE IN THE U.S.A.

90

Diamonds imported into the United States may be classified roughly as follows:-

- (a) Cut gem stones.
- (b) Rough diamonds suitable for cutting for the gem trade.
- (c) Rough diamonds for industrial uses.

The consumption of diamonds under the above classifications (a) and (b) shows wide variation between good and bad times. In a fairly good year the consumption can be put at about 800,000 carats, worth, say, \$30,000,000.

The consumption of industrial diamonds may be roughly estimated at 1,500,000 to 2,000,000 carats per annum, worth about \$4,500,000 to \$6,000,000 and shows a rising tendency.

In normal times, probably 90% or more of the imports of industrial diamonds reach the United States either directly or indirectly from sales made by the Diamond Corporation, London. Industrial diamonds from Brazil have been about 5% of the total imports and are usually bought by small dealers. During the last few months, however, imports from Brazil have risen to two or three times the normal rate. A note by Mr. S. H. Ball is attached showing imports from Brazil and British Guiana.

There are less than a dozen large importers of industrial diamonds (I give their names at the foot of this note). Some of them are users who consume the bulk of their imports. The others are dealers, one or two of whom do a certain amount of manufacturing of diamond-tipped tools. These dealers in turn supply smaller dealers, factors and users in all parts of the country. A list of upwards of about 180 names of these exists but there are probably many other smaller concerns. It should be noted

also that there is a genuine (i.e. non-enemy) export trade to Peru, Mexico, etc., for mining purposes.

It is a characteristic of the trade that dealers or users buy a parcel of diamonds to meet specific requirements and they extract the particular sizes and grades which they require and then find a buyer for the remainder of the parcel. Thus diamonds frequently pass through several hands before reaching the eventual consumer.

Such is the local situation.

The Board of Trade grants licences for export to the United States for industrial purposes here, but it has to envisage the probability of these diamonds being re-exported to Germany. To prevent this needs thought and organization, as will be understood from the somewhat intricate nature of the industrial diamond business which is further complicated by the Brazilian supplies.

We have in mind to set up a series of "Gentlemen's Agreements" to be concluded in the first place between us and the importer, and subsequently between each dealer as the diamonds change hands until they have been consumed. In the event of it coming to our knowledge that diamonds have been re-exported by some dealer for enemy use, we should endeavour to see that no further supplies reach him by warning those through whose successive hands the diamonds had previously passed. One difficulty, which can only be overcome by close expert contact with the trade, is the appearance of men of straw acting ostensibly as genuine purchasers but really for the one object of obtaining supplies for forwarding to Germany.

We are only relatively optimistic about the success of our scheme, which may have to be overhauled.

We had a somewhat similar arrangement in the early part of the last war prior to the entry of this country. Afterwards, the U. S. Government themselves controlled the trade by means of an export licensing system, which was of course infinitely more effective.

J.N.

Large Importers of Industrial Diamonds.

Dealers:

The Rough Diamond Syndicate (Van Berg)
J. K. Smit and Son
Anton Smit and Son
U. S. Industrial Diamond Corp. {L. M. Van Moppes}
{Mgr. Weimar}
Morris Simons
R. S. Patrick
H. K. Spandel

Manufacturers:

Norton Company
Carborundum Company
Carboloy Company
Sullivan Machinery Company

January 11th, 1940.

DIAMOND AFFAIRS.

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Note by Mr. Sydney H. Ball on Industrial Diamonds
from Brazil and British Guiana.

Imports of industrial diamonds from Brazil to
the U. S. have been as follows:

	1935	134,800 carats, worth	\$	920,754
	1936	28,954 " "		386,746
	1937	118,165 " "		559,658
	1938	93,273 " "		733,068
10 Mo.	1939	137,572 " "		1,234,005

Average August imports	1935-8	=	\$	48,572	
August	1939	=		207,985	(427% of normal)
" Sept. imports	1935-8	=		63,788	
Sept.	1939	=		136,360	(214% of normal)
" October imports	1935-8	=		62,045	
October	1939	=		179,984	(290% of normal)

No industrial diamonds were imported into the United States from British Guiana in the years 1935, 1936 and 1937. In 1938, the total imports were valued at only \$3,143. In October, 1939, the imports were valued at \$6,532.

The Brazilian fields in particular offer an opportunity for industrial diamonds to reach Great Britain's enemies. The only way, I believe, that this can be stopped is by the Diamond Corporation's agents outbidding other brokers.

S. H. Ball.

January 11, 1940.
9:25 a.m.

H.M.Jr: Hello

Operator: Captain Collins. Go ahead.

H.M.Jr: Hello

Captain
Collins: Good morning Mr. Secretary.

H.M.Jr: Good morning Collins. Two things, did you get my message about those P-40's?

C: Yes sir, I did. I was over in Harold Graves' office when you were trying to reach me here. Didn't get it until I got back.

H.M.Jr: That's all - Pleven called me as I was leaving and I said he could get in touch with you.

C: Yes, sir.

H.M.Jr: Something he said, why they couldn't take them, I don't know.

C: Oh well they'll take them.

H.M.Jr: Did he call you?

C: I haven't heard from him this morning, no sir.

H.M.Jr: Well, anyway, they most likely tell you today.

C: They won't likely.

H.M.Jr: They most likely will.

C: Oh yes I think so too, they'll probably be showing up this morning just the time all the air and engine boys come in. They're due in here today.

H.M.Jr: Well I told - God ding it we've gone to all that trouble, and I should think they'd be tickled to death to take it. Well you let me know. I didn't want to - I told Pleven to contact you.

C: All right sir.

H.M.Jr: I've done all I can now.

- 2 -

C: I'll keep you posted on that development
Mr. Secretary.

H.M.Jr: Thank you.

C: All right sir. Goodbye.

January 12, 1940

Present:

Mr. Plevin
Col. Jacquin
Mrs. Klotz

HM, Jr: Capt. Collins is sick and I asked him to see you and he told me he had forgot to telephone you, so I don't think you saw him.

Mr. Plevin: No. You see, Mr. Secretary, we had quite an important meeting yesterday and he was already quite ill indeed, so this morning we thought we could not speak to him.

HM, Jr: Now, you called me about these 25 planes.

Mr. Plevin: Yes.

HM, Jr: You don't want them?

Col. Jacquin: I do want them. I do want them.

HM, Jr: I did a magician's trick for you, pulled 25 planes out of the hat!

Col. Jacquin: I do want them, but I would like to have them with the French equipment and when I say French equipment I speak only of what is absolutely necessary and I mean radio electricity, and I will explain to you why.

HM, Jr: Please.

Col. Jacquin: In France we have many pursuit planes and to use them in the best way we have to use the radio. Many German planes make reconnaissance over France and one of them was going to Paris and he had been captured and shot down only because we used the radio. For example, near Paris there was a plane, a Curtiss, which was -- its mission was nearly finished, and he had not met any German planes. By radio he knew that there was a German plane going to Paris and for the fighting afterwards he had no ammunition, no fuel; he was obliged to give up.

HM, Jr: Who?

-2-

Col. Jacquin: The Curtiss. By radio he said the German plane is going in the direction of Dyon, but I can't go any more because I have no ammunition. At that moment there was another Curtiss near (?) and by radio we were able to say to him, 'There is a German plane which is going' or 'you will meet it at a certain place' and he was met and he was shot down. You see the importance of the radio?

HM, Jr: Don't the German Messerschmitts have radio?

Col. Jacquin: German Messerschmitts? I am pretty sure they have.

HM, Jr: Doesn't the American Army plane have radio?

Col. Jacquin: You see, our radio cannot be an American radio because we have our technician on the ground, so our radio in the plane must be used with the French radio on the ground.

Mr. Plevin: You see, Mr. Secretary, the whole thing bears on the network on the ground, which is all tuned up, very complicated network, certain wave length. That is why, if we take the American plane as it is, it is a plane which is different and then the pursuit plane is a plane which cannot do its work.

HM, Jr: Then the only thing that the Curtiss people say is that you will have to wait until your own planes are ready, because if they change everything over they might give -- might make a difference of ten days or two weeks. See? We have gone to terrific trouble on this, but they say that if they change it over, the delay in changing them, they could only give you the plane -- they said two weeks, wasn't it?

Mrs. Klotz: I think so.

HM, Jr: Two weeks earlier than your regular order would come through. That isn't worth while to completely upset the schedule for two weeks.

Col. Jacquin: But, you see, there are three questions. The radio is number one. (Note: It was not possible to understand Col. Jacquin's further remarks, but in substance, it is believed he referred to the oxygen tanks and the number of guns in the plane.)

-3-

HM, Jr: Well, Colonel, is the Wright Company correct in their statement that they have to change dies, everything else?

Col. Jacquin: I don't think they realize exactly the importance of our program and if they were more informed I am sure they can do something.

Mr. Plevin: You told me in your opinion they had been doing everything to help you; did not find that Curtis had been willing to do the necessary thing.

HM, Jr: Who is not willing?

Col. Jacquin: The Curtis people are very willing, but don't understand the importance of the program. If they did, I am sure their engineer could work it out.

HM, Jr: Let me tell you who the man is whom we have contacted at Curtis. But his answer is -- you see, at your request, I went to all of this trouble and what I am afraid of is if you make another request they will say, Oh, we go to all of this trouble and you never can please the French. You see? And I don't want that to come up if we can help it.

Mr. Plevin: I feel that very much and Colonel Jacquin feels that. We are just trying to find a way out.

HM, Jr: Mr. Burdette Wright is the man we have been in contact with. I have this report, which says:

"These plans would have expedited delivery of the first 25 planes by some two to three months. However, the plans required the acceptance by the French Government of the designs and specifications, practically in their entirety, of the American Army P-40 type of plane.

"Colonel Jacquin of the French Air Mission stated that the French could not accept the P-40 model without certain definite changes being made in gun fire and electrical installations.

"Mr. Wright stated in substance that the demand for above changes eliminated the possibility of helping the French as outlined above through the conversion of Army Air Corps P-40's.

"Mr. Wright also stated that if he should do everything possible, using all of his facilities, it is doubtful

-4-

"if he could advance delivery dates to the French by more than two weeks, provided the French insist on the changes indicated."

Now, I am not trying to urge you to take something you don't want, but some day you may want something more than you did this, like anti-aircraft searchlights, and we are using practically the same methods to get this as on the other.

How many machine guns are there in each wing of the American army plane?

Col. Jacquin: One in each.

HM, Jr: And you want two?

Col. Jacquin: But we can absolutely accept one.

HM, Jr: You can? Does it need structural changes to put oxygen in?

Col. Jacquin: No, I think that could be arranged.

HM, Jr: Any structural changes?

Col. Jacquin: No.

HM, Jr: What structural changes does it need for radio?

Col. Jacquin: For radio equipment they are obliged to put a bigger wire, so the hole in the American airplanes must be changed. I can't feel that is very intricate.

HM, Jr: We took one of the most important Army men and sent him to Buffalo. One of the really important Army men went up there. That's where the plant is. I am just raising the suggestion maybe -- whether Colonel Jacquin could go up tonight to Buffalo.

Col. Jacquin: Uhm.

HM, Jr: And see Burdette Wright. Whether you could not go up to Buffalo. You understand?

Mr. Plevin: Very well, Mr. Secretary.

-5-

HM, Jr: You come with something else -- and here's the President himself has intervened.

Mr. Plevin: We were very upset when we discovered this.

HM, Jr: And the idea was to find out, as I understood it, whether the Allison motor and all the rest of it is good.

Mr. Plevin: We have to test both again.

Col. Jaquin: The P-40 is a special quick plane. It is interesting to use it by radio to see what we can do with the speed.

HM, Jr: You think my suggestion is good?

Col. Plevin: I think it is ^avery good suggestion, Mr. Secretary. I think Col. Jaquin yesterday went through every detail, which was the difference between the French and American specifications, and he comes to the conclusion that the only thing on which he cannot accept specifications is this radio matter and the oxygen. He feels this could be done if Curtiss is prepared to help.

HM, Jr: I think it is important enough for the Colonel to go up tonight, on the train, to Buffalo. I say train because the weather does not look very good.

(At this point, Miss Chauncey was excused from the meeting and Mrs. Klotz took the balance of the minutes.)

HM, Jr: Take a few minutes and tell me -- the statement has been that the French planes are always one cycle behind the German planes. Are you always one model behind?

Col. Jaquin: For the fighting planes, in the type of war we are in now, at the moment the Messerschmitt is not as good as our own plane and the Curtiss. We have superiority when it comes to these fighting planes. When we go against the bombers, we have another kind of thing.

-6-

The German bombers are very quick and the Curtiss and our planes are not very quick. We expect that the P-40 will be quick, I think.

Another trouble we have is that we have not the fuel. We are using 90 octane gas and you use 100 octane and, therefore, our performance is not as good as yours. The Martins are just arriving in Paris now. We do not know what they will do. We need more speed planes.

HM, Jr.: How fast is the Martin with a full load?

Col. Jacquin: About 300 miles an hour.

The balance of the meeting in substance was as follows:

Their requirements for the period from October 1, 1940 to April 1941, they will get 6300 engines. For the period March 1, 1941 to September 30, 1941, 8350 engines, or a gross number of 14,650, and what Allison can give them in the first period, 4100 engines and in the second period, 5050 engines, which is about half of what we want.

They also said they do not know what the terms will be yet and he said, "I think the new plane, because we need such a high horsepower, the price will be twice as expensive."

Mr. Plevin: Mr. Secretary, when you took us over to see the President, the President suggested that Colonel Jacquin might see your new planes.

HM, Jr.: Let Capt. Collins or me know just which plane you want to see.

Col. Jacquin: I would like to see the long-range bombers and speed planes, the North American, the Glenn Martin and the Douglas.

(Secretary Morgenthau asked Mrs. Klotz to remind him to arrange for it.)

oOo-oOo

102
JAN 12 1940

JAN 12, 1940.

In The Nation

The Case of the Associated Gas and Electric Companies

By ARTHUR BROCK

WASHINGTON, Jan. 11.—When a billion-dollar utility system files as a bankrupt in Federal Court on the ground that a ruling of the Securities and Exchange Commission has left it "without the necessary funds to carry on its business" the incident might be set down as another proof that the New Deal is out to destroy private industry. The impact of the news, coming so soon after the common-stock-vs.-bonds decision of the SEC in the Consumers Power Company case, could easily produce this impression.

But the background of the SEC's ruling in this instance is wholly different; there are no active figures in the Associated Gas and Electric Company case to suggest political reprisals, as were provided by Wendell L. Willkie and Morgan Stanley & Co., whom the Frank-Renderson-Eicher Commission majority overruled in the other; and both Federal Loan Administrator Jesse H. Jones and the RFC, respected and trusted by business and finance, are in full accord with the present decision of Chairman Frank's commission.

Perhaps the latter factor has more than anything else to do with the fact that no criticism of the SEC's ruling, and its bearing on the bankruptcy application, can be heard in the capital. For Mr. Jones's record is one of constructive aid to business and intelligent conservation of public funds. And it may also be noted that the reorganization via bankruptcy route is expertly asserted to be a far less costly proceeding than the refinancing proposed by the utility system. In the Consumers Power Company matter the SEC's required way was the costlier method.

In Full Agreement

The RFC and Mr. Jones dwell on the northeast corner of Pennsylvania Avenue and Nineteenth Street, and the offices of the SEC occupy the southeast corner of the avenue and Eighteenth Street. Across this diagonal of Federal finance wires often have crossed, and sparks have frequently flown. But from beginning to end of the negotiation here discussed there has been complete cooperation and agreement between the two agencies.

When first approached by the A. G. and E., the RFC said it would consider a loan and laid down six conditions. These apply so pertinently to what followed that they are worthy of recounting. The loan would be considered, said Mr. Jones and his aides, on these co-operative steps by the utility:

1. Such changes in officers, directors and management of all the companies affiliated and related as would insure the future integrity of the companies in their relations with the SEC and the public.

2. Filing with the SEC of a satisfactory plan to reorganize the corporate structure of the utility system to provide for the dissolution of the two voting trusts, the merger of the A. G. and E. Company with the A. G. and E. Corporation, and the equitable distribution of voting control.

3. A 50 per cent minimum of any loan granted to be taken by banks, these banks and the RFC to share equally in security and loan repayments.

4. Approval by the RFC and the SEC of the use of the proceeds of the loan, with the understanding that the full amount of RFC participation be used to extend and improve facilities.

5. Proof that the utility system is carrying out as promptly as possible plans to eliminate all "unnecessary intervening holding companies, inactive companies and restricted operating companies"—the mandate of the Holding Company Act.

6. Management, together with salaries, fees and commissions paid, to be subject to RFC approval while any part of its loan is outstanding.

Jones Not Consulted

While these conditions were presumably under discussion by the utilities system management, J. I. Mingo, president of the A. G. and E. Company, was suddenly replaced by Roger J. Whiteford, a Washington attorney, at a salary of \$10,000 a month. This action was taken without any consultation with Mr. Jones or the RFC and occurred Dec. 12, 1939. The government agency from which a loan of more than \$26 millions had been solicited was not even asked if the new set-up was satisfactory. Four days later, when Mr. Whiteford called on Mr. Jones, he was informed that the RFC would make no loan. The administrator was represented as adding to friends that salaries like Mr. Whiteford's, especially when paid by a corporation in the A. G. and E.'s position, did not commend themselves in a Federal agency which hired very good administrative lawyers at about this sum per annum.

From beginning to end of the negotiations Mr. Jones saw various deputies on behalf of the corporation loan and conferred constantly with SEC officials. It should again be stressed that the commission's ruling has his hearty support, and also that it was unanimous at the SEC. This means that Commissioners Mathews and Healy, who wrote the striking dissent to the Frank-Renderson-Eicher rejection of the \$10 millions of bond vending in the Consumers Power case (an opinion which financial circles have hailed as magna charta for the securities business) wholly concurred in the ruling.

AMERICAN CONSULATE GENERAL
American Foreign Service, Hanoi, Indochina,
January 12, 1940.

Air Mail

No. 41

Subject: Conversations with Mr. M. E. Sheahan
regarding Transportation to China.

The Honorable

The Secretary of State,
Washington.

Sir:

I have the honor to summarize, as of possible interest to the Department, a number of conversations which I have had within the last few days with Mr. M. E. Sheahan, an American motor transport expert, who is in China to assist the Chinese Minister of Communications in the coordination of transportation throughout China.

Mr. Sheahan stated that he had come to Indochina to study the situation at Haiphong, in view of the fact that there have been so many conflicting stories as to conditions at that port, so as to be in a position to recommend whether the cargo there, or any part thereof, should be transported to Rangoon. In this connection, he commented that the Caobang road would be ready for traffic before the end of the present month, but that at least a certain amount of cargo should be transported to Rangoon, particularly trucks not yet assembled.

Mr. Sheahan discussed the various possible routes from Kunming to the Indochina frontier and stated that every effort was being made to establish a road connecting Kunming at Hokow (Lao Kay). As a matter of fact, he considered such a road vastly more satisfactory than the Caobang road, but it would be a matter of some

- 2 -

months before through traffic could be inaugurated. In the meantime, various stretches are passable for motor traffic and a system of carrying coolies and ponies could and should be used to bridge the unfinished sections.

He remarked that conditions at Haiphong had not been entirely satisfactory and made reference to the alleged diverting of railway wagons from the purpose for which they had been assigned to Chinese transportation agencies (my despatches nos. 25 and 30 of December 9 and 20, 1939). He believed that conditions had improved and that they would continue to improve. He had asked the Chinese to provide him with a complete list of the freight at Haiphong awaiting shipment to China. In this connection, Mr. Sheahan said that the figures which had been supplied to him previously indicated that there were about 120 thousand tons of cargo at Haiphong, including approximately 2300 trucks, but he was not entirely satisfied as to the accuracy of these figures.

I remarked that my estimates indicated a much larger quantity of freight. During a subsequent conversation, Mr. Sheahan agreed that, if all cargo was considered, including rails and railway rolling stock, commercial as well as Chinese Government cargo, his figures were probably too low. This is particularly true as regards automobiles and trucks - on November 15 the Indochina Customs statistics showed 2,650 trucks in Indochina awaiting transit to China; there were at that time at least 150 passenger cars awaiting transit; since that date at least 150 trucks and passenger cars have arrived at Haiphong; and no trucks or passenger cars cleared the Customs for China after

- 3 -

November 20. Mr. Sheahan discussed the various aspects of his plan for the clearing of the congestion at Haiphong, at the same time making available a copy of his memorandum of January 3, 1940, addressed to the Chinese Minister of Communications, in regard to this matter. Upon Mr. Sheahan's return to Hanoi, I shall again discuss this plan and I shall then report in detail as to what steps have and are being taken to carry out Mr. Sheahan's various recommendations.

Respectfully yours,

For the Consul at Saigon,

CHARLES S. REED II,
American Consul

Original and 2 copies to the Department
Copies to Embassy, Chungking and Peiping
Copies to Consulates, Kunming and Saigon
Copy to Consulate General, Hong Kong

815.4/815.6

CSR:csr



TREASURY DEPARTMENT

WASHINGTON, D. C.

OFFICE OF THE CHIEF
U. S. SECRET SERVICE

January 12, 1940

Memorandum to the Secretary

From Chief, Secret Service

In response to your telephonic request the following information has been secured by the San Francisco office.

Party does rent Apartment "G" in St. Francis Hotel and the telephone number which he gave you is that of the hotel. Frequently loans apartment to friends such as Paul McNutt, the Governor of Hawaii, and other prominent people. He does not actually live in the apartment but used it for convenience and his wife uses it while in San Francisco shopping or attending society affairs.

Paul Fagan at apartment yesterday from about 11:00 A.M. to 5:00 P.M. He has large homes at Burlingame, Hillsborough, and Pebble Beach. He is married to the former Mrs. Templeton Crocker. He has extensive plantation interests in Hawaii and is associated with Matson Navigation Company.

Copy

CL48/P15 (391223)
Serial No. 1813

NAVY DEPARTMENT

Washington

12 January 1940

Sir:

Enclosed herewith is a letter from the Commanding Officer of the U.S.S. HONOLULU acknowledging receipt of a plaque commemorating the delivery by the HONOLULU of twenty-five million dollars of gold from Portsmouth, England to the Assay Office, New York City.

Respectfully,

(Signed) Charles Edison
Secretary of the Navy

Encl.

The Honorable,

The Secretary of the Treasury.

U. S. S. HONOLULU

Long Beach, Calif.,
23 December, 1939.

The Honorable
The Secretary of the Treasury,
Washington, D. C.

Dear Sir:

The plaque commemorating the delivery by the U.S.S. HONOLULU of twenty-five million dollars of gold from Portsmouth, England, to the Assay Office, New York City, has been received.

The kind remarks on this plaque concerning the efficiency of the officers and crew are deeply appreciated. It is a pleasure to state that the cooperation of the officials of the Bank of England and of the Assay Office, New York, made the transfer of this gold a simple matter.

The Captain, officers and crew of the HONOLULU will be delighted if some future opportunity assigns them to duty where again they may be of service to the Secretary of the Treasury.

Very truly yours,

(Signed) Oscar Smith

Oscar Smith,
Captain, U.S. Navy,
Commanding.

NAVY DEPARTMENT

CL43/P15(391228)
Serial No. 1613

WASHINGTON

12 January 1940

Sir:

Enclosed herewith is a letter from the Commanding Officer of the U.S.S. NASHVILLE acknowledging receipt of a plaque commemorating the delivery by the NASHVILLE of twenty-five million dollars of gold from Portsmouth, England to the Assay Office, New York City.

Respectfully,

Encl.

(Signed) Charles Edison

Secretary of the Navy

The Honorable,

The Secretary of the Treasury.

United States Fleet
Cruisers, Battle Force, Cruiser Division Eight
U. S. S. Nashville

Long Beach, California.
28 December 1939

The Honorable
The Secretary of the Treasury,
Washington, D. C.

Dear Sir:

The plaque commemorating transportation by the U. S. S. NASHVILLE of twenty-five million dollars of gold from Portsmouth, England to New York was delivered to the writer by the Commander-in-Chief, U.S. Fleet, at a ceremony held on board the flagship PENNSYLVANIA on 23 December, 1939.

Captain W. W. Wilson was, most unfortunately, too ill to attend the presentation ceremony, and he continues too ill at this time personally to express his thanks. He has requested me to convey his appreciation of the plaque and the complimentary inscription thereon.

It was a rare privilege as well as a great pleasure to assist the Treasury Department in this transfer of bullion. The cooperative spirit of the officials of the Bank of England and of the Assay Office, New York was helpful and greatly appreciated. It goes without saying that we all look with pleasure to any similar future opportunity to render service to the Secretary of the Treasury.

Very truly yours,

(Signed) T. E. Chandler,
T. E. CHANDLER,
Commander, U.S. Navy,
Executive Officer.



TREASURY DEPARTMENT
WASHINGTON

111

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

IT:P:CA
CAA

January 12, 1940.

REPORT FOR SECRETARY MORGENTHAU:

In regard to closing agreements under the Vinson-
Trammell Act, there were no developments during the week.

Commissioner.

IT:P:CA
CAA

January 12, 1940.

REPORT FOR SECRETARY MORGENTHAU:

In regard to closing agreements under the Vinson-Trammell Act, there were no developments during the week.

(Signed) Guy T. Halvering

Commissioner.

CAA/112

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

NO.: 68

DATE: January 12, 1940, 8 p.m.

(SECTION ONE)

FOR TREASURY FROM MATTHEWS.

This morning I visited Daynes of the Blockade Ministry who gave me the latest information regarding the ferro-alloys question. He and the Blockade Minister made a trip of several days' duration to Marseille and the surrounding region. He has just returned from there and he seemed to be pleased with the operation of the blockade. He cited the merits of the French system, which requires halted ships to immediately unload any cargo which is suspected of being contraband and permits them to go on with the non-suspect cargo, in comparison with the British system, under which all ships are held up if any part of their cargo is suspected of being contraband awaiting the results of investigations, which sometimes take a long time. He stated that although there was a tendency for port congestion to be increased under the French system, it was usually a fairly simple matter to overcome this difficulty by building more warehouses; he added that delays to neutral shipping were greatly reduced.

BULLITT

EA:EB

JT

GRAY

PARIS

Dated January 12, 1940

Rec'd 4:05 p.m.

Secretary of State,
Washington.

68, January 12, 8 p.m. (SECTION TWO)

During the debate on the 1940 civil budget the patents tax came in for severe criticism in view of the great reduction in the volume of business of the great majority of French concerns since the outbreak of the war. (The patents tax as you are aware is levied upon all persons or companies carrying on business, trade, or profession in France. It is not based upon profits but on the "external evidence of earning capacity" which frequently results in somewhat fictitious assessments). Reynaud then promised early remedial action and a communique today announces that the government has introduced a bill suppressing the patents tax. To offset the consequent loss of revenue the "armament" (sales) tax of one per cent created last April (Embassy's despatch No. 4223, April 24) will be increased from one to two per cent thereunder.

SULLITT

NPL

REB

GRAY

Paris

Dated January 12, 1940

Rec'd 4:55 p. m.

Secretary of State,
Washington.

68, January 12, 8 p. m. (SECTION THREE)

The communique asserts that this new levy is "fairer" in that it is based on the actual volume of business done by each concern (the communique ignores the transfer of the burden to the consumer) and states that special measures are envisaged to avoid a rise in prices.

As I have reported there are restrictions on sales of specified meat by butchers and in hotels and restaurants on Mondays, Tuesdays, and Fridays. Under a decree published today additional meats are included under the restrictions.

The firmer tone of the Bourse yesterday was not apparent today and the market was irregular. Rentes were mostly fractionally lower except the 1937 exchange guaranty issue which moved up two points.

(END OF MESSAGE)

BULLITT

NPL

TO THE DIRECTOR
TECHNICAL SERVICE
OFFICE OF THE
UNITED STATES
DEPARTMENT OF
COMMERCE
RECEIVED

AIR MAIL

No. 42

AMERICAN CONSULATE GENERAL

American Foreign Service, Hanoi, Indochina,
January 12, 1940.

SUBJECT: Oil Companies in Tonkin
reduce their Staffs.

THE HONORABLE
THE SECRETARY OF STATE,
WASHINGTON.

SIR:

I have the honor to report, as of possible interest to the Department, that the Standard-Vacuum Oil Company and the Asiatic Petroleum Company (Shell) are apparently accepting as a fact the fairly current belief that Indochina is becoming a secondary route of transportation to China, as a result of the loss of the Dong Dang-Nanning road and the damage to the Indochina-Yunnan Railway. The American company, which has hitherto maintained a staff of four Americans for the sole purpose of dealing with the China trade, either for the Chinese Government contracts or for the company's account, has transferred two senior employees without replacing them in Indochina. The senior employee of the Asiatic Petroleum Company, stationed at Hanoi for the China trade, has been informed of his forthcoming transfer.

The senior Standard-Vacuum Company employee has outlined the situation as follows: (1) CAOBIANG ROAD. "At present passable but not practical for shipment in large volume until about April and even then it is doubted that the maximum of all goods shipped can exceed 3,000 tons"; (2) YUNNAN RAILWAY. "Now out of commission and estimated at least two months required for repairs but doubtful whether repairs would be worthwhile in view of tactics pursued by Japanese"; (3) BURMA ROAD. "It is stated that the maximum capacity of the railway to Lashio is 800 tons per day and the Southwestern Transportation Company think they can transport 600 tons per day from Lashio onwards without much restriction on the nature of the cargo"; and (4) NANNING ROAD. "There is little or no feeling of hope as to the reopening of this road".

The

- 2 -

The conclusion which is drawn by the above-mentioned writer, which he has reported to his company, is "that Haiphong will be a secondary route from now on and although its full capacity will be utilized nevertheless the main dependence will now be placed on Rangoon". In my opinion this is a reasonably accurate estimate of the situation as it appears at the present time, although two months is too long a period for the repair of the Indochina-Yunnan Railway. Much depends, however, on the future course of Franco-Japanese relations.

Respectfully yours,

For the Consul at Saigon,

(Signed) Charles S. Reed II

Charles S. Reed II,
American Consul.

Original and 2 copies to the Department
Copies to Embassy, Chungking and Kunming
Copies to Consulates, Kunming and Saigon
Copy to Consulate General, Hongkong

815.4

CSR:csr

MEMORANDUM

(Jan. 12, 1940)

TINStock

Now at refineries 4,000 tons. Minimum of 800 tons additional will be procured per month.

Shipment to U. S. Begun

500 tons leaving Hongkong Jan. 13, 1940 on S. S. President Coolidge (310 tons fineness 99% and 190 tons fineness 75%--98%) to be offered Procurement Division first; any not taken to be sold in general market.

TUNGSTEN

On hand in Haiphong 3,000 tons, a substantial part of which,-- perhaps nearly one half,-- will be available for U. S. France originally claimed right of taking all, but negotiations are under way for releases to U. S. and Great Britain.

TRANSPORTATION OF GOODSFrom Haiphong1. Railway to Yunnan Province

Capacity 16,000 tons per month with plans for increasing it 2,000 to 3,000 tons per month. A message received today from Dr. Kung states definitely that only one bridge has been bombed out of action and that movements are still being maintained over the section on either side, goods being transferred from one section

to the other by carriers. It is expected that the bridge will be repaired in about three weeks. (See translation of cable attached).

2. Highways to Kwangsi Province

(a) Old highway, suspended since fall of Nanning, November 1939.

(b) A new highway being constructed about 100 miles to the west of the old one, protected by mountains, expected to be in operation soon

3. Red River Traffic to Border of Yunnan Province

Especially important as additional means of relieving congestion in transporting gasoline accumulated in Haiphong.

From Rangoon Rail-highway in full operation. No congestion.

CREDITS

1. The Export-Import Bank Credit of December 1938 will be nearly exhausted by the end of January 1940.
2. China needs credits to purchase a regular supply of certain essential materials to maintain effective resistance.
3. An announcement at this time of further credits would be of special value to China's morale, shaken as it naturally is by Japan's recent advances;---- more important even than was the announcement of the Export-Import Bank loan after the fall of Hankow and Canton.

January 12, 1940

TELEGRAM RECEIVED FROM DR. H. H. KUNG, CHUNGKING

TO MR. K. P. CHEN, NEW YORK

Your telegram of January 9 received. Only one bridge of the Yunnan-Indochina Railway received comparatively serious damage from Japanese bombing, other damages being of no consequence. By arrangement with French railway authorities we have despatched Mr. Lee Yao-lin, leading a group of engineers, to assist in making repairs. Mr. Lee is the railway engineer who formerly did most in maintaining the operation of the Canton-Hankow Railway under similar circumstances. He and his assistants will be permanently stationed on the Railway to attend to all emergency repairs.

The bombed bridge had one of its concrete foundations damaged. It will be repaired in about three weeks. Trains are still running on the section on either side, goods being transferred from one section to the other by carriers. Transportation has not been suspended.

Ambassador Koo just cabled that the French Government had lodged a strong protest with the Tokio Government regarding the bombing of the Yunnan-Indochina Railway.

We have put additional anti-airraid units into service along the Railway and also strengthened anti-aircraft equipments. Please assure the American Government that we will do our utmost in maintaining the said Railway in running conditions.

TO THE SECRETARY
 OF THE ARMY
 WASHINGTON
 JAN 13 1940

RECEIVED
 TELETYPE UNIT
 JAN 13 1940

TO:

Secretary Morgenthau

120

Sent at the request of Mr. Noble.

MR. NOBLE.

January 12, 1940.

ECONOMIC DEVELOPMENTS

EXPORTS OF DOMESTIC MERCHANDISE jumped ahead in December to \$357 million. The advance over the November total of \$287 million was \$70 million—an increase of almost 25 percent.

December's exports -
 surpassed 1937 peak (see attached chart)
 were larger than October—usual seasonal peak month
 were larger than any month since March 1930
 were larger than any December since 1929

SIGNIFICANCE: This is an expansion of substantial magnitude—the largest percentage gain over previous month since war started. Represents a real gain as it can not be explained by seasonal factors.

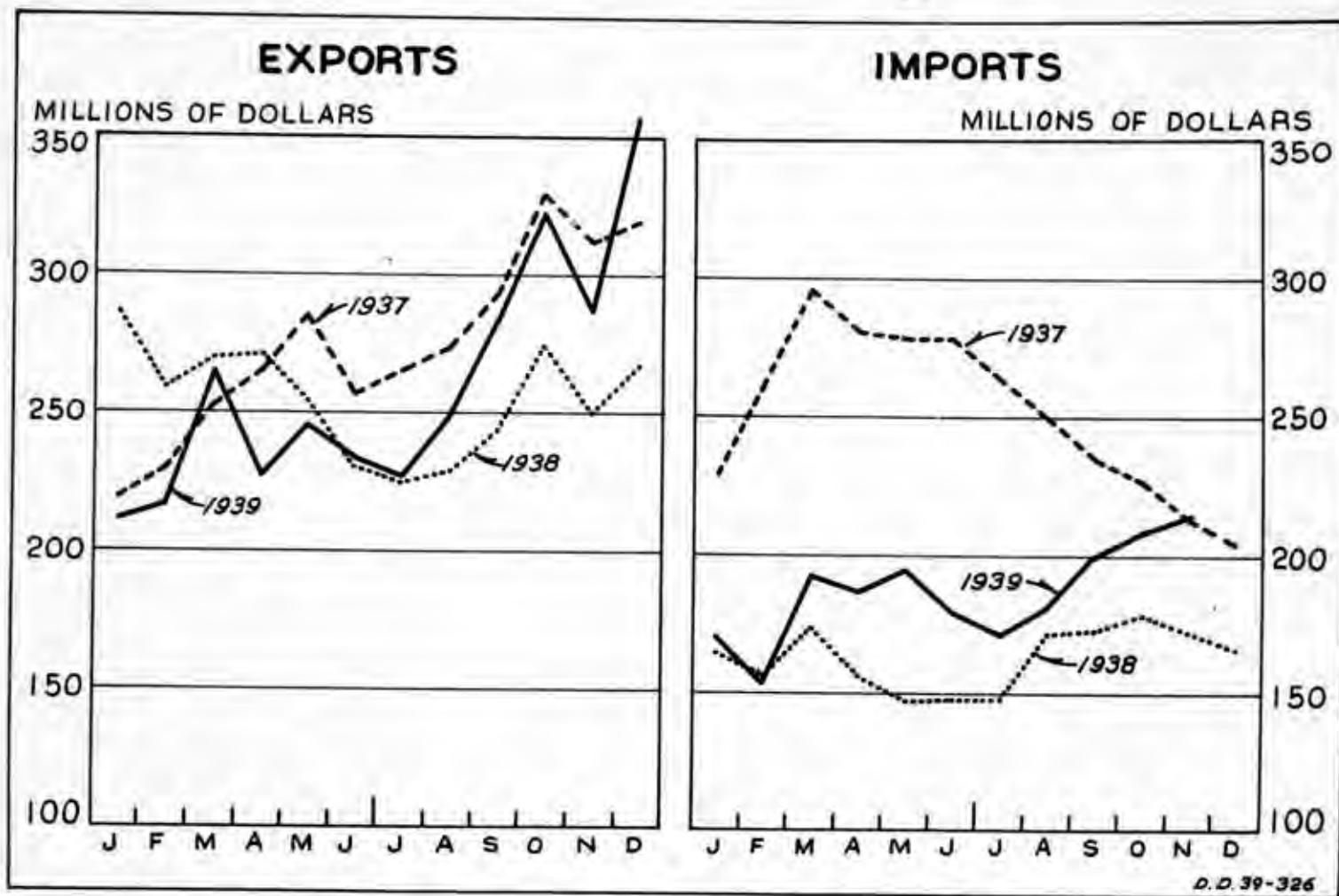
SEASONAL MOVEMENT November to December has usually been down—a seasonal decline of 8 percent was average for the period 1920-1935 with only a few years showing increases. However, the export seasonal has been shifting (grains and automobiles) and for past three years December has shown small increase over November.

EXAMPLES: Increase in exports from November to December

1936	—	1.8 percent
1937	—	1.4 "
1938	—	6.6 "
1939	—	24.4 "

SIGNIFICANCE: December increase far above seasonal and perhaps contrasessional.

Note: Compilation of detail by commodities and countries not completed but, as only \$10 million missing, picture can not be much changed.



VALUE OF UNITED STATES EXPORTS OF MERCHANDISE, AND IMPORTS FOR CONSUMPTION, 1937-39.
(U. S. DEPARTMENT OF COMMERCE, BUREAU OF FOREIGN AND DOMESTIC COMMERCE)

- 2 -

THE PRINCIPAL COMMODITIES responsible for increase in export total in December were aircraft, raw cotton, metals, automobiles, petroleum products, and machinery. Only major decline was coal, but wheat and flour, fruits, and steel scrap also dropped.

EXAMPLES:

	<u>November</u>	<u>December</u> (incomplete)
	(Million dollars)	
Aircraft	6.8	28.6
Raw cotton (upland)	29.9	42.5
Metals:		
Copper (refined)	8.8	13.7
Iron and steel-mill	27.7	31.1
Ferro-alloys	2.3	3.4
Aluminum	2.0	2.5
Autos, trucks, etc.	19.9	24.6
Petroleum products	31.3	35.2
Metal-working machinery	9.1	12.7
Construction machinery	1.5	2.3
Meats	1.8	3.5
Corn	0.8	3.0
Coal	8.3	3.3
Wheat and flour	3.1	2.0
Steel scrap	5.1	3.9
Fruits (dried and canned)	3.4	1.9

SIGNIFICANCE: The sharp pick-up in exports of aircraft to the Allies accounted for about one-third of the total increase in exports in December. The metals, petroleum products, and machine tools--important war materials--contributed about one-fourth of the increase. The rise in exports of autos was seasonal in character but raw cotton increase is contraseasonal. Spain, Italy, and France, show significant increases according to the preliminary figures.

- 3 -

INCREASED SHIPMENTS to France and England account for large part of December's gain. Increase to these two countries was \$41 million. Latin American exports up again but increase not large (three-days shipments missing in figures to these countries). The one major decline was to Canada.

EXAMPLES:

	<u>November</u>	<u>December</u> (incomplete)
	(Million dollars)	
United Kingdom	31.0	48.9
France	13.2	36.2
Germany	—	—
Spain	2.8	6.4
Italy	5.9	8.2
U.S.S.R.	7.0	10.4
Japan	25.2	26.5
Australia	4.3	6.6
South Africa	5.7	6.3
Argentina	9.8	9.6
Brazil	10.6	9.6
Venezuela	5.9	7.0
Colombia	4.7	5.4
Canada	49.0	37.5

SIGNIFICANCE: Large part of increase is accounted for by shipments to the Allies.

Increased exports to France concentrated almost entirely in aircraft but also increases in copper, crude petroleum, and cotton.

EXAMPLES:

	<u>November</u>	<u>December</u> (incomplete)
	(Million dollars)	
Aircraft	2.7	20.1
Copper	1.9	2.8
Crude petroleum	1.0	2.0
Cotton	2.6	3.6
Metal-working machinery	.9	2.1

- 4 -

Increase to England was quite general with some of the major gains as follows:

EXAMPLES:

	<u>November</u>	<u>December</u> (incomplete)
	(Million dollars)	
Aircraft	.8	4.2
Petroleum products	2.5	5.4
Metal-working machinery	3.0	4.4

SIGNIFICANCE: Increase to France was largely aircraft which was expected but increase to England shows more buying over a broad range of industrial commodities. The increase seems definitely not cotton or foodstuffs but manufactured goods.

The large declines in exports to Canada were coal and petroleum although many small declines occurred. Shipments of coal declined \$4.5 million, petroleum \$1.4.

Other changes of interest:

Increase to U.S.S.R. — copper, almost entirely
 Increase to Spain — largely cotton and petroleum products
 Increase to Italy — cotton, almost entirely.

FOREIGN TRADE NOTES

Germany: A year-end cable from the American Embassy in Berlin comments on the recent conclusion of trade negotiations by Germany with Rumania, the Netherlands, Sweden, and Denmark, to the effect that those agreements will not be of any great assistance. In the case of Rumania the increase in the exchange rate of the mark, one of the concessions in the agreement, will be more than nullified by the doubling of the price of petroleum in Rumanian currency. Dutch sources indicate that there will be no substantial increase in exports from the Netherlands to Germany. The blocked balance of 40 million guilders, resulting from the large imports by Germany during the months preceding the war, has shrunk to about 1/10 and it is expected that Germany will soon have credits in the Netherlands.

The original plan, to divert from England to Germany the Danish exports, has been given up.

Swiss and Dutch sources indicate that there has been an improvement in the quality and terms of delivery of German exports since the first weeks after the outbreak of the war.

Instances of the flight from the mark are to be found in the doubling of the price of diamonds within the last year, and the large sales of oriental rugs as investments.

Delivery of several large generators for hydroelectric works in Finland has been made recently by German manufacturers, according to schedule. In one case the generator was built within the last 19 months.

Italy: According to the Italian press, Italian industry is now operating at capacity in nearly all its branches and Italian factories since the outbreak of the war have been deluged with orders of all kinds from the belligerent countries, both for war supplies and normal goods. There has developed a shortage of skilled labor and an increase in production costs. Since it is recognized that the present boom is of a temporary nature, there is a reluctance to expand plant capacity and consequently there is some pressure against the restrictions on labor hours.

Soviet Union: According to a strictly confidential Embassy dispatch, the mobilization of the military and naval forces on September 9 created a feeling of panic among the population, and the sudden withdrawal of approximately a million workers from the national economy threw transport and industry into considerable confusion. There was a run on savings banks and foodstuff supplies.

The petroleum industry has not improved its drilling operations and it is doubtful whether the Soviet Union will be in a position to furnish Germany during the next few years any larger quantity of petroleum than was exported to the entire world in 1938, approximately 1-1/2 million metric tons. An American railway expert who has resided in the Soviet Union for about 20 years is of the opinion

that the Soviet railway system is incapable of hauling annually more than 1/2 million metric tons of petroleum.

Brazil: October coffee exports amounting to over 2 million bags have been larger than in any other single month with the exception of October 1915.

Spain: The banking situation is confused by the blocking of enormous sums of deposits made under the former political regime. At the moment all the large banks appear to be in very good condition, but with the release of the blocked funds there will be the necessity of liquidating offset accounts and the question arises as to how many of the banks will be in a position to meet their obligations and still be in a liquid position.

AD

Bureau of Foreign and Domestic Commerce,
January 11, 1940.

WEEKLY WHOLESALE PRICE INDEXES

1926 = 100

Group	Aug.	Sept.	Dec.	Dec.	Jan.	Percentage in- crease Jan. 6, 1940 from Aug. 26, 1939
	26 1939	16 1939	23 1939	30 1939	6 1940	
All commodities	74.8	79.3	79.3	79.4	79.5	6.3
Farm products	61.1	69.7	67.8	68.5	69.6	13.9
Foods	66.7	75.5	72.1	71.9	71.8	7.6
All commodities other than farm products and foods	80.4	82.4	84.3	84.4	84.2	4.7
Hides and leather products	92.6	98.3	104.4	104.1	104.0	12.3
Textile products	67.4	71.4	77.8	78.6	78.3	16.2
Fuel and lighting materials	73.2	74.1	73.5	73.4	73.3	0.1
Metals and metal products	93.5	94.9	96.1	96.1	96.0	2.7
Building materials	89.7	90.7	93.6	93.1	92.9	3.6
Chemicals and drugs	74.2	77.1	78.0	78.1	78.0	5.1
House furnishing goods	87.0	87.1	90.0	90.1	90.1	3.6
Miscellaneous	73.1	76.1	77.4	77.7	77.5	6.0
Raw materials	66.2	73.0	73.3	73.6	74.1	11.9
Semimanufactured articles	74.4	82.0	82.1	83.5	81.9	10.1
Finished products	79.3	82.3	82.2	82.0	82.1	3.5

Source: Bureau of Labor Statistics, U. S. Department of Labor.

SELECTED COMMODITY PRICE SERIES

Commodity	Unit	Aug.	Sept.	Dec.	Jan.	Jan.
		31 1939	14 1939	27 1939	3 1940	10 1940
Copper, electrolytic, New York . . .	¢ per lb.	10 4/8'	12	12 4/8'	12 4/8'	12 4/8'
Lead, prompt shipment, New York . . .	do	5.05	5.50	5.50	5.50	5.50
Zinc, New York	do	5.14	6.64	6.39	6.14	6.14
Tin, straits, New York	do	49 4/8' ^{1/}	72	50	48 4/8'	47 7/8
Rubber, plantation, New York	do	16 7/8'	22 4/8'	19 4/8'	19 2/8'	19 6/8
Hides, light native cows, Chicago . .	do	11	15	15 1/8'	15 4/8'	15
Silk, 13-15 denier, 78% seriplane, New York	¢ per lb.	2.70	3.05	4.65	4.25	4.05
Cotton, middling, av. 10 markets . . .	¢ per lb.	8.55	9.02	10.68	10.87	10.82
Print cloth, 60x64, 38 1/2 inches, N.Y.	¢ per yd.	4 5/8'	5 3/8'	5 4/8'	5 4/8'	5 3/8
Wool tops (Mar. futures, New York) . .	¢ per lb.	2/81.6	2/115.0	103.4	105.0	104.9
Sugar, raw, 96° duty free, New York .	do	2.92	3.75	2.85	2.82	2.80
Cocoa, Accra, New York	do	4.47	6.35	5.95	5.90	5.70
Coffee, Santos, No. 4, New York . . .	do	7 3/8'	7 6/8'	7 4/8'	7 4/8'	7 4/8
Lard, cash, Chicago	do	5.75	7.75	6.10	6.07	5.87
Cottonseed oil (Mar. futures, N.Y.) . .	do	2/ 5.75	2/ 7.38	7.01	7.14	6.98
Wheat (May futures, Chicago)	¢ per bu.	3/68 3/8'	3/ 86 7/8'	1.02 4/8'	1.06 1/8'	1.02
Hogs, good and choice, 220-240 pounds, Chicago	¢ per cwt.	6.78	8.02	5.88	5.75	5.35
Steers, beef, medium, 750-1,100 pounds, Chicago	do	8.38	8.75	8.88	8.75	8.50

^{1/} Nominal.

^{2/} Prices for August 31 and September 14 are for December futures, New York.

^{3/} Prices for August 31 and September 14 are for December futures, Chicago.

Sources: All commodities, with the exception of wool tops, cottonseed oil, hogs, and steers, are taken from the Journal of Commerce; wool tops and cottonseed oil are taken from the Wall Street Journal; and hogs and steers are from the Bureau of Agricultural Economics, U. S. Department of Agriculture.

COMPOSITE PRICES OF PIG IRON, STEEL SCRAP, AND FINISHED STEEL

Date	Pig Iron <u>1/</u>	Steel Scrap <u>2/</u>	Finished Steel <u>3/</u>
	(Dollars per gross ton)		(Cents per pound)
1939:			
August 29	20.61	15.62	2.236
September 19	22.61	19.25	2.236
October 3	22.61	22.50	2.236
October 31	22.61	20.96	2.236
November 21	22.61	19.58	2.236
November 28	22.61	18.58	2.261
December 18	22.61	17.83	2.261
December 26	22.61	17.67	2.261
1940:			
January 2	22.61	17.67	2.261
January 9	22.61	17.67	2.261

1/ Based on average for basic iron at Valley furnace and foundry iron at Chicago, Philadelphia, Buffalo, Valley and Southern iron at Cincinnati.

2/ Based on No. 1 heavy melting steel quotations at Pittsburgh, Philadelphia, and Chicago.

3/ Based on steel bars, beams, tank plates, wire, rails, black pipe, sheets and hot-rolled strip. These products represent 85 percent of the United States output.

Source: The Iron Age.

PRICES OF PETROLEUM PRODUCTS - IN BULK AT GULF COAST PORTS

Product	Unit	August 31 1939	September 14 1939	December 27 1939	January 3 1940	January 10 1940
Motor gasoline - 65 octane	¢ per gal.	4 6/8-5	6 2/8-6 7/8	5 6/8-6	5 6/8-6	5 4/8-6
Light fuel oil, No. 2	do	3 3/8-3 6/8	4 -4 1/8	4 -4 1/8	4 -4 1/8	4 -4 1/8
Diesel oil - ships' bunkers.	\$ per bbl.	1.45	1.45	1.70	1.70	1.70
Bunker oil, grade "C", cargoes.	do	.78 - .80	.85 - 1.00	.90 - 1.00	.95 - 1.00	.95 - 1.00

Source: Platt's Oilgram.

JT

GRAY

LONDON

Undated

Rec'd January 12, 1940

5:45 p.m.

Secretary of State,
Washington.

111.

FOR TREASURY FROM BUTTERWORTH.

STRICTLY CONFIDENTIAL.

I was shown in strict confidence by the British Treasury their figures pertaining to other countries, similar to those for America given me by Phillips on December 21 and reported in my 2695 of that date. These data are nothing more than intelligent guesses since they are not only subject to modification arising out of war demands but do not take into consideration recent price changes or reliably evaluate the extent to which British exports can be maintained.

The total United Kingdom debit balance of payments with the following countries was estimated during the first year of the war at about £260,000,000 (and this net figure was arrived at, as in the case of the American figure, by subtracting from the gross figure the United Kingdom's exports, visible and invisible, plus the net favorable balance

of

-2- #111, Jan. 12, from London

of the sterling empire) the Argentine, Holland and possessions, Sweden, Norway, Denmark, Belgium, Switzerland, France and possessions, Canada and the United States.

As regards the Argentine the adverse British balance of payments is estimated to run at about £19,000,000. The three months temporary payments arrangement made between the central banks of Great Britain and the Argentine is due to expire on January 25, and I gather that it will be replaced by another arrangement between the two central banks. The adverse British balance with Holland and the Dutch East Indies is estimated at £41,000,000, but inasmuch as the relations between Malaya and the Dutch East Indies are a complicating element due mainly to importations of rubber and other produce from the Dutch East Indies to the free port of Singapore from whence they are reexported, the real debit balance is much less. Due to the leasing of Norwegian tankers, the adverse British balance with Norway is estimated to run at about £15,000,000 and negotiations are now in progress regarding this matter. Likewise conversations are taking place with Denmark, whose favorable balance is estimated to run at £29,000,000. The agreement reported in my 34, January 5, 7 p.m., was concluded with Sweden whose favorable balance is estimated at £7,000,000. In the case of Belgium the United Kingdom is estimated to have a small favorable balance of payments. The French position is affected not only by

-3- #111, Jan 12 from London

French purchases in the British sterling empire and vice versa but by growing franc expenditure of the British Expeditionary Force in France and by the presence of French sterling balances in London.

For such a distant country as Canada shipping is one of the overriding considerations. For instance there is a great shortage of lumber here and whereas the British Treasury is prepared to buy enormous quantities of Canadian lumber it does not know to what extent shipping facilities will be available. Incidentally I get the impression that whereas the shipping problem is not at the moment critical it is very difficult indeed.

However, the general tenor of these figures do not indicate an extraordinary drain on British gold or dollar assets if new gold production is taken into consideration; on the contrary insofar as the British are successful in making such countries as Canada and The Argentine repatriate their securities a drain will be decidedly reduced. I venture to suggest that this whole question is one which is well worth our study.

When I chided Phillips and other Treasury officials about the manner in which they have scared the other government departments as to the shoaling of dollars

and

RFP -4- #111, January 12 from London

and casually hazarded the view that at the end of the first (*) of war the British fund might well have lost little, they hastened to deny such a possibility and to point out the cumulative effect of war demands.

JOHNSON

EMB:JWR

(*) apparent omission

TO THE ASSISTANT
SECRETARY GENERAL
OFFICE OF THE

11 01 12 11 11

RECEIVED
DEPARTMENT

135 A
2-11-40

THE WHITE HOUSE
WASHINGTON

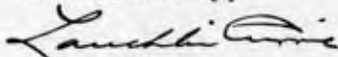
January 12, 1940.

Dear Mr. Secretary:

Thank you very much for your answer of
January 10 to my letter of December 27, 1939.

I note that your letter mentions the
possibility of the repurchase of shares of the
Federal Savings and Loan Associations from
the Treasury by the Associations. If an opinion
was prepared on the question I raised and this
further possibility I should appreciate very
much having an opportunity to study it.

Yours sincerely,



Dauchlin Currie
Administrative Assistant
to the President.

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

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE January 12, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

At the invitation of Minister Procope of Finland, I lunched with him alone at his house yesterday.

The Minister had a routine matter which I agreed to let my office handle for him with the Federal Reserve Bank of New York by telephone, as we had done once before.

The Minister's conversation centered principally about the request of his Government for a loan of \$60,000,000. He handed me copies of H.R. 7630, introduced by Representative Hook and S.R. 3069, presented by Senator Brown, for the benefit of Finland. The Minister was a little nervous about the suggestion made in the latter bill that the proposed loan to Finland be made on such terms and conditions as the Federal Loan Administrator shall prescribe. The Minister asked in regard to the capital of the Stabilization Fund, and expressed a decided preference that the lending to Finland come from this source. I explained that the loan which Finland now sought was not of a character to come within the operations of the Stabilization Fund. I added that if this were merely a question of helping stabilize a currency, or to make dollars available in a period when the Finn mark was under stress from normal factors, there might be some ground for considering our possibilities, but that the Fund was definitely excluded from any participation in the plan now under consideration.

The Minister again expressed his appreciation of the very kind attitude of the President and the Secretary of the Treasury toward his country and toward him personally. In order that the Secretary might know the character of the representation which he had made at the State Department, the Minister handed me copies of a series of strictly confidential memoranda, the originals of which I understand he had left with the Department of State. These are attached hereto. The Minister also gave me a copy of his press release which was carried under Washington headline dated January 10, which is appended hereto. The memoranda are principally a repetition of the Finnish request for aid, but do contain some interesting data with respect to the resources, trade and finances of Finland.

In the conversation the Minister mentioned their shortage of funds and the difficulty of meeting contracts for necessities such as cartridges. He said that a contract with the Winchester people for cartridges had called for a down payment of 50% and an irrevocable letter of credit to cover the balance. When informed by Prime Minister Ryti that funds had been so completely pledged that nothing was available to cover the letter of credit in question, the Minister had the matter taken up with the Winchester concern and the latter agreed to drop the letter of credit requirement.

Speaking of the \$10,000,000 credit from the Export-Import Bank, the Minister estimated that the pursuit of the war was costing his Government between \$350,000 and \$500,000 per day. Speaking of the war, he regretted that the press was playing up so extensively the number of Russian divisions alleged to be annihilated. I told the Minister that on the way to his house my taxi driver, when I mentioned that my destination was the Finnish Legation, had made the observation that people were now beginning to be sympathetic with the poor Russians. I did not tell him the driver's other story about the girl who had no use for Russians but would do anything for a Finn.

A handwritten signature in dark ink, appearing to be 'H. M. K.', is centered on the page below the typed text.

76TH CONGRESS
3^D SESSION

H. R. 7630

IN THE HOUSE OF REPRESENTATIVES

JANUARY 3, 1940

Mr. Hook introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To authorize the Secretary of the Treasury to negotiate a loan to the present recognized Government of Finland for use to meet that country's general requirements.

- 1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That the Secretary of the Treasury, by and with the approval
4 of the President of the United States, is hereby authorized
5 to negotiate a loan to the present recognized Government
6 of Finland in the sum of \$60,000,000, bearing such rate of
7 interest and under such terms and conditions as will be in
8 the best interest of the United States and Finland, said loan
9 to be granted without restriction in order that it be used by

1 the present recognized Government of Finland so as to meet
2 that country's general requirements.

3 SEC. 2. There is hereby authorized to be appropriated
4 such sums as may be necessary to carry out the provisions
5 of this Act. This Act to take effect immediately upon the
6 adoption thereof.

74TH CONGRESS
3d Session

H. R. 7630

A BILL

To authorize the Secretary of the Treasury to negotiate a loan to the present recognized Government of Finland for use to meet that country's general requirements.

By Mr. HOOK

JANUARY 3, 1940

Referred to the Committee on Ways and Means

76TH CONGRESS
3^D SESSION

S. 3069

IN THE SENATE OF THE UNITED STATES

JANUARY 8, 1940

Mr. BROWN introduced the following bill; which was read twice and referred to the Committee on Banking and Currency

A BILL

To provide for certain loans to the Republic of Finland by the Reconstruction Finance Corporation.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That the Reconstruction Finance Corporation is authorized
4 and empowered to make loans to the Republic of Finland
5 in an aggregate amount not exceeding \$60,000,000, for the
6 purpose of enabling the Republic of Finland to finance the
7 purchase of such articles and materials (whether or not such
8 articles and materials are the growth, produce, or manu-
9 facture of the United States or any of its Territories or pos-
10 sessions) as it deems necessary. All such loans shall be
11 made on such terms and conditions as the Federal Loan
12 Administrator shall prescribe.

1 SEC. 2. In order to provide funds to carry out the pur-
2 poses of this Act, the amount of notes, debentures, bonds,
3 or other such obligations which the Reconstruction Finance
4 Corporation is authorized and empowered under section 9
5 of the Reconstruction Finance Corporation Act, as amended,
6 to have outstanding at any one time, is hereby increased by
7 \$60,000,000.

70th CONGRESS
2d Session

H. R. 3069

A BILL
To provide for certain loans to the Republic
of Finland by the Reconstruction Finance
Corporation.

By Mr. BROWN

JANUARY 8, 1940

Read twice and referred to the Committee on
Banking and Currency

LEGATION OF FINLAND
WASHINGTON, D. C.

Strictly confidential.

Memorandum

Referring to repeated previous conversations concerning Finland's urgent and imperative needs of implements of war and credits and reiterating previous applications made in this respect, the Finnish Minister made the following statement:

1. He had received from his Government the instructions to ask for the implements of war mentioned in the annexed list to be delivered immediately out of stocks. If such stocks were not available, the Finnish Government had instructed the Minister to submit to the American Government that they would induce the Swedish and Norwegian Governments to deliver from their stocks the war implements needed by Finland which then the United States would soonest possible replace to Sweden and Norway.

2. The Finnish Minister further informed that he had got from his Government a telegram to the following effect: As the foreign trade of Finland is on the point of being stopped and as the enemy has attacked the country, Finland needs urgently and immediately credit in order to meet the most pressing needs. Under these conditions the Finnish Government has instructed the Finnish Minister to Washington to ask for a Governmental loan or in some other way for a credit of 60 million dollars, which could be used also outside the United States.

Referring to the above mentioned the Finnish Minister expressed the ardent and

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deep hope that the Government of the United States would find it possible to
comply with the above mentioned applications.

Washington, D. C., December 5th, 1939.

LEGATION OF FINLAND
WASHINGTON, D. C.

IMPLEMENTS OF WAR URGENTLY AND IMMEDIATELY NEEDED IN FINLAND

ITEM	QUANTITY	PRICE PER UNIT	TOTAL PRICE	REMARKS
Mortars 81 mm.	200	\$1,325	\$ 265,000	Not United States Army model
" shells	300,000	50% 7.5 50% 9.5	2,550,000	
Guns	100	5,000	500,000	Prices uncertain
shells	60,000	5	300,000	
Howitzers *	150	25,000	3,750,000	
shells	150,000	32	4,800,000	
Howitzers *	25	30,000	750,000	
shells	25,000	55	1,375,000	
Cannons *	15	?	?	This cannon is not manufactured in U.S.
shells	15,000	?	?	
mm	30	40,000	1,200,000	
Directors to 75 mm A.A.	10	55,000	550,000	
mm shells	50,000	21	1,050,000	
airplanes and bombers	50	70,000	3,500,000	Severakys
			\$20,500,000	

corresponding types even if of different calibre.

LEGATION OF FINLAND
WASHINGTON, D. C.

The Finnish Minister has the honour of putting forward the following:

Finland has proved that she can and that she will resist the aggression of which she is now a victim. The Finnish people fight for their homes and their life, for their country's freedom and for the cause of democracy. She trusts in the justice of her cause and the assistance and support of the civilized world.

Being a small and peaceful nation without any considerable war industry, it is obvious that Finland needs to get material assistance from abroad - particularly airplanes and artillery. - Finland's economic life is based largely upon her foreign trade: this now being on the point of being stopped and the country's economic situation in general being disturbed by the enemy's attack, Finland is in urgent and immediate need of credit to meet the most pressing needs, particularly in order to procure the essential requirements for the country's defense.

Referring to his previous reiterated pleas with respect to the above mentioned, the Finnish Minister, upon instructions from his Government, reiterates most respectfully and most insistently the following demands:

- 1) that Finland be allowed to get out of the stocks of the United States war materials and implements of war as mentioned in previous applications.
- 2) that at the same time, taking into consideration Finland's urgent need for getting as quickly as possible deliveries of war materials, the United States Government would find it possible to use their influence with the Governments of the United Kingdom and France in order that they arrange for immediate delivery

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eries of implements of war to Finland out of their stocks.

3) that Finland be granted credit of 60 million dollars, without restrictions pertaining to the use of same.

Washington, D. C., December 14th, 1939.

LEGATION OF FINLAND
WASHINGTON, D. C.

December 29th, 1939.

Excellency,

In previous applications, which under the instructions from my Government, I had the honour to present to Your Excellency regarding financial and material assistance to Finland, I have i.e. applied for

a Government loan of 60 million dollars to be granted Finland by the United States Government as a loan for general governmental purposes without restrictions in order to be used by the Finnish Government in accordance with the country's general requirements.

Finland has gratefully noted that the Federal Loan Agency has placed at Finland's disposal a credit of 10 million dollars through the Export Import Bank and the R.F.C. However, I have had to draw your attention to the fact that, owing to the restrictions attached to this credit, this measure could not to any great extent cover Finland's present financial requirements.

The Finnish people are now fighting for their homes and their liberty, for the ideals which they share with the American nation. They give their lives in the fight.

What is now going on in Finland, is not a war from the formal point of international law. It is a fight in self-defense and in defense of human ideals.

Profoundly grateful for the invaluable sympathy and support of the United States Finland feels justified in hoping that it will be possible for the United States to give Finland the material help she at the present moment needs.

Referring to my previous applications, I venture again most respectfully and

The Excellency
C. J. M. M.

Regraded Uclassified

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LEGATION OF FINLAND
WASHINGTON, D. C.

at the same time most urgently to reiterate to Your Excellency the above mentioned appeal of my Government.

Accept, Excellency, the renewed assurances of my highest consideration.

LEGATION OF FINLAND
WASHINGTON, D. C.

Memorandum

concerning Finland's appeal for financial
assistance.

In support of the appeal for financial assistance the Finnish Minister has put forward i.e. the following:

Finland has gratefully noted that the Federal Loan Agency in a resolution published on December 11th has placed at Finland's disposal a credit of ten million dollars through the Export Import Bank and the R. F. C. This credit is limited, however, to purchases in the United States of agricultural surpluses and other civilian commodities. We duly acknowledge this measure, and appreciate it as a sign of the American nation's desire to assist Finland. Nevertheless it must be realized that this credit could not to any great extent cover Finland's present financial requirements. The amount itself does not nearly meet the demands arising from the present situation, and the restrictions put upon the use of this credit make it impossible to take full advantage thereof immediately. On the other hand Finland needs urgently and promptly financial and material help in the struggle in which she is now involved through no fault of her own.

Thanks to the principles of strict economy which both the Government and the country as a whole pursued, Finland has in the last decades been able to reduce her foreign debts so materially that at the outbreak of the European War Finland's foreign indebtedness

was balanced by assets and deposits abroad, to which has to be added the gold deposits with foreign banks.

May it be mentioned in this connection that Finland, having borrowed from this country in the postwar years about 110 million dollars, has during the last decade paid off this debt almost entirely, so that the amount now outstanding in this country is calculated to be only about 14 millions. And furthermore this sum was at the outbreak of the war outweighed by balances in this country.

Finland's economic position in peacetime was thus very satisfactory. However, the economic policy which Finland had been following and which was based on a steady redemption of her foreign debt, forced the country not only to avoid all unnecessary expenditure, but also made it impossible for Finland to accumulate particularly great balances abroad.

According to recent calculations forty to fifty percent of Finland's national income is founded on her exports. Sixty percent of Finland's exports go to the United States, the United Kingdom and to countries overseas, forty percent to European countries. (In this connection it may be pointed out that Finland's export sales to the Soviet Union in recent years has been only 0.5 percent of the total export.)

The outbreak of the war caused serious reductions in Finnish exports, already early this autumn. And the Russian attack brought them to an almost complete standstill. The attack and the necessity to concentrate all activities on the national defense have naturally had a very severe effect on economic conditions. Production suffers seriously. Large sections of the country have been evacuated. All the male population has been mobilized to a very great extent, and even a large proportion of

The women are occupied in work directly connected with defense. Almost one third of the entire population has been dislocated, being either called to the colors or evacuated. The attack of the ruthless enemy demands effort and expenditure which a country like Finland cannot possibly be prepared to meet without help from abroad. The people of Finland are fully convinced that the civilized world will not, for economic and material considerations, leave them without assistance.

On the other hand, Finland has shown that she is able, and determined to meet her international obligations. When the United States in 1919 helped Finland with certain commodities, the country was in great distress. At that time exports had also come to a standstill, the productive apparatus was seriously disturbed and the country had no holdings of foreign currencies.

Through hard work and strict economy, the Finns have put the country's economic life on a sound basis, so that she could fulfill all her obligations. So now when Finland is again compelled to appeal to her friends for assistance, the whole nation is determined by industry and economy to again repay the help they may receive.

In conclusion the Minister of Finland has emphasized:

- Finland has not and could not have any considerable balance abroad;
- Finland has seen her principal source of income, her exports, cut off;
- Finland has, owing to the enemy's ruthless attack, to meet absolutely extraordinary and unforeseen requirements;

Under these circumstances Finland has been forced to apply for financial assistance, i.e. for

a Government loan of sixty million dollars to be granted to Finland, without

restrictions in order to be used by the Finnish Government in accordance with the country's general requirements.

Some facts

concerning Finland's financial situation
and present needs (Based upon official
statistical data, when not otherwise
indicated below)

particulars about
inland.

The area is 147,761 sq. miles (California 155,652 sq. miles)

Number of inhabitants (1937): 3,8 millions.

Density of population (1937):

in South Finland 48
in Northern Finland 7,0 and
in the whole country an average 26,0 to the sq. mile.

Distribution of population (1937):

78,8 per cent inhabit the country-side,
21,5 per cent towns and urban districts.

Occupation (1930):

Agriculture 59,6 per cent,
Industry and Manual labor 16,8 per cent,
Commerce 4,3 per cent,
Transport 3,8 per cent
Other occupation 15,5 per cent.

Yearly increase of population (1937): 6,6 pro mille.

Ownership of land:

Private 82,1% (Over 90% of these are small holdings)
Joint stock companies 6,5 per cent
Communities 1,7 per cent
State 39,7 per cent.

Industry (1937):

Calculated gross value: 457 million dollars.

Total exports (1936):

8,398 million markkas = 180 million dollars.

The surplus of exports over imports during the period 1932-

1937 was 3,800 million markkas or about 128 million dollars.

The total active surplus in the balance of trade is classified

the same period was calculated at about 7,100 million markkas or about 168 million dollars.

The total State expenditure for the fiscal year ended December 31, 1938 was 5,452,815,000 markkas or about 116 million dollars. Out of this current expenditures represented 5,487,295,000 markkas or about 75 million dollars. There was a surplus of revenue over expenditure of 276,612,000 markkas or about 6 million dollars.

The State debt per 30.9.39 amounted to 4,072,200,000 markkas corresponding to about 1072 markkas or \$22 per capita.

Of the State debt per 30.9.39 the foreign debt (all founded) was only 1,040,200,000 markkas or about 22 million dollars, corresponding to about \$6 per capita.

al trend of
s economic
policy.

Finland's aim in the field of economic activities has always been to develop the country's natural resources and to secure a stable basis for her economic life. Both the Government and the country as a whole have pursued this policy. Finland's net foreign indebtedness having reached its peak, or about 225 million dollars, at the end of 1931, was subsequently reduced so materially, that at the outbreak of the European war this autumn the country's total indebtedness to other countries, including Government loans, borrowing by municipalities, corporations and private individuals and also

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including the short term payment position, was balanced by assets and deposits abroad, to which has to be added Finland's gold deposits with foreign banks.

It is calculated, that during the period 1932-1937 Finland redeemed foreign bonds to an amount exceeding 125 million dollars. In this connection it may be particularly mentioned that Finland, having borrowed from this country in the postwar years about 110 million dollars, has during the last decade paid off this debt almost entirely, so that the amount now outstanding in this country is calculated to be only about 14 to 16 millions. And furthermore this sum was at the outbreak of the war outweighed by balances in this country.

present
needs.

Finland's economic position in peacetime was thus very satisfactory. It may be noted that in spite of a month of war, Finland's currency still remains unshaken. The Finns have not, even in their present dangerous situation, attempted to transfer wealth or any portion thereof abroad for safekeeping. This and the unshaken currency show the country's morals and the Nation's faith in the future of their country.

However, the economic policy which Finland had been following and which was based on a steady redemption of her foreign debt, forced the country not only to avoid all unnecessary expenditure, but also made it impossible for Finland to accumulate any consider-

able balances abroad.

On the other hand, Finland's most important sources of income have now been cut off. According to recent calculations, ^{thirty} ~~early~~ ^{forty} to fifty percent of Finland's national income is founded on her exports. Sixty per cent of Finland's exports go to the United States, the United Kingdom and to countries overseas, forty percent to European countries. (In this connection it may be pointed out that Finland's export sales to the Soviet Union in recent years have been only 0,5 per cent of the total export.)

The outbreak of the war caused serious reductions in Finnish exports, already early this autumn. And the Russian attack brought them to an almost complete standstill. The attack and the necessity to concentrate all activities on the national defense have naturally had a very severe effect on economic conditions. Production suffers seriously. Large sections of the country have been evacuated. All the male population has been mobilized to a very great extent, and even a large proportion of the women are occupied in work directly connected with defense. Almost one third of the entire population has been dislocated, being either called to the colours or evacuated. The attack of the ruthless enemy demands effort and expenditure which a country like Finland cannot possibly be prepared to meet without help from abroad. The people of Finland are fully convinced that

the civilized world will not, for economic and material considerations, leave them without assistance.

On the other hand Finland has shown in the past, that she has a rather remarkable capacity to readjust and build up the country's economic life on a sound basis. And particularly she has proved that she can and that she will most scrupulously meet all her international obligations. When the United States in 1919 helped Finland with certain commodities - an assistance for which Finland always will be thankful - the country was in great distress. At that time exports had also come to a standstill, the productive apparatus was seriously disturbed and the country had no holdings of foreign currencies.

Through hard work and strict economy, the Finns have put the country's economic life on a sound basis, so that she could fulfill all her obligations. So now when Finland again is compelled to appeal to her friends for assistance, the whole nation is determined by industry and economy to again repay the help they may receive.

Finland has gratefully noted that the Federal Loan Agency in a resolution published on December 11th has placed at Finland's disposal a credit of ten million dollars through the Export Import Bank and the R.F.C. This credit is limited, however, to purchases in the United States of agricultural surpluses and other civilian commodities. The Finnish people duly acknowledge this measure, and appreciate

ciate it as a sign of the American Nation's desire to assist Finland. Nevertheless it must be realized that this credit could not to any great extent cover Finland's present financial requirements. The amount itself does not nearly meet the demands arising from the present situation, and the restrictions put upon the use of this credit make it impossible to take full advantage thereof immediately.

conclusions.
In conclusion it may be emphasized:

Finland's economic structure has proved to be fundamentally sound. However, Finland has not and could not have any considerable balances abroad.

Furthermore Finland has seen her principal source of income, her exports, cut off.

Finland has finally, owing to the enemy's ruthless attack, to meet absolutely extraordinary and unforeseen requirements.

Under these circumstances it is evident that Finland needs most urgently and promptly financial aid in the struggle in which she is now involved through no fault of her own.

Washington, D. C., January 2nd, 1940.

From: The Finnish Legation of Finland
2146 Wyoming Avenue, N W
Washington, D C

IMMEDIATE RELEASE

Washington, Jan. 10--Hjalmar J/ Procope, Minister of Finland, today made public the following complete text of a radio address delivered yesterday by Prime Minister Risto Ryti in an appeal from Finland for loans from abroad to sustain the Finnish defense against Russia:

"Finland created modern economic life chiefly during the past twenty years. During that time our industries were brought up to their present-day standards, and the production of foodstuffs was developed until our country is now nearly self-sustaining in this respect. The national income has approximately doubled for the same period, and in 1937 it reached \$600,000,000. Our standard of living rose accordingly. The first \$150,000,000 borrowed from abroad by Finland was utilized for reconstruction, but during the past eight years the bulk of our foreign debt has been repaid. Our constantly growing volumes of foreign trade has played an important part in the economic development of Finland. The value of our exports in 1937 was more than \$200,000,000.

"Because we are dependent in a great measure on foreign trade, the continuous deterioration of the international situation in 1938-39 caused disturbances to our economic life. When war broke out on September first among the great European powers, we faced serious difficulties. Restrictions were imposed on our foreign trade, merchant vessels were seized, and many of them sunk.

"When the situation began to become critical in the autumn, we were compelled to call up for defense purposes men who represented the best manpower of our economic sphere. Because of these foregoing reasons our output declined, and when Finland became the victim of an attack, she called up the greatest part of the twenty-age classes which were best capable of productive work. Half a million people were evacuated from homes out of the way of war. It has been difficult to arrange useful work for these refugees on short notice in entirely new surroundings. The arrival of a large number of evacuees tended to cause, at first, loss of work even among the regular residents. Similarly we have been compelled to close down a considerable part of our industrial establishments in frontier regions because they were in the war zone. For these reasons production and national economy have greatly shrunk. Part of our productive plant engaged in export work has been deprived by the war of a large measure of its markets, and thus exports have fallen to a fraction of their normal extent.

"At the same time the war continues to demand an increasing part of the results of our economic activities in every sphere. Finland is a peace-loving nation which previously had paid little attention to munitions industries. As a result, Finland, now attacked, has to procure arms and munitions on a large scale from abroad, and frequently at high prices. Our exports are sufficient to pay only a part of this expenditure. For the present, we are not suffering an actual lack of provisions, but our national income is rapidly shrinking, and although Finland submits without murmuring, the decline in our standard of living has come to pass when foreign credit is essential to us.

"The basic principle of our financial policy is conscientious fulfillment of obligations. Finland will continue to fulfill these obligations, or any new it may incur, as it has faithfully done in the past. The healthy development of our economic life during the period of our independence guarantees that, when peace is restored, Finland will again easily manage its loans."

#

January 12, 1940

To: The Secretary

From: Mr. Young

Re: Income Certificate Plan
for Agriculture

As you are already aware, the Treasury memorandum for the President on the income certificate plan is ready for transmission to Mr. Lauchlin Currie.

Mr. Garfield of the Federal Reserve at the request of Chairman Eccles has just advised me that the Federal Reserve memorandum on the same subject will not be completed until tomorrow morning.

Mr. Blandford of the Bureau of the Budget has stated that no memorandum will be submitted by that agency.

Mr. Delano has advised me that no memorandum will be submitted by him inasmuch as his instructions from the President indicated that he was merely to serve on interdepartmental committees as an observer.

I am holding the Treasury memorandum until tomorrow morning, at which time it will be forwarded to Mr. Currie with the memorandum prepared by the Federal Reserve.

P.Y.

To - The President
From - Chairman Eccles

January 11, 1940

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The problem

Elimination of \$225,000,000 of parity payments in 1941 comes at a time when there is strong demand for the certificate plan to provide increased payments on a permanent basis as a part of the agricultural program. Farmers, it is noted, still get only 11 per cent of the national income although they are 25 per cent of the population; clearly their incomes are much below average even allowing for the lower cost of living on farms.

Recommendations

In our judgment payments to farmers, and particularly to those receiving the lowest incomes, should be maintained or increased.

Our first preference is for appropriations financed by taxes derived in accordance with ability to pay.

Our next choice would be a combination of appropriations and a modified certificate plan, with appropriations sufficient to reduce materially the certificate taxes on cotton, wheat, and rice and to provide some payments on other commodities.

If, however, the choice is between discontinuance of parity payments and possible dislocation of the farm program on the one hand, and the certificate plan on the other, or between a system of fixed prices and the certificate plan, then the certificate plan, with certain revisions, would be favored.

Certificate plan

The principal argument for the certificate plan is that it would provide larger payments than could be obtained any other way and make possible the continuation of effective measures to control production and supplies in the interest of consumers as well as of producers. Payments would be sufficient to give cotton, wheat, and rice growers parity prices and would amount to \$400,000,000 or \$500,000,000, to which might be added appropriations for other commodities, notably corn, on which parity payments of \$50,000,000 are now made. Consumers, it is urged, would probably not begrudge the producer his parity price. Also, once the certificate plan was adopted, funds would be made available automatically each year. Payments would not appear in the budget and whereas processing taxes have been invalidated the certificate plan might be found constitutional.

The plan, however, has many important limitations. The taxes proposed are even more regressive than a general sales tax, as they apply only to cotton, wheat, and rice products, which are consumed largely by low-income groups; the plan would not put idle funds to work, merely transferring funds from one group of consumers to another; and the appropriations, in effect, would be made without the annual review given appropriations for other purposes. In the case of cotton, a high tax would reduce consumption, damaging the important cotton textile industry and reducing output of cotton.

It is argued that the taxes, particularly for cotton, are not regressive because the funds go to people less well off than those that pay the taxes, but it is by no means clear that this is the fact. In the case of rice, the "growers" are mainly corporations and there appears to be little justification for taxing Puerto Ricans and other low-income consumer groups for the benefit of these corporations. In any event the low-income groups would unquestionably pay a larger proportion of these taxes than they would of a general sales tax, which everybody agrees is highly regressive. And the list of consumer taxes is already far too long with nearly two-thirds of all the revenues of government agencies, (Federal, State, and local) coming from such taxes. Additional taxes should be based on ability to pay.

Payments to producers are mainly on the basis of volume of output and consequently the largest payments go to those already receiving the largest incomes from a given crop. The payments would be in relatively large amounts to 3 million farm families while collections would be spread over the whole population, averaging between \$10 and \$20 per family per year.

Cotton consumption might be curtailed as much as half a million bales annually as a result of a 6 cent tax, it appears from a study of the effects of the processing tax by the Bureau of Agricultural Economics. This might be reduced by distribution of cotton goods through extension of the Food Stamp Plan but in many cases competitive materials would be given a great advantage by an increase of one-third in the cost of the highest grades of cotton and two-thirds for the lowest grades. The effect on consumption might be lessened if the plan were revised to bear less heavily on the low-value uses of cotton (mattresses and overalls) and more heavily on high-value products (lawns and broadcloth).

Demand for protection from competing materials would probably take form similar to the compensating taxes under the A.A.A. Cotton manufacturers and growers asked for compensatory taxes on silk, rayon, and paper; wheat millers and growers for taxes on corn, rye, and the imported starches. Troublesome devices of this sort would run counter to efforts to eliminate restraints on domestic trade and avoid price increases.

Fixed price plans

The certificate plan has been proposed partly to meet a demand for fixed prices on the domestically-consumed portion of staple crops based on cost of production. The certificate plan would be preferable to a fixed price plan without production control since it would channel the benefit to cooperating producers, thus supporting the broad adjustment and ever-normal granary program.

Appropriations

If payments were provided by appropriations derived from taxes based on ability to pay, funds would be transferred from people well off to farmers, idle funds would be put to work, the appropriation would be subject to annual review in accordance with usual budget procedure, and there would be no such adverse effects on consumption of cotton as under the certificate or fixed price plans. The distribution of the funds for a given crop among farmers of different incomes would presumably be the same proportionately as under the certificate plan and the tie-up with the adjustment program would also be similar.

The amount of funds to be appropriated should be determined after due consideration of many factors, including all types of governmental effort to improve agricultural conditions and the basic policy declaration in the Agricultural Adjustment Act of 1938.

"... assisting farmers to obtain, insofar as practicable, parity prices for such commodities and parity of income, and assisting consumers to obtain an adequate and steady supply of such commodities at fair prices."

Appropriations and certificate plan

As indicated above, second choice would be a combination of appropriations and the certificate plan, with some revisions. This would reduce the amount of the certificate taxes and the effects on consumption and assure annual consideration of part of the problem but would still, in our opinion, be less satisfactory than outright appropriation of funds derived from taxes based on ability to pay.

If the certificate plan were to be adopted consideration should be given to revisions to avoid as far as possible the difficulties outlined above.

Handwritten: *to as type mem (attached as 167A)*

January 12, 1940

MEMORANDUM FOR THE SECRETARY:

Attached is a proposed statement of reasons for disapproving the Certificate Plan for parity payments.

This statement was prepared in response to your request of Wednesday, for transmission through Mr. Philip Young to Mr. Lauchlin Currie.

The various memoranda which we have prepared are being combined in one revised memorandum, and this should be ready for transmission tomorrow.

RB

Handwritten notes:

- See Henderson
- 2/21 VanCroyt Place NW
- Dunbar 8378

January 12, 1940

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RB/ann
1/12/40

MEMORANDUM FOR THE PRESIDENT:

The Treasury Department has analyzed the proposed Certificate Plan for providing parity payments to wheat, cotton and rice growers, financed outside the Budget by processing taxes without the necessity of periodic Congressional review.

The Department concludes that the plan is an undesirable method of financing agricultural benefits, principally for the following fiscal reasons:

(1) The cost of the Plan would fall on the consumers of basic necessities, burdening those with small incomes more than those with large incomes. The taxes imposed would be even more regressive than any of the present Federal sales and excise taxes. They would be imposed on the weight of the basic commodity regardless of the price of the final product to the consumer. In some cases the proposed tax rates would be higher than those of the former processing taxes. The payments under the Plan would be made to about three million wheat, cotton and rice producers, some of which now receive substantial incomes, at the

- 2 -

expense of another group comprising four million other farm families, more than twenty-two million non-farm families and several million single individuals, and including the unemployed, the relief recipients and many others with very low incomes.

(2) The exclusion of such important tax and expenditure items from the Budget would limit the effective use of fiscal policy as an instrument of economic control. Furthermore, it would impair the effectiveness of the Budget in fiscal planning and management since the lack of periodic Congressional review and public scrutiny would further handicap Government in the proper allocation of its expenditures among the many needs.

(3) The adoption of the Plan cannot be counted on to reduce appropriations within the Budget even though it would add large expenditures outside the Budget. The Department of Agriculture has itself expressed the expectation that reductions in parity payments within the Budget would be offset by increased appropriations for the disposal of surplus. The heavy processing taxes might well reduce substantially the consumption of the taxed commodities, aggravating the agricultural surplus problem.

- 3 -

Moreover, producers of commodities not covered by the Plan would doubtless insist not only on their present payments but also on additional payments to place them on an equal basis with wheat, cotton and rice producers.

An analysis of these and other aspects of the Certificate Plan is contained in the attached memorandum.

Attachment

RB/AMM
1/12/40

THE INCOME CERTIFICATE PLAN FOR AGRICULTURE

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

A Memorandum Prepared in the
Treasury Department
Division of Tax Research
January 11, 1940

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THE INCOME CERTIFICATE PLAN FOR AGRICULTURE

S u m m a r y 1/

1. The plan.

The income certificate plan is a combination of processing taxes and benefit payments. It takes its name from the certificates which would be employed to make benefit payments to producers of certain agricultural commodities and to collect taxes on the occasion of the first domestic sale of these commodities in processed condition. Both operations would be conducted by the Secretary of Agriculture independently of the United States Treasury.

1/ The summary of the Income Certificate Plan for Agriculture is based on "certificate plan" bills introduced during the 1939 regular session of Congress. Throughout the analysis the principal differences between the provisions of these bills and those of the plan currently sponsored by the Department of Agriculture are noted. These differences are:

(1) In the wheat and cotton bills introduced at the last session, the price of the certificate was to be equal to the difference between average farm price and parity price or cost of production, whichever is higher. Under the Department of Agriculture's plan the price of the certificate would be equal to the difference between average farm price and parity price. The criterion "cost of production" is eliminated.

(2) The "certificate plan" bill for wheat introduced at the last session provided that farmers receive parity prices on their production for domestic consumption as well as for normal exports. This would have required domestic consumers of wheat products to pay 120 percent of the parity price of wheat. Under the Department of Agriculture's plan, parity prices would be paid only on domestic consumption.

(3) Under the "certificate plan" bills benefits would be paid and taxes would be collected by the Secretary of Agriculture independently of the United States Treasury. Under the Department of Agriculture's plan the existing facilities of the Treasury Department would be utilized in collecting certificates from the processors.

2. Objective of plan.

The certificate plan is a device to enable producers of selected agricultural commodities to obtain the equivalent of parity prices for part or all of their production, without at the same time affecting their competitive position in foreign markets. It is a method for providing one type of agriculture benefits - parity payments - outside of the Budget and without direct recourse to the general fund of the Government.

3. Mechanics of plan.

The Secretary of Agriculture would issue certificates to correspond in volume to the estimated domestic consumption (and in some cases normal exports) of a given agricultural commodity. These certificates would be distributed to producers in accordance with their marketing quotas. To receive the certificates producers would have to comply with the requirements of the agricultural program. The certificates would have a cash value generally equal to the excess of the parity price of the commodity (or cost of production, if it is higher) over its average farm price. In effect, the producer would receive on that portion of his production required for domestic consumption (and in some cases for exports) a total amount equal to its parity price or cost of production whichever was greater. Part of that amount would come from the sale of his produce at prevailing farm prices; part of it from the sale of his share of the certificates.

The producers would realize the value of their certificates by selling them through the facilities of a pool operated by the Secretary of Agriculture, to those required to buy them. The certificates would have to be purchased by those making the first domestic sale of all articles processed or manufactured from the farm commodity affected. Persons making such first sales would be required to make a monthly return to the Secretary of Agriculture showing the quantities of such manufactured articles sold by them. They would have to attach to these monthly returns, an amount of certificates corresponding to the physical quantity of the particular agricultural commodity used in the manufacture of the sold article.

4. Legislative history.

The certificate plan is advanced by its sponsors in an attempt to place part of the agricultural program on a

permanent financial basis, without dependence upon annual Congressional appropriations. At the 1939 regular session of Congress six bills were introduced, which provided for the application of the plan to cotton, rice and wheat. The Senate Committee on Agriculture and Forestry has held hearings on the plans for wheat and rice; the House Committee on Agriculture on the plan for rice. The rice plan has been approved by the Senate Committee and by the Secretary of Agriculture. The Director of the Budget has reserved judgment "as to the relationship of this legislative proposal to the program of the President."

5. Relation to the agricultural program.

The certificate plan is proposed as an addition to the present agricultural program. It not only leaves the principal features of the present program unchanged but is in fact conditional upon the retention of that program. The certificate plan can be coordinated with the acreage allotment, soil conservation, crop loan and marketing quota features of the present agricultural program. In the case of the commodities to which it applies, it will replace the so-called parity payments now made from general revenues. (Appropriation for parity payments for the 1940 program, \$225,000,000).

6. Tax features.

(a) Commodities taxed. Adoption of the certificate plan would be equivalent to the enactment of a processing tax. The certificate tax, however, would differ in some respects from the invalidated processing taxes. Certificate taxes would be imposed on specific commodities presumably by the enactment of separate bills applying to each individual commodity. The bills thus far introduced would tax cotton, rice and wheat.

(b) Tax rates. The rate of the certificate tax on rice is specified at 1 cent per pound of clean rice. Rates on cotton and wheat would be set at the beginning of each crop year. For cotton the rate would be equal to the excess of the parity price or cost of production, whichever is higher, over the estimated average farm price, including parity payments. For wheat the rate would be 120 percent of this excess. A compensating tax is imposed on imports. No floor stock tax is provided. On the basis of November 15, 1939 farm prices, it is calculated that the tax rates indicated by the certificate plans would impose a 7.1 cents tax per pound of lint cotton

and a 48.1 cents tax per bushel of wheat. If parity prices on normal exports were not provided, the tax rate for wheat would be 40.1 cents. Under the processing taxes the rate on cotton was 4.2 cents and the rate on wheat was 30 cents.

(c) Base of tax. The tax would be levied with respect to each commodity on a quantity basis - so many cents per pound or bushel - without regard to variations in type, grade, or price. It would be collected on the occasion of the first domestic sale of any article manufactured wholly or partly from the given agricultural commodity.

(d) Exemptions. The sale of commodities for export would be exempt. To prevent pyramiding, articles processed or manufactured from another article which had previously been taxed would be exempt.

(e) Tax load. On the basis of price conditions as of November 15, 1939, and on the basis of available estimates of volume of consumption (both sets of data from Department of Agriculture sources), it is computed that the "certificate plan" bills would impose an annual tax of approximately \$11,000,000 on rice, \$238,000,000 on cotton, and \$240,000,000 on wheat.

(f) Date of termination. The certificate plans contain no specific provision regarding length of time for which the taxes are to remain in effect. They would presumably continue until repealed.

(g) Administration. Responsibility for the collection of taxes, for the distribution of benefits, for the receipt of monthly tax returns, and for all determinations is vested with the Secretary of Agriculture.

7. Effects on agricultural producers.

(a) The certificate plan would afford large benefit payments to the producers of agricultural commodities affected. These benefit payments would probably be considerably higher than are likely to be made available through appropriations from the general fund of the Treasury. They would be in lieu of parity payments, but probably would be additional to most of the other categories of Federal agricultural expenditures.

(b) In the long run, the certificate plan would probably provide benefit payments with greater regularity than would direct Congressional appropriations.

(c) The plan would not affect adversely the competitive position of the American farmer in the foreign markets. On the contrary, it could be so devised as to place the American farmer in an advantageous position with respect to exports.

(d) The plan would provide a kind of gratuitous crop insurance. It would assure the growers a minimum annual revenue without regard to the actual yield of their acreage.

(e) The plan would make the control of the volume of agricultural production relatively more easy to enforce.

(f) The plan could not be applied with uniform effectiveness to all commodities. It could not serve effectively to raise the income of farmers producing commodities for which the domestic demand is appreciably reduced as the price increases.

(g) Since the certificates for any one agricultural commodity would have a uniform price, the plan would afford relatively larger benefit payments to producers of a low priced variety than to producers of a high priced variety product.

(h) Land owners would stand to be the largest gainers. Agricultural labor would probably be a substantial loser. Sharecroppers and tenant farmers would gain in some, but lose in other respects.

8. Effect on agricultural trades.

Processors and distributors of agricultural commodities and their products would be adversely affected.

(a) Because the margins of profits of processors and distributors are small, any substantial part of the tax burden which they would have to absorb would cut their profits.

(b) Reduced consumption resulting from the imposition of these heavy taxes would reduce the volume of the processors' and distributors' trade.

(c) Periodic changes in tax rates would be likely to disrupt processors' and distributors' business methods.

(d) Processors and distributors would bear the bulk of the burden of tax compliance, through advancing the amount of the taxes, filing monthly tax returns, and maintaining prescribed records.

9. Fiscal effects.

(a) Fiscal management.

(1) The plan would sanction large public expenditures outside the budget, exempt from periodic executive and legislative review. In consequence, the effective use of fiscal policy as an instrument of economic control would be impaired and a safeguard against unwise allocation of public funds would be sacrificed.

(2) The adoption of the plan would make it more difficult to determine the amount of actual public expenditures and the actual tax burden of the various groups of taxpayers.

(3) The plan would establish a dangerous precedent which other economic groups would strive to emulate, thereby seriously endangering fiscal planning.

(b) Tax administration.

(1) The tax features of the certificate plan are (almost of necessity) insufficiently integrated and therefore would be likely to create inequities.

(2) Because of the severity of the tax burden, tax evasion would be stimulated, especially by farm and rural consumers of taxed products.

(3) The plan makes no provision for compensatory taxes on floor stocks and on competing commodities. Such compensatory taxes are essential to safeguard processors and distributors against losses when rates are reduced and to prevent profiteering when rates are increased.

(c) Federal expenditures.

Adoption of the certificate plan would greatly increase total public expenditures for the benefit of agriculture. Whether on balance it would increase or decrease expenditures from the general revenues of the Government cannot be forecast with assurance.

(1) On the one hand, if the certificate plan is adopted, that portion of parity payments now financed from general revenues, which is expended in behalf of the commodities covered by the plan, could be eliminated.

(2) The enactment of the plan might weaken agriculture's resistance to reductions in appropriations.

(3) On the other hand, if the plan were adopted, it might result in increased expenditures on behalf of the producers of non-certificated commodities in order to give them benefit payments on a par with those obtained by the producers of commodities covered by the plan.

(4) If the plan resulted in reduced consumption and increased surpluses, the net cost of surplus disposal programs might be increased.

(5) The increased cost of living, resulting from the adoption of the certificate plan, might indirectly raise Federal expenditures for relief purposes.

(d) Distribution of burdens and benefits.

(1) The certificate plan would impose what in effect amounts to a processing tax on some necessities. The burden would fall largely on consumers. It would be a regressive tax, imposed not only without regard to taxpaying ability but without regard to the price of the consumed commodity.

(2) The imposition of a tax of this magnitude, superimposed on the present tax system, would severely affect the purchasing power of the lower-income groups.

(3) Payments under the plan would be made to about three million producers, some of which now receive substantial incomes, at the expense of another group comprising four million farm families, more than twenty-two million non-farm families and several million single individuals, and including the unemployed, the relief recipients and many others with very low incomes. In the process, some purchasing power would be transferred from low-income families to higher-income families and some from high to lower income families.

(4) Aside from limitations on maximum payments to individual producers, the benefits under the certificate plan would be distributed among producers approximately in proportion to the present distribution of incomes, those producing large amounts receiving more money from the plan than those producing smaller amounts.

FOREWORD

This memorandum examines the proposed income certificate plan for agriculture, with special reference to its tax aspects and fiscal implications. It is concerned only with the principal features of the plan and makes no attempt to describe in detail all variations between the several Congressional bills embodying the proposal, except insofar as such variations are deemed to be of basic importance.

No attempt is here made to inquire into the Nation's agricultural problem itself; what the nature of that problem is and whether the present agricultural program attacks it in a rational way. Only sufficient description of the existing complex agricultural program is provided (for the benefit of readers not conversant with its many features) to reveal clearly the projected role of the proposed certificate plan. The legal problems raised by the certificate plan are here wholly ignored.

Finally, it should be noted that this analysis is based on "Certificate Plan" bills introduced during the 1939 regular session of Congress. Such differences between the provisions of these bills and those of the plan currently sponsored by the Department of Agriculture as have thus far been indicated are noted.^{1/}

^{1/} Statements regarding the plan currently sponsored by the Department of Agriculture are based on a tentative and confidential memorandum entitled "Summary description of the Farmers' income certificate program", December 20, 1939 (revised), submitted to the Fiscal and Monetary Committee and hereafter referred to as the Department of Agriculture memorandum.

I. Introduction

The certificate plan is a combination of benefit payments and processing taxes. It is a device to enable domestic producers of agricultural commodities to obtain parity prices for that segment of their production which is consumed domestically (and in some cases exported), without at the same time affecting their competitive position in foreign markets. 1/

Viewed in another light, the certificate plan is a method for providing one type of agricultural benefits, so-called parity payments, outside of the Budget and without recourse to the general fund of the Government. It takes its name from the certificates employed to provide benefit payments to producers of certain agricultural commodities and to collect taxes on the occasion of the first domestic sale of these commodities. Both operations are conducted by the Secretary of Agriculture, independently of the United States Treasury. 2/

Certificates would be issued in volume to correspond to the estimated domestic consumption (and in some cases, normal exports) 1/ of a given agricultural commodity. These certificates would be assigned to the producers of that commodity in accordance with their allotted share in the Nation's production quota, provided that they complied with the eligibility requirements of the agricultural program. The certificates would have a cash value generally equal to the excess of the parity price of the commodity

1/ The "certificate plan" bill for wheat introduced at the last session provided that farmers receive parity prices on their production for domestic consumption as well as for normal exports. This would have required domestic consumers of wheat products to pay 120 percent of the parity price of wheat. Under the Department of Agriculture's plan, parity prices would be paid only on domestic consumption.

2/ Under the Department of Agriculture's plan the existing facilities of the Treasury Department would be utilized in collecting certificates from the processors.

(or cost of production, if it is higher) over its average farm price. ^{1/} Thus, on that portion of his production required for domestic consumption (and in some cases, for exports), each producer would receive a total return equal to parity price or cost of production, whichever is higher. He would receive that return in two parts: one from the sale of his product in the usual manner at prevailing farm prices; the remainder from the proceeds of his share of the certificates.

Producers would obtain the value of their certificates by selling them (indirectly) to those required to buy them. The plan prescribes that certificates be purchased at the fixed price in connection with the first domestic sale of all articles processed or manufactured from the commodity. Persons making such first sale would be required to make a monthly return showing the quantities of such manufactured articles sold. They would be required to accompany such returns with an amount of certificates, corresponding to the physical quantity of the particular agricultural commodity used in the manufacture of the sold article. Compensating provisions would apply in connection with importations of certificated commodities. Exports would be exempt.

The principle of the certificate plan has been in use in foreign countries for several years. In the agricultural countries of Central Europe it was adopted in the late twenties and in a modified form remains in use today.

^{1/} In the wheat and cotton bills introduced at the last session, the price of the certificate was to be equal to the difference between average farm price and parity price or cost of production, whichever is higher. Under the Department of Agriculture's plan the price of the certificate would be equal to the difference between average farm price and parity price. The criterion "cost of production" is eliminated.

In the United States it appears to have been proposed originally as a feature of the old domestic allotment plan a dozen years ago. ^{1/} The scheme received its recent impetus as a result of the invalidation of the processing taxes by the Supreme Court in United States v. Butler, January 6, 1936 and in Rickert Rice Mills v. Fontenot, January 13, 1936.

The certificate plan is advanced in an attempt to place parts of the agricultural program on a permanent financial basis without dependence upon annual Congressional appropriations. Secretary Wallace's speech of December 5, 1939, leaves no doubt on this point:

"The National Farm Program which began in 1933...is a far-flung effort in which more than three-fourths of the farmers of the United States are taking part....

"...How really permanent is that program? The Agricultural Adjustment Act of 1933 was hailed as the 'Magna Charta' for American agriculture. It gave to our farmers the unifying support of government and provided a source of revenue to keep their program going. Then a Supreme Court decision in 1936 destroyed that 'Magna Charta.' Much of it has been regained, and improved upon. But the most vital part of all -- the continuing source of revenue -- has never been put back.

"Up to the present, that loss has not been seriously felt by farmers. Congress has directed that the farm programs be financed from the general Treasury. Like the appropriations for public works and unemployment relief, for the rescue of business and finance, and for building up the army and navy, these funds have come in large part from borrowed money.

"Now a new situation has developed. One country after another in the Old World has fallen victim to aggression by predatory powers, and a war involving three of the strongest nations in Europe is now being fought. We in the New World find it imperative to make our own defense impregnable, lest the

^{1/} Henry A. Wallace, "How permanent is the farm program?" Address at the twentieth annual meeting of the American Farm Bureau Federation at Chicago, December 5, 1939. Department of Agriculture press release, page 13.

depredations that have become all too common in the Old World spread to our shores. That means we must undertake the biggest peacetime expenditures in our history for the army and the navy. That means our entire Federal budget must be given sharp scrutiny and review.

"And so in the next few months, the farmers are bound to come face to face with the question, How really permanent is the National Farm Program?" 1/

During the last session of Congress (First Session, 76th Congress) six bills were introduced to apply the certificate plan to cotton, rice and wheat. 2/ The plan for wheat (S. 2395) advanced to the hearing stage in the Senate and that for rice in both the House (H. R. 6654) and the Senate (S. 2573). The rice plan (with minor amendments) was approved by the Senate Committee on Agriculture and Forestry 3/, but failed to reach the discussion stage on the floor. The plan also has the approval of the Secretary of Agriculture. In his report on S. 2573, the Secretary stated:

1/ Ibid. page 4.

2/ The six bills are:

- (1) S. 2395 (wheat) introduced by Senator Wheeler, May 10, 1939;
- (2) S. 2434 (cotton) introduced by Senator Lee, May 17, 1939;
- (3) H. R. 6482 (cotton) introduced by Representative Nichols, May 23, 1939;
- (4) H. R. 6671 (cotton) introduced by Representative Cartwright, June 5, 1939;
- (5) H. R. 6654 (rice) introduced by Representative De Rouen, June 5, 1939; and
- (6) S. 2573 (rice) introduced by Senator Ellender, June 7, 1939.

3/ Report from the Committee on Agriculture and Forestry to accompany S. 2573. Report No. 763, 76th Congress, First Session.

"It is believed that the certificate program set forth in the bill constitutes a sound and desirable means for making further progress in bringing about a fair and equitable participation by rice growers in the national income. The program would be administratively practical and would avoid burdens on the Federal Treasury. Under a certificate program the increased income of farmers would be obtained in the form of increased returns from the domestic market. For this reason, a certificate program would not be subject to the difficulties, limitations, and uncertainties involved in any program that relies greatly on net appropriations from the General Fund of the Treasury."

"....the Department favors enactment of the bill." 1/

The Secretary of Agriculture went on to inform the Committee that the bill incorporating the certificate plan for rice was referred to the Bureau of the Budget and that the Director of the Budget advised the Department of Agriculture that there would be no objection on the part of his office to the submission of the Secretary's report on S. 2573 to the Congress, "with the understanding that no commitment would thereby be made as to the relationship of this legislative proposal to the program of the President."

The testimony on the wheat bill indicates that the certificate plan is sponsored by the National Farmers Union, whose representatives participated in the drafting of the wheat, cotton and rice bills. 2/ They are presumably engaged in drafting bills to cover other farm commodities. 3/

1/ Hearings on S. 2573 before a Subcommittee of the Committee on Agriculture and Forestry, U. S. Senate, 76th Congress, First Session, pages 69-71.

2/ Hearings on S. 2395 before a Subcommittee of the Committee on Agriculture and Forestry, U. S. Senate, 76th Congress, First Session, page 29.

3/ Ibid. pages 68-9.

That it is contemplated to apply the certificate plan to some of the other agricultural commodities as soon as practicable is indicated by the fact that each of the bills pertaining to cotton (and wheat) provides that:

"Whenever the Secretary (of Agriculture) has reason to believe that a substantial majority of the producers of any agricultural commodity are in favor of establishing for that commodity an allotment-certificate plan similar to the cotton-allotment-certificate plan set up under this section, he shall conduct a referendum among the producers of such commodity. The Secretary shall report the results of such referendum to the Congress, and if two-thirds of the producers of such commodity voting in the referendum vote in favor of such a plan the Secretary shall recommend to the Congress any provisions which he deems appropriate to be included in an allotment-certificate plan for such commodity." 1/

The sponsors of the certificate plan, however, recognize that its usefulness from the agricultural point of view is limited to those commodities in connection with which the burden of a processing tax tends to be borne by consumers, processors and distributors and not by producers. "It would apparently be especially well suited to such export commodities as cotton, wheat and rice. But it would not work the same way if applied to corn. Like the old corn and hog processing taxes, it would tend to come out of the farmer's price." 2/

1/ H. R. 6482, Sec. 350A(1).

2/ Wallace, "How permanent is the farm program?" page 13.

II. Relation of the Plan to the Agricultural Program

The several certificate plans are proposed as amendments and additions to the basic agricultural program as provided by the Agricultural Adjustment Act of 1938, approved on February 16, 1938. Their workability is conditional upon the retention of the present program in most of its pertinent features. To appraise the significance of the certificate plans it is, therefore, necessary to comprehend the broad scope and operations of the agricultural program under the Agricultural Adjustment Act of 1938, the principal features of which are here summarized.

1. Acreage allotments and conservation payments.

The agricultural program provides for production control of corn, cotton, wheat, rice and tobacco. 1/ Each year, the Secretary 2/ proclaims the national acreage allotments required to produce, on the basis of average yields, the quantities of these commodities for normal domestic consumption, normal exports, normal carryover, and for various reserves. The national acreage allotments are then apportioned among the States producing these commodities. The State allotments are in turn divided among counties within the States and among farms within the counties. The bases for these apportionments vary with the commodities, but in general the basis for the State and county allotments is past acreage while that for the individual farms must take into consideration tillable acreage, crop rotation practices, type of soil, topography and production equipment.

1/ The program applies to six different kinds of tobacco, each divided into types, and each handled largely as a separate commodity.

2/ "Secretary" means Secretary of Agriculture.

Compliance by farmers with the acreage allotments is voluntary. Farmers, however, are induced to conform to the allotments by the fact that their degree of compliance is taken into account in determining eligibility for conservation and other benefit payments. The appropriation for the agricultural conservation program in fiscal year 1940 amounts to \$500,000,000.

2. Crop loans.

The Commodity Credit Corporation is authorized, upon recommendation of the Secretary and with the approval of the President, to make loans on all agricultural commodities. In the case of wheat, cotton and corn, loans are mandatory. For the first two of these commodities the Secretary is free to set a loan rate between 52 percent and 75 percent of parity prices. The loan rate for corn also ranges between these limits but specific rates applicable under specific conditions are prescribed by statute, leaving no discretion to the Secretary. However, in the case of the basic commodities, if the marketing quotas discussed in the next section are rejected, no further loans on that commodity can be made until the beginning of the next marketing year.

The law specifies that "no producer shall be personally liable for any deficiency arising from the sale of the collateral securing any loan." Thus, in effect, if the market price is low, the farmer can forfeit his collateral unless the loan is extended for his future benefit; if the price rises, he can repay the loan, and reclaim and sell his commodity.

The availability of crop loans may have an important bearing on the scope of the certificate plan. Insofar as the loans tend to set what in effect amounts to a bottom for agricultural prices, the size of the differential between parity prices or cost of production and average farm prices is affected.

3. Marketing quotas.

The agricultural program authorizes limitations on the marketing of the five basic commodities through the establishment of marketing quotas. These marketing quotas become effective only when total supplies exceed the proclaimed normal supplies by amounts specified for each commodity in the Act. However, the quotas become effective only after they are approved in a producers' referendum. Sales in excess of marketing quotas are subject to a penalty per pound or bushel.

After approval of two-thirds of the voting farmers who will benefit by them and who ballot in a referendum conducted by the Secretary, marketing quotas for the basic commodities are allotted to the various States, counties and individual farmers. 1/ On commodities withheld from markets and stored, farmers receive commodity loans through the Commodity Credit Corporation. 2/ In this manner, some supplies otherwise available for marketing are in "surplus" years withheld from the markets by storing under seal any quantities above the marketing quota. In years of low yield and high prices these sealed supplies will be released for marketing by farmers paying off the loans.

1/ For the coming marketing year marketing quotas have been approved by referendum for cotton.

2/ Non-cooperating farmers receive only 60 percent of the amount of loans available to cooperating farmers, on that part of their crop that would be subject to penalty if marketed.

4. Parity payments.

As an additional benefit, the Act provides that when appropriations are made therefor the Secretary is authorized to distribute parity payments. Insofar as appropriations permit, these payments are intended to increase the income of farmers who comply with the Act up to the amount represented by their normal production times the parity price. The appropriation under this authorization was \$212,000,000 for the 1939 program and \$225,000,000 for the 1940 program.

5. Crop insurance.

The Agricultural Adjustment Act of 1938 established the Federal Crop Insurance Corporation to provide crop insurance for wheat farmers against loss through crop failure. Such insurance covers not less than 50 percent and not more than 75 percent of the average wheat yield of insured farms. The insurance premiums are payable in actual wheat or in its cash equivalent. Insured farmers may also be paid in actual wheat if they so elect.

6. Appropriations to encourage domestic consumption and exports.

In addition to the appropriations for crop loans, parity payments and the conservation program, two others require special mention.

Under Section 32 of the Amended Agricultural Adjustment Act, 30 percent of customs receipts is permanently appropriated for use in encouraging the domestic consumption and exports of all agricultural commodities. ^{1/} For the current fiscal year an additional appropriation of \$113,000,000

^{1/} Total customs collections amounted to \$359,000,000 and \$319,000,000 in fiscal years 1938 and 1939.

is available for encouraging the domestic consumption and export of agricultural commodities. These two appropriations are used for export subsidies and payments for the Food Stamp Plan, the purchase of "surplus" agricultural commodities for relief distribution, and for diversion of "surpluses" to such unusual channels of trade as potatoes for livestock feed or starch and cotton for bagging bales of cotton.

Of the basic commodities, an export subsidy is now provided cotton. A wheat subsidy was inaugurated in September 1938 and later was extended to the current crop year, but was discontinued on December 29, 1939. Sales of wheat and flour for export totaled approximately 118 million bushels for the fiscal year ending June 30, 1939. Of this total approximately 94 million bushels were subsidized at a cost of about \$25,700,000, or about 27.4 cents a bushel. 1/

A cotton export subsidy was initiated in July 1939. The rate of payment was $1\frac{1}{2}$ cents per pound of lint cotton exported, with corresponding payments on cotton goods. Effective December 6, 1939, the rate of the export subsidy was cut in half to $\frac{3}{4}$ cents per pound. On December 8 and 11 it was further reduced to $\frac{4}{10}$ cents and $\frac{2}{10}$ cents, respectively. Information on the cost of the export subsidy during its four months of operation is not available. However, sales and deliveries for export during the four-month period (July 27 - December 4) amounted to 4,344,354 bales 2/ or 952,000 more than the entire export in the 1938-39 crop year. 3/

1/ U. S. Dept. of Agriculture, Press Release, July 18, 1939.

2/ This represents 2,076,601,212 pounds, which at the rate of $1\frac{1}{2}$ cents per pound, amounts approximately to \$31,150,000.

3/ New York Times, December 6, 1939, page 39. It is not intended to imply that a causal relationship necessarily exists between the increase in exports and the availability of an export subsidy.

III. Essential Details of the Certificate Plan 1/

The provisions of the various bills incorporating the certificate plan are identical in general outline but differ with respect to some important details. The following description of the principal details of the plan is based on the proposal for rice, which is the simplest of the three commodity proposals. 2/ Where the provisions for wheat and cotton differ in important respects from that for rice, the differences are noted.

1. Certificate allotments.

Prior to the end of every calendar year the Secretary will estimate the quantity of milled rice required for domestic consumption during the next marketing year. 3/ The estimated domestic consumption will be based on domestic consumption during the preceding 5 marketing years, adjusted for recent trends. 4/ This will constitute the rice certificate allotment for that marketing year. In the case of wheat and cotton, the domestic consumption is calculated on the basis of a 10-year average and adjustments. Moreover, the certificate allotment for wheat includes, in addition, an amount equal to a normal year's exports. 5/ These certificate

1/ The purpose of the bills providing for the certificate plans is stated in the preambles to be:

"To amend the Agricultural Adjustment Act of 1938, as amended, for the purpose of regulating interstate and foreign commerce in wheat (cotton or rice) providing for the orderly marketing of wheat (cotton or rice) at fair prices in interstate and foreign commerce, insuring to wheat (cotton) producers a parity income from wheat (cotton) based upon parity price or cost of production, whichever is higher and for other purposes."

2/ H. R. 6654 and S. 2573.

3/ The marketing years for rice and cotton begin on August 1; for wheat on July 1.

4/ The bill, however, provides that the Secretary may in the course of the marketing year make such adjustments in the domestic consumption quota as he finds to be necessary "to permit the orderly marketing of rice at prices fair to both producers and consumers...."

5/ See page 2, footnote 1.

allotments, it will be noted, are based on and are correlated with the acreage allotment, marketing quota and loan provisions of the 1938 Agricultural Adjustment Act.

2. Certificates issued.

At the beginning of the marketing year the Secretary will issue rice certificates corresponding to the number of pounds of the milled rice allotment for that marketing year. Thereafter he will apportion the total amount of the certificates issued among the rice producers on the basis of their respective shares in the total normal production allotted for the marketing year. The acreage allotments estimated to produce the normal production, it will be recalled, will have been made by the Secretary under the conservation program. The apportionment among producers, it will be noted, will be made on the basis of the normal production of their allotted acreage (average adjusted yield of such acreage times the allotted number of acres) without regard to yields actually realized.

3. Apportionment formulae.

The plan for wheat and cotton specifies that a farm's certificate allotment is to be divided among the landlords, tenants and sharecroppers in the same proportion that they are respectively "entitled to share in the proceeds of the (wheat or cotton) crop with respect to which the allocation is made."

The rice certificates will be apportioned among rice producers in proportion to the estimated normal yield of their share of the total acreage allotment. In the case of wheat and cotton, however, a reduction will be made in any person's share of these certificates (person meaning landlord, tenant or sharecropper and not the farm) in accordance with the following formulae:

For wheat:

That portion of the share which is included within the following intervals	Percentage reduction of such portion
10,000 to 12,000 bushels.....	10
12,000 to 14,000 bushels.....	20
14,000 to 16,000 bushels.....	30
16,000 to 18,000 bushels.....	40
All over 18,000 bushels.....	50

For cotton: 1/

That portion of the share which is included within the following intervals (pounds of lint cotton)	Percentage reduction of such portion
More than 0 pounds but not more than 2,500 pounds....	0
More than 2,500 pounds but not more than 3,000 pounds	15
More than 3,000 pounds but not more than 3,500 pounds	30
More than 3,500 pounds but not more than 4,000 pounds	45
More than 4,000 pounds but not more than 4,500 pounds	60
More than 4,500 pounds but not more than 5,000 pounds	75
All over 5,000 pounds.....	90

1/ The plan for cotton appears to specify that the reduction factor shall apply to landlords in only exceptional cases. That it shall not apply "in the case of that part of a landlord's share of the allocation to any farm which calculated on the basis of the division of the proceeds of cotton produced under a tenancy or sharecropper relationship if the division of such proceeds between the landlord and the tenant or sharecropper is determined by the local committee to be in accordance with fair and customary standards of renting or sharecropping prevailing in the locality." (H. R. 6671, page 4, lines 3-11.)

4. Distribution to producers.

At the beginning of the marketing year the Secretary will distribute to each rice grower his pro rata share of the rice certificates on condition that "prior to the beginning of such marketing year (he) has established to the satisfaction of the Secretary that he does not have, and will not have, available for marketing during such marketing year rice in excess of the normal production or the actual production, whichever is the greater, of his acreage allotment for the current calendar year." Producers who fail to meet this requirement for marketing will not be eligible for the time being to receive their share of the certificates. However, small producers who plant an acreage which normally would produce not more than 100 barrels of rough rice qualify automatically. 1/

In the case of wheat and cotton the physical certificates themselves would not be given the producers but would instead be sold to a pool operated by the Secretary. (See section 6 below.) Those entitled to certificate allotments would receive their cash equivalents.

5. Price of certificates.

In the case of rice the price of the certificate is specified in the proposed legislation at 1 cent for each pound of milled rice it represents. No provision is made for changing the price of the rice certificate in the event of changes in the market price of the commodity.

The price of wheat and cotton certificates, however, would not be specified by statute. Their price is to be determined on the basis of

1/ A barrel is the equivalent of 162 pounds of rough rice and will yield approximately 100 pounds of milled or clean rice.

statutory formulae. It is to be determined by calculating "the amount by which the parity price or the cost of production, whichever is the higher, exceeds the estimated average farm price.....(including parity payments) for the next succeeding marketing year." 1/

The Secretary is instructed to appoint an advisory committee, consisting of three representative wheat (or cotton) growers, one representative consumer and one representative of the Federal Government, to recommend to him the price to be fixed for wheat (or cotton) allotment certificates for the coming marketing year. The bill prescribes the statistics to be employed in determining cost of production and provides that "after considering the recommendations of the advisory committee, the Secretary, on the basis of the same statistics used by the committee, shall determine the amount by which the parity price or the cost of production, whichever is the higher, exceeds the estimated average farm price.....including parity payments." This difference (after adjustment for errors in the previous year's calculations) is the fixed price of the certificates.

6. Sale of certificates.

Rice producers receiving certificates can obtain their cash value by selling them. For the purpose of facilitating transactions in certificates the Secretary is authorized to establish and operate a pool with branch offices; he may authorize local banks or other approved agencies to buy and sell certificates at a fixed price.

1/ For definitions of "parity price" and "cost of production" see page 23 below. With reference to "cost of production" see also page 3, footnote 1.

To facilitate the operation of the program the Secretary is authorized to borrow from the Commodity Credit Corporation free of interest "the funds necessary to initiate the plan." ^{1/} The amount of any such loan "shall be repaid from funds collected from the sale of certificates." The Commodity Credit Corporation's authority to issue obligations, which the Secretary of the Treasury is authorized to purchase, is increased by the amount loaned to the Secretary of Agriculture.

7. Ineligible producers.

Rice producers, who were ineligible to receive their share of the certificates at the beginning of the marketing year, may qualify at the end of the marketing year to receive a distribution of money equal to the value of the certificates allotted them at the beginning of the marketing year, (1) if they establish that they have not marketed rice during the marketing year in excess of the normal or actual production, whichever is the greater, of their acreage allotment, and (2) if, in addition, they have qualified to receive certificates issued for the new marketing year (meaning that they reduced their allotted acreage by the amount of the excess of their planted acreage the year before).

8. Purchase of certificates.

Every person making a first domestic sale of milled rice, or of any article manufactured wholly or partly from milled rice, is required to obtain from the Secretary, prior to or at the time of such sale, rice

^{1/} The original rice bills (and the wheat and cotton bills as well) provided for borrowing from the Reconstruction Finance Corporation. The rice bill, as reported out by the Senate Committee, has been amended to provide for borrowing from the Commodity Credit Corporation. Corresponding changes are being made in the other bills.

domestic-allotment certificates representing the number of pounds of milled rice involved in the sale. The amount of certificates required to be purchased in connection with the sale of articles manufactured from rice is equal to the milled rice equivalent of the article sold. The Secretary will prescribe the conversion factors for all such manufactured articles.

A compensating provision requires importers of rice or rice products to obtain certificates in connection with each importation. The certificates are to be purchased from the Secretary at their prescribed price and are valid to cover only sales made during the marketing year for which issued. Unused certificates will be redeemed by the Secretary. Trafficking in certificates is prohibited. No certificates are required in connection with the sale of manufactured goods for export. In the event of exportation of goods for which certificates have previously been purchased, provision is made for refund by the Secretary. No certificates are to be used in connection with the sale of rough rice by producers. All transactions in unprocessed commodities, whether for export or for the domestic market, would be carried out in the usual manner.

The provisions respecting the purchase of wheat certificates differs in one important respect from those governing rice and cotton certificates.^{1/} While the plans for rice and cotton provide that each first sale of the manufactured products must be accompanied by the purchase of certificates in direct ratio to their rice or cotton content, the plan for wheat prescribes that the first domestic sale of every article representing one

^{1/} See, however, page 2, footnote 1.

bushel of wheat shall require the purchase of certificates representing 1-1/5 bushels of wheat. This 20 percent surcharge is necessitated by the fact that the wheat certificates are distributed to the growers in proportion to their total normal production, which includes allotments for both normal domestic consumption and for normal exports, while the purchase of certificates is required only in connection with the domestic sale of wheat products. Exports are exempt.

9. Monthly returns.

Every person making sales of milled rice or any article manufactured from milled rice and every importer of such products is required to file a monthly return with the Secretary of Agriculture, showing the quantity of milled rice imported or sold during the preceding month and attaching thereto the certificates required to be purchased in connection with such sales or importations. The Secretary is authorized to issue such regulations and make such examinations as he deems necessary in connection with the enforcement of this provision.

10. Miscellaneous provisions.

None of the funds collected from the sale of certificates "shall be covered into the general fund of the Treasury." Any surplus or deficit resulting from the operations of the certificate pool in any year will be adjusted in the following year by increasing or decreasing the number of certificates issued. In case of a surplus, additional certificates will be issued to producers and when repurchased by the pool will be

canceled. A deficit in the funds will be made up by issuing an equivalent quantity of the certificates in the following year directly to the pool to be sold by it, and deducting the quantity from the certificates issued to producers.

The Secretary is authorized to use the funds collected from the sale of certificates or borrowed from the Commodity Credit Corporation to cover necessary administrative expenses incurred in connection with the operation of the plan in and out of the District of Columbia. He alone is responsible for all accounting, disbursements and determinations under the Act. Penalties are provided for non-compliance.

IV. Tax Features of the Certificate Plan Compared with Processing Taxes ^{1/}

In substance the adoption of the certificate plan, as proposed, would be the equivalent of the enactment of a processing tax. Such a tax, however, would differ in some respects from the processing taxes imposed under authority of the Agricultural Adjustment Act of 1933, as amended.

1. Commodities taxed.

Bills introduced at the last session of Congress provide for the imposition of certificate taxes on wheat, cotton and rice. ^{2/} It is, however, the intention of the sponsors of the certificate plan to propose its extension to some other farm commodities as soon as practicable. Presumably, it is not intended to apply certificate taxation to those commodities a processing tax on which would tend to fall on producers and not on consumers, processors or distributors. (See page 7 above).

The Agricultural Adjustment Act of May 12, 1933 did not directly impose any processing taxes. Instead, it provided that "When the Secretary of Agriculture determines that rental or benefit payments are

^{1/} The discussion of the invalidated processing taxes in this section is adapted in large part from a memorandum entitled "Processing Taxes," submitted by Carl Shoup at the request of the Division of Tax Research of the Treasury Department, December 24, 1938. (In files of Division of Tax Research, Treasury Department.)

^{2/} As here used, the term "certificate tax" refers to the required purchase of certificates by those responsible for the first domestic sale of manufactured rice and its manufactured products, as prescribed under the certificate plan. It is to be distinguished from the processing taxes imposed under the Agricultural Adjustment Act of 1933, as amended.

to be made with respect to any basic agricultural commodity (wheat, cotton, field corn, hogs, rice, tobacco and milk and its products, to which by later acts were added rye, flax, barley, grain sorghums, cattle, peanuts, sugar beets, sugar cane and potatoes) he shall proclaim such determination, and a processing tax shall be in effect with respect to such commodity from beginning of the marketing year therefor next following the date of such proclamation."

The Sugar Act of 1937, approved September 1, 1937, imposes an excise tax on manufactured sugar manufactured in the United States and a compensating tax on imports of manufactured sugar.

2. Rate of tax.

In the case of rice, the plan specifies the rate to be 1 cent per pound of clean (milled) rice. For cotton no rate is specified. Instead a formula is prescribed. The rate is equal to the excess of the parity price or the cost of production price, whichever is higher, over the estimated average farm price, including parity payments. ^{1/} For wheat

^{1/} See page 3, footnote 1. The "parity price" for basic agricultural commodities is defined as that price "which will give to the commodity a purchasing power with respect to articles that farmers buy equivalent to the purchasing power of such commodity in the base period; and, in the case of all commodities for which the base period is the period August 1909 to July 1914, which will also reflect current interest payments per acre on farm indebtedness secured by real estate, tax payments per acre on farm real estate, and freight rates, as contrasted with such interest payments, tax payments, and freight rates during the base period. The base period in the case of all agricultural commodities except tobacco shall be the period August 1909 to July 1914, and, in the case of tobacco, shall be the period August 1919 to July 1929."

"Parity income" is defined as "that per capita net income of individuals on farms from farming operations that bears to the per capita net income of individuals not on farms the same relation as prevailed during the period from August 1909 to July 1914." (Agricultural Adjustment Act, as amended, Title III, Subtitle A, Section 301(a)(1)(2).)

the rate is 120 percent of this excess. 1/ In figuring cost of production rent, labor costs and allowances for unpaid family labor are to be included.

Under the processing taxes the rate was such as to equal "the difference between the current average farm price for the commodity and the fair exchange value of the commodity." Later, the rate was this amount plus a percentage of this difference, not to exceed 20 percent, sufficient to cover the refunds on deliveries to charitable organizations and the tax that was not levied and collected owing to the fact that the processing was done by a State or its instrumentality.

The formula for the rate of the certificate tax is nominally similar to that for the rate of the processing tax. "Fair exchange value" is but a different term for parity price. It was defined in the 1933 Act as the price "that will give the commodity the same purchasing power, with respect to articles farmers buy, as such a commodity had during the base period." During the intervening period, however, the definition of parity price has been broadened. It will be noted by reference to the definition quoted on the preceding page, that at present parity price must also "reflect" "current interest payments," "tax payments" and "freight rates." This change in definition, together with a rise in the prices of articles farmers buy, has served to raise parity prices and thereby to widen the differential between parity prices and average farm prices.

The formula for the certificate tax introduces the element of "cost of production" which did not appear in the earlier tax. 2/ Although the cost of production data now available indicate that cost of production

1/ See page 2, footnote 1.

2/ See page 3, footnote 1.

is less than parity price, there are no grounds for assuming that it will remain so. However, the certificate plan significantly prescribes that cost of production be calculated on the "most recent United States cost of production" data published by the Bureau of Agricultural Economics.

Finally, the two formulae differ in one other important respect. In the case of the certificate tax the differential between parity or cost of production and average farm price is the mandatory tax rate. ^{1/} Under the processing taxes, on the other hand, the Secretary had considerable discretionary authority. If he found that the differential between "fair exchange value" and average farm price would "cause such reduction in the quantity of the commodity or product thereof domestically consumed as to result (a) in the accumulation of surplus stocks of the commodity or products thereof, or (b) in the depression of the farm price of the commodity" he was to set the tax rate at such a level as to prevent such accumulation of stocks and such depression of prices. Moreover, the Secretary could change processing tax rates at such intervals as he found necessary, whereas the rate of the certificate tax can be changed only annually.

^{1/} It is understood that consideration is being given by the Department of Agriculture to the desirability of providing minimum and maximum value limits for the certificates.

On the basis of current data, the tax rates indicated by the certificate plans are estimated to compare approximately as follows with those imposed under the processing taxes. 1/

	<u>Certificate tax rate</u>	<u>Processing tax rate</u>
Rice	1¢ per lb. of milled rice	1¢ per lb. of rough rice, equivalent to 1.62¢ per lb. of milled rice.
Cotton	7.1¢ per lb. of lint cotton <u>2/</u>	4.2¢ per lb. of lint cotton
Wheat	48.1¢ per bushel of 60 lbs. (40.1¢ if parity prices on exports are not provided) <u>3/</u>	30¢ per bushel of 60 lbs.

1/ The certificate plan specifies the inclusion of "parity payments" in determining average farm price. Since, however, the plan itself is offered in lieu of parity payments, such payments are ignored in the computation of the above tax rates.

2/ Average farm price (11/15/1939) per lb. of cotton 4/ = 8.80¢
 Parity price (11/15/1939) per lb. of cotton 4/ = 15.87¢
 Average cost of production (in 1937 on 10-year average yield basis) 5/ = 12.4¢
 Excess of parity price over average farm price = 7.07¢

3/ Average farm price (11/15/39) per bushel of wheat 4/ = 73.1¢
 Parity price (11/15/39) per bushel of wheat 4/ = 113.2¢
 Average cost of production (in 1937 on 10-year average yield basis) 5/ = 103.0¢
 Excess of parity price over average farm price = 40.1¢
 120 percent of excess = 48.1¢

4/ U. S. Department of Agriculture, Agricultural Marketing Service, November 29, 1939, pages 3, 21.

5/ Hearings on S. 2395, pages 9, 80.

3. Base of tax.

The certificate tax is to be levied on the "first sale of any article manufactured wholly or partly" from the given agricultural commodity. It is to be paid by the person making such sale at the time the sale is made and evidence of compliance must be submitted before the end of the month following that in which the sale was made. The processing taxes were "levied, assessed and collected upon the first domestic processing of the commodity, whether of domestic production or imported" and were paid by the processor.

The certificate plan taxes, like the processing taxes, are to be levied simply on a quantity basis - so many cents per pound or bushel - without regard to the type and quality of the commodity or price of the agricultural product.

4. Compensating tax.

Under the certificate plan a tax corresponding to the tax on the domestic sale of the manufactured commodity is imposed on imports. This has its counterpart in the import compensating tax provided under the processing taxes, which imposed upon any article processed or manufactured wholly or partly from the commodity in question and imported into the United States from any foreign country a compensating tax equal to the amount of the processing tax in effect with respect to domestic processing at the time of importation.

The processing taxes provided for compensating floor stock taxes on any article (excepting the stocks of persons engaged in retail trade) that, on the date a processing tax "first takes effect," was "held for sale or other disposition (including articles in transit) by any person,"

provided the article was "processed wholly or in chief value" from the commodity in question. No corresponding compensatory floor stock tax is provided by the certificate plan.

Under the processing tax the Secretary was instructed to ascertain whether "the payment of the processing tax upon any basic agricultural commodity is causing or will cause to the processors thereof disadvantages in competition from competing commodities by reason of excessive shifts in consumption between such commodities or products thereof." If he so found, he was to proclaim a tax, at a rate "necessary to prevent such disadvantages in competition" on the first domestic processing of the competing commodity. No corresponding compensating tax on competing products is provided for under the certificate plan.

5. Conversion factors.

Under the proposed bills, as well as under the processing taxes, the Secretary is given the power to establish conversion factors for any commodity and article manufactured from agricultural commodities taxed.

6. Exemptions and refunds.

Under the certificate plan the sale of commodities for export is exempt. In those instances in which a commodity exported had previously been subjected to the tax, refunds are provided. To prevent pyramiding, the tax is to be imposed only once. Articles processed or manufactured from another article which had previously been taxed are to be exempt. These constitute the only exemptions and refund provisions under the certificate tax plan. Unlike in the case of the processing tax, no provision is made for refund on or exemption to "products used for charitable distribution or use."

7. Tax load.

On the basis of the tax rates indicated above and on the basis of the Department of Agriculture's estimates of consumption, the annual tax liability under the proposed certificate taxes for rice, cotton and wheat, together with corresponding collections under the processing taxes, are calculated below. 1/ No allowance is made for the effects of the tax on the volume of consumption. 2/

	<u>Rice</u> (Milled)	<u>Cotton</u> (Lint)	<u>Wheat</u>
Estimated domestic consumption (in 1,000,000 units)	1,100 lbs.	3,350 lbs. 3/	500 bu.
Tax rate (per unit of volume or weight)	1¢	7.1¢	48.1¢ (40.1¢) 4/
Calculated tax liability (rounded)	\$11,000,000	\$238,000,000	\$240,000,000 (\$200,000,000) 4/
Processing tax collections, fiscal year 1934	5/	\$144,767,233 6/	\$117,621,175
Processing tax collections, fiscal year 1935	\$ 29,120	\$ 95,926,302	\$123,560,932

1/ Processing tax collections are shown in detail in Exhibit 1.

2/ For some commodities this, of course, is an important factor. It has been estimated, for instance, that in the case of cotton (under conditions existing in 1934 and 1935) a tax which is equivalent to 4 cents per pound gross weight, if all passed on to consumers (raising prices to 10-12 cents), would probably reduce domestic consumption about 400,000 to 500,000 bales annually. (Bureau of Internal Revenue, An Analysis of the Effects of the Processing Taxes Levied under the Agricultural Adjustment Act, page 36.) In the case of wheat, on the other hand, the 30 cents per bushel processing tax was estimated to decrease consumption not more than 3 percent. (Ibid. page 27.)

3/ Representing 7,000,000 bales of cotton; 1 bale (net) is equal to 478 pounds.

4/ Amounts in parenthesis apply if parity prices on normal exports are not provided.

5/ Processing tax on rice did not become effective until April 1, 1935.

6/ Includes \$58,000,000 floor stock tax.

8. Date of termination.

The bills providing for certificate taxes on wheat, cotton and rice contain no specific provision regarding the length of time for which the taxes are to remain in effect. In the absence of a statement to the contrary, it is to be assumed that they will remain in effect until specifically repealed. Secretary Wallace's public statements tend to indicate that the proposed certificate plan is intended as a permanent feature of the agricultural program. The rates proposed in the case of wheat and cotton are such that by implication, the plan would be discontinued, when the average farm price of these agricultural commodities was not less than either the parity price or the cost of production.

The processing taxes were to terminate at the end of the marketing year current when the Secretary proclaimed that rental or benefit payments of the commodity were to be discontinued. In addition, the taxes might have been terminated by either the President or the Secretary.

9. Tax administration.

Responsibility for the administration of the certificate plan in all its aspects, including the receiving of monthly "tax" returns and the collection of "taxes," is vested with the Secretary of Agriculture. 1/

In the case of the processing taxes imposed under the Agricultural Adjustment Act of 1933, the Bureau of Internal Revenue, under the direction of the Secretary of the Treasury, was charged with the collection of taxes.

1/ See page 2, footnote 2.

Collections from the excise tax on sugar are paid into the general fund of the United States Treasury. Collections from processing taxes were also paid into the general fund, but the Act stated further that "the proceeds derived from all taxes imposed under this title are hereby appropriated to be available to the Secretary of Agriculture for expansion of markets and removal of surplus agricultural products and the following purposes under part 2 of this title (part 2 was entitled "Commodity Benefits"): Administrative expenses, rental and benefit payments, and refunds on taxes." The proceeds of the import compensating tax upon articles coming from the possessions of the United States to which this title did not apply were to be "held as a separate fund and paid into the Treasury of the said possessions, respectively, to be used and expended by the Governments thereof for the benefit of agriculture."

V. Incidence of Proposed Certificate Taxes

The certificate plan proposes to make benefit payments to the producers of selected agricultural commodities from the proceeds of certificate taxes imposed on the first domestic sale of these agricultural commodities in processed condition. The determination of the incidence of such taxes presents complex problems. Conceivably, a tax such as this might ultimately be borne, in whole or in part, by the processors, the several distributors, the consumers and even the producers themselves. ^{1/}

The incidence of certificate taxes on particular commodities may be expected to approximate in a general way the incidence of the old processing taxes on these particular commodities. However, two or three conspicuous differences in the conditions under which the two groups of taxes were and would be imposed should be noted.

The processing taxes were imposed for a relatively short period; in no instance for more than 30 months (wheat) and in one case for only 9 months (rice). In consequence, the incidence of any of the processing taxes may differ from the incidence of corresponding certificate taxes, which presumably would be of more permanent duration.

^{1/} Although, as has been noted above, there is no intention to propose the application of the plan to those commodities a certificate tax on which would tend to be shifted to producers.

The two groups of taxes may be expected to exhibit differences, particularly in their effect upon supplies coming from producers. The duration of the processing taxes was probably too short to enable producers to adjust their plantings to the changed marketing conditions - a situation which was intensified by the fact that the processing taxes were accompanied by rigid limitations on agricultural production. In a general way the proposed certificate plan contemplates similar limitations upon production.

A further difference in the incidence of the two groups of taxes may be expected to result from differences between economic conditions prevailing in 1934 and 1935 and those which may prevail when the proposed certificate taxes are in effect. Changes in the income and purchasing power of consumers, for instance, are of great importance in this connection.

Finally, as must already have become apparent, the technical features of the processing taxes (however crude in the abstract) were more carefully integrated - with respect to exemptions, refunds and compensatory levies, for instance - than is practicable in the case of a tax administered as an incident in the agricultural program rather than as an integral part of the Government's tax system.

The distribution of the tax burden of the processing taxes has been subjected to detailed examination by several investigators. Notwithstanding the limitations upon the applicability of the "incidence experience" under the processing taxes to the proposed certificate taxes, it may be assumed

that, in view of the complexity of incidence determination, more weight can reasonably be attached to the careful findings respecting the processing taxes than to such findings as might be made after an independent but more limited (as to statistical evidence, time and technical skill) investigation of the probable incidence of certificate taxes. For that reason no attempt was made to estimate independently the probable incidence of certificate taxes.

The most authoritative analysis of the incidence of the processing taxes appears to be one made by the staff of the Bureau of Agricultural Economics and published by the Bureau of Internal Revenue as An Analysis of the Effects of the Processing Taxes Levied under the Agricultural Adjustment Act (Washington, 1937, 111 pages). It was based largely on an examination of prices and spreads before and after the particular taxes were imposed (or changed) and after they were abolished. The general conclusions of the incidence analysis of the Bureau of Agricultural Economics have been previously summarized and their limitations indicated in a memorandum prepared for the Division of Tax Research by Carl Shoup and need not here be repeated. ^{1/} For purposes of ready reference, however, the conclusions of the Bureau of Agricultural Economics study respecting the incidence of the processing taxes on the three commodities for which certificate plan bills have already been introduced are here enumerated.

^{1/} Carl Shoup, "Processing Taxes." Memorandum in the files of the Division of Tax Research, Treasury Department.

In connection with these conclusions, it should be kept in mind, in addition to the reservations already made, that they are derived with a technique which assumes that any changes in prices and spreads during the imposition of the processing taxes were due exclusively to the processing taxes themselves. In other words, it does not consider the possibility (although it recognizes its existence) that other changes may have occurred which on the one hand may have neutralized the effects of the taxes or which on the other hand may have been neutralized by the taxes.

Finally, the reader should be cautioned against accepting these conclusions as definitive findings, particularly since they are here presented out of context and shorn of all the reservations and qualifications which clothe them in the Bureau's publication.

1. Cotton (page 36) 1/

- (a) "....from the standpoint of the cotton-textile industry as a whole very little of the processing tax was borne by manufacturers as a group in the form of lower mill margins;
- (b) "....distributors of cotton goods were able to increase their margin more than enough to take care of the processing tax;
- (c) "....the processing tax in large part was passed on to consumers in the form of higher prices for cotton goods or passed back to the producers in the form of lower prices for their raw cotton;
- (d) "....the portion of the tax borne by domestic producers was probably slightly less than one-half cent per pound."

1/ Page references are to Bureau of Internal Revenue, An Analysis of the Effect of Processing Taxes under the Agricultural Adjustment Act.

2. Rice 1/ (page 59)

(a) "....only a small portion, if any, of the processing tax was absorbed by rice millers;

"....there is no evidence that the tax was passed on to consumers;

"it follows, that a large part of the tax represented in effect a deduction from the price which otherwise would have been received by producers."

3. Wheat (page 27)

(a) "....the millers did not absorb an appreciable portion of the tax, if any;

(b) "....the price of wheat appeared substantially unaffected by the tax;

(c) "it follows....that the tax must have been passed on to consumers of the products of wheat milling."

1/ "The period in which the processing tax was in effect was very short, and it is doubtful whether the long-run effects would have been the same as during the short period."

VI. Analysis of Certificate Plan

In considering the probable effects of the enactment of the certificate plan upon the various phases of the Nation's economy, it is essential to keep in view the basic philosophy of the agricultural program. The certificate plan is but the current instrumentation of an economic objective which runs through all of the agricultural adjustment legislation (proposed and enacted) of the last two decades. In its barest form that philosophy starts with the assumption that for 20 years the farmer has not received a "fair share" of the national income; that agricultural income must be increased substantially and maintained permanently at the higher level; that the improvement of the economic position of the farmer is prerequisite to the stability and progress of the whole economic system.

Speaking of the 1933 farm legislation, Secretary Wallace said:

"Its basic purpose, first of all, is to increase the purchasing power of the farmers. It is, by that token, farm relief, but it is also, by the same token, national relief, for it is true that millions of urban unemployed will have a better chance of going back to work when farm purchasing power rises enough to buy the products of city factories." ^{1/}

The philosophy has changed little during the past seven years. In an address before an agricultural group within the past few days, the Secretary's philosophy takes on even more concrete form:

"The 7 million farm families, constituting 25 percent of the population of the United States, are educating 31 percent of the children of school age, but they receive only 11 percent of the national income. This is substantially higher than the 7 percent which was their share in 1932 and is about equal to

^{1/} Henry A. Wallace, radio address, March 18, 1933.

the share they received in the five years before the Great Depression. But farmers are still at a severe handicap in comparison with non-farm groups. Even with government payments figured in, they are still more than a billion dollars short of parity income as defined in the Agricultural Adjustment Act of 1938.

"As a matter of fact, farmers never have received as much income on the average as the rest of the people. Even in the pre-World War period the farmers' net income per capita was only 60 percent as much as the net income per capita of non-farm groups. In other words, the farmers have constantly fed the nation at a 40 percent discount. Steadily they have contributed not only half of their children to the cities, but a considerable part of their wealth in the form of interest payments on mortgages, held as a result of inheritance by the farm children who have moved to town. Also, the farmers have always absorbed more than their fair share of the unemployment shock....

"For 20 years the organized farm groups of the United States....have struggled to attain a fair share of the national income for agriculture. For 20 years they have striven for equality of bargaining power with the other great economic groups. For 20 years, no matter how desperate their own circumstances, they have faithfully fed the nation while they fought this grim uphill fight. I don't think they'll run up the white flag now." ^{1/}

A. Effects on agricultural producers.

1. Amount of benefit payments. The adoption of the certificate plan will afford large benefit payments to the producers of the agricultural commodities affected. These benefit payments will probably be considerably higher than are likely to be made available through appropriations from the general fund of the Federal Treasury. They may in fact be the maximum that agriculture could obtain if it were free to determine the domestic market prices of agricultural commodities. The possible upper limit on the prices of certificated commodities

^{1/} Wallace, "How permanent is the farm program?" pages 7-8.

is so high that whether agriculture can in fact derive the maximum income from the domestic market will depend only on its ability to set that price which, with the given domestic demand, will yield the maximum farm income. 1/

The benefit payments to producers of basic agricultural commodities under the certificate plan will be in addition to some of the "farm benefit" expenditures now financed from general appropriations. 2/ Expenditures under the soil conservation program, for instance, would be continued.

"This program for saving our soil, water, grass, and trees is not in the interest of agriculture only. It is in the interest of the entire nation. Conservation of the land and the living products of the land must be done by the farmers if it is going to be done. But paying for it is not the sole responsibility of the farmers. It is a national responsibility. Money for the conservation program, therefore, can logically come from the general Treasury." 3/

From the point of view of agriculture, adoption of the certificate plan should also leave unaffected expenditures from the general fund to stimulate consumption of agricultural products by direct distribution of surplus farm products to needy families and through such devices as the Food Stamp Plan and free school lunches.

"If the workers of the United States were fully employed at good wages, there would be no need for these measures to expand domestic consumption. But when 20 million persons must look to Federal, State or local government, if they want to stay alive, then food consumption is below normal.....The added food

1/ Of course, the resulting artificiality of agricultural prices may be considered a serious disadvantage.

2/ See, however, page 52 below.

3/ Wallace, "How permanent is the farm program?" page 11.

consumption in the cities naturally means a great deal to farmers, because it helps to use up their surplus production. But it also means a great deal to the city business men and city workers. And it means most of all to the needy families themselves. Since this government-subsidized consumption of food has been made necessary by unemployment, there is a serious question whether it should be charged up to agriculture at all." ^{1/}

Instead of reducing, the adoption of the certificate plan may increase Federal expenditures for the stimulation of consumption. The marked price increases may reduce consumers' purchases, increase surpluses and hence government expenditures for the disposition of surpluses.

2. Regularity of benefit payments. In the long run, the certificate plan would probably provide benefit payments with greater regularity than is possible by direct Congressional appropriation. Once enacted, the plan would not be subject to annual Congressional review to which the budget is regularly subjected. ^{2/} In a sense the plan would constitute a permanent appropriation. Since the plan itself incorporates no termination date as such, it would presumably remain in effect until specifically repealed. ^{3/} The permanency of benefit payments appears to be greatly desired by agriculture. ^{4/} It regrets the necessity of

^{1/} Ibid. pages 11-12.

^{2/} In a sense, this may be interpreted as a disadvantage, even from the point of view of agriculture itself, for it would tend to postpone such fundamental readjustments in agriculture as may be urgently needed.

^{3/} Section 32 of the Agricultural Adjustment Act as amended already earmarks 30 percent of customs receipts for the expansion of agricultural markets.

^{4/} "....I feel it is essential that the farmers should - as quickly as possible - get behind some plan that will assure them a permanent source of revenue they need." (Statement of the Secretary of Agriculture, Washington Star, December 1, 1939).

annually coming "back to Congress.....to ask for the necessary funds to run the farm program." 1/

It might also be of advantage to agriculture that the benefit payments under the certificate plan would be hidden from public view in the sense that they would not appear in the actual statistics of governmental tax collections and expenditures. In the form of certificate taxes they would be less likely to provoke public criticism and inquiry than processing taxes. 2/

3. Volume of exports. The increased benefit payments resulting from higher domestic agricultural prices will have the added advantage of retaining for the American farmer substantially the same competitive advantage in the foreign markets as he would have without the operation of the certificate plan. This follows from the fact that the plan leaves

1/ "Ever since the Hoosac Mills decision in 1936, the farmers, hat in hand, have had to come back to Congress -- representing all the people -- to ask for the necessary funds to run the farm program. Each year the people through Congress have granted the request. But each year the farmers are asked by spokesmen for industrial and financial interests, How long is this going to go on, with agriculture getting this amount of money? The farmers naturally wonder why they alone, of all the great economic groups, have to come back each year and meet a fresh challenge by other economic groups to their method of attaining bargaining equality. Farmers have not asked that labor come back and seek a renewal of the bargaining power laws which give working men an added income of billions of dollars a year. They wonder why business should not have to come back each year and have its tariff validated. They would like to ask, How long are we going to pay tribute of billions of dollars a year in the form of tariff-protected prices? If agriculture has to come back to Congress each year to get a partial equality in bargaining power, farmers would like to know why labor, corporations, and tariff-protected industry should not be forced to pass a similarly-rigid annual inspection." (Wallace, "How permanent is the farm program?" page 9.)

2/ However, there is the possibility that the existence of these special taxes falling on the masses of the population would present a constant target for political action which might lead to a reaction against both the tax and the benefits.

the "farm price" unchanged, but imposes the certificate tax after the processing of the farm product. It is interesting that when the certificate plan was first evolved for use by Central European agrarian countries (depending entirely on agricultural exports for foreign exchange) its sole purpose was to stimulate agricultural exports.

Far from hindering exports, it is clearly the intention of the advocates of the certificate plan to use it to stimulate exports. In the plan for wheat, it will be recalled, a tax is imposed on domestic consumption to yield the wheat producer (at the expense of the domestic consumer) a parity price both on domestically consumed wheat and on wheat exported (in quantities equal to 20 percent of domestic consumption.) 1/ 2/ The certificate plan is ideally suited for the subsidizing of

1/ See Hearings on S. 2395 before the Subcommittee of the Committee on Agriculture and Forestry of the U. S. Senate. (page 5).

Senator Ellender. Would payments be made on that which is set aside for export purposes?

Mr. Thatcher. The bill provides that in the 600,000,000 bushels of wheat, which, over a period of time, has annually disappeared, 500,000,000 in the United States and 100,000,000 abroad, the bill provides that the farmer would be paid parity price or cost of production, whichever is higher. And for this reason: We believe that if it is desirable to maintain foreign markets for that much wheat, that the shock of producing that wheat at foreign prices, which are admittedly, usually below, much below cost of production, the whole country should share in the maintenance of that foreign market and not leave the shock to the wheat producer alone, who buys all of his supplies for his production and his living at domestic prices which are protected by tariffs, and if he is going to have the money to pay for those supplies he is going to have to have the income from the things that he produces.

2/ However, see page 2, footnote 1.

exports, at domestic consumers' expense, of those agricultural commodities for which the domestic demand is such that the quantity consumed will not be curtailed directly as the price is increased.

4. Miscellaneous considerations. The certificate plan would have several other advantages from the point of view of agriculture. It would, for instance, provide a kind of gratuitous crop insurance. The crop allotment certificates would be distributed among the growers of the particular commodities in proportion to the normal yield of their respective allotments. These benefit payments would thus constitute a kind of fixed income received by growers without regard to the actual yield of their acreage. Moreover, if eligible, they would receive these benefit payments sometime at the beginning of the crop year and before harvest.

The certificate plan may be expected to make regulation of the volume of agricultural production more effective. The magnitude of benefit payment would be so large that only the exceptional producer could afford to remain a "non-conformer."

5. Degree of applicability. The certificate plan, however, has several shortcomings, even from the point of view of agriculture. First, it cannot be used with uniform effectiveness for all commodities. It cannot serve effectively to raise the income of farmers producing commodities, the domestic demand for which is relatively elastic (where consumer purchases are appreciably reduced as the price increases). ^{1/}

^{1/} Except, of course, as a means of differentiating between cooperating and non-cooperating farmers in the distribution of benefit payments.

Hogs are a case in point. The demand for pork and its products appears to be such that, irrespective of price, total consumers' expenditures remain the same; an increase in price tends to produce a corresponding decrease in the volume of consumption and vice versa. Under the processing taxes, for instance, the total amount expended by consumers for pork products apparently was no greater with the tax than it would have been if the tax had not been in effect. The effect of the tax was to cause prices received by hog producers to be lower than they otherwise would have been by approximately the amount of the tax. 1/

Wheat, as has already been noted, presents a different case. The demand for wheat and its products appear not to be affected to any appreciable extent by changes in wheat prices. Wheat farmers would apparently derive great benefits from the certificate plan. However, there are a variety of agricultural commodities with a variety of demand conditions, each with prospects of deriving varying degrees of benefits from the certificate plan.

The advocates of the certificate plan recognize its weakness in this respect and propose to devise other means for the benefit of commodities with relative elastic demands -- where an increase in price tends to reduce consumers' purchases appreciably. 2/

1/ An Analysis of the Effects of the Processing Taxes Levies under the Agricultural Adjustment Act, page 7.

2/ "If, in spite of all our ingenuity, no equivalent for the certificate plan can be found for corn, I am sure the Corn Belt will not stand in the way of the good fortune of their brother farmers from the other regions. I know how broad-visioned the Corn Belt leaders are, and I am sure that their outstanding concern is to see the maximum unity of agriculture in presenting to the people and to Congress the farm program that will best serve the General Welfare." (Wallace, "How permanent is the farm program?" page 16).

6. Different quality products. Another weakness of the certificate plan from the point of view of agriculture stems from its failure to recognize variations in type, quality and regional differences as reflected in the market prices of any one general agricultural commodity. The plan contemplates the distribution of certificates on the basis of physical units of normal production. Since all certificates for any one commodity would have uniform value, they would represent a relatively larger benefit payment to producers of a low-priced variety and quality of product than to the producer of a high-priced variety and quality. The extent of this inequity is indicated by the following data. ^{1/}

	Cotton (lb.)	Rice (bu.)	Wheat (bu.)
Average farm prices:			
United States	8.80¢	-	73.1¢
State with lowest average	8.10¢	67¢	59.0¢
State with highest average	10.40¢	80¢	120.0¢
Parity prices	15.87¢	-	113.2¢
Value of certificate	7.07¢	27.8¢	40.1¢
Value of certificate as percent of average farm price for producer in:			
State with lowest average price	87%	41%	68%
State with highest average price	68%	35%	33%

For the three commodities here analyzed, the value of the certificate as a percentage of average farm price would range between 68 percent and 87 percent for cotton; between 35 percent and 41 percent for rice; and between 33 percent and 68 percent for wheat. These variations are on the basis of State averages. The range in relative benefit will, of course, be considerably wider between individual producers.

^{1/} Prices as of November 15, 1939. (Agricultural Marketing Service, November 29, 1939).

It should be recognized that these wide State-by State variations in average farm prices for specific commodities are in part variations between commercial and non-commercial areas. Within commercial areas the variations are considerably smaller. Since a State which constitutes a commercial area for one crop is generally a non-commercial area for one or more others, it might be assumed that benefit payments distributed on the basis of production of individual commodities without regard to price or quality, would tend to equalize. A relatively high cash benefit on a low priced commercial crop might be offset by a relatively low cash benefit on a high priced non-commercial commodity. The plan here under consideration, however, will be applied only to few agricultural commodities and equalization of advantages will therefore have little opportunity to occur.

7. Landlords and farm labor. Finally, the proposed certificate plan would bestow unequal benefits upon different elements in the agricultural economy. Landowners, as the equity holders in farm enterprise, would of course be the largest gainers. Unless the plan resulted in a substantial increase in the wages of farm labor (not likely in view of the relatively large supply of farm workers) it would probably be of little benefit to that group. In fact, it is quite likely that agricultural labor, insofar as it purchases food and clothing, would be a substantial loser as a result of increased consumers' food and clothing

prices. The farm labor group would lose also if the adoption of the certificate plan were followed by reduced consumers' demand, higher surpluses, leading ultimately to lower agricultural production and lower farm employment.

The certificate plan in the case of wheat and cotton provides for the distribution of these certificates between landlord and tenant or sharecropper on the basis of the respective shares of these groups in the net farm product. It will be noted that to the extent that the present distribution between these parties is now in favor of the landlords (as it is frequently alleged to be) it will be perpetuated by the adoption of the certificate plan. This tendency, however, should be offset to a considerable extent for wheat and to a lesser extent for cotton by one feature of the certificate plan: The amount of certificates per unit of normal production decreases as the amount of a person's total product increases above a given level. ^{1/} This provision might reasonably be expected to encourage farm tenancy and increase farm employment.

^{1/} However, with regard to the present provisions of the certificate plan bills for cotton, see Section III (3) above.

B. Effect on agricultural trades.

The adoption of the certificate plan may be expected to affect adversely processors and distributors. These adverse effects would flow from three general causes.

1. Margin of profit. The margins of profits of processors and especially distributors are so small in relation to the amounts of the proposed taxes that the necessity of absorbing any small part of the tax would seriously affect their profits. Such necessities doubtless arise when the addition of the tax to the price would require a fractional price adjustment. Under the processing taxes processors do not appear to have borne any appreciable proportion of the taxes, with the possible exception of certain corn and tobacco products. ^{1/} However, even though a processor bore no appreciable proportion, he might have been severely burdened. His margin of profit may be so small relative to the tax that even if he shifts nine-tenths of it, for instance, the part that he does bear may take a very large percentage of his profits. ^{2/}

^{1/} An Analysis of the Effects of the Processing Taxes Levied under the Agricultural Adjustment Act, page 5. See also Nourse, Davis and Black, Three Years of the Agricultural Adjustment Administration, pages 313, 414: "...during the period of application of processing taxes on tobacco, a substantial part if not all of it was absorbed by the manufacturers of tobacco products. It is extremely doubtful if this situation would have continued indefinitely... and it certainly must not be regarded as typical of the commodities covered."

^{2/} In this connection it is of interest to note that at the time of the processing taxes it was argued that the burden would not be shifted in its entirety to consumers but would go to reduce "excessive" distributors' and processors' margins. (For evidence on this point see Three Years of the Agricultural Adjustment Administration, pages 412 et seq.)

2. Volume of trade. Processors' and distributors' profits would also be affected adversely by the decline in the volume of consumption which would follow the imposition of heavy taxes. The severity of this factor would vary with the demand conditions for the several commodities. The more elastic the demand the more marked the reduction in processors' and distributors' volumes. ^{1/} They may also be affected adversely by shifts in demand. Thus, some of the demand for bakery products may be shifted to flour and home baking.

3. Business methods. A third general source of burden as far as concerns the agricultural trades would flow from the business disruptions which would accompany the periodic determination of the "tax levy" for the marketing season. Speculation on the probable changes in the price of certificates will probably produce "serious ups and downs" in the milling industry immediately before and after the annual proclamation of the certificate price. To this (generally in the case of processors) would be added the burden of filing monthly returns and complying in other respects with Department of Agriculture regulations. ^{2/}

^{1/} For a statement of the processors' grounds for opposition to the certificate plan, see letter from the Vice President of the Millers' National Federation to Senator Wheeler, in Hearings on S. 2395, pages 22-23. Rice processors, on the other hand, appear not to oppose the plan.

^{2/} Anticipating the opposition of the processors to the certificate plan, Secretary Wallace said: "I am hopeful the processors will cooperate with us. Among the processors are many able and progressive men. If they can be persuaded that we are right - and I believe they can - they will go along with us. But die hards might as well abandon the idea that American farmers are willing to continue to exploit themselves, their families and their land to grow cheap farm products." (Washington Star, December 1, 1939.)

C. Fiscal effects.

The broader view of whether the agricultural program, including the certificate plan now under consideration, would have beneficial or harmful effects on the economy in general would require a lengthy and involved analysis in a very controversial field. Although pertinent, the subject is not considered in this memorandum. Some of the probable fiscal effects of the certificate plan, however, are so significant and predictable as to require discussion here.

1. Fiscal management. The certificate plan would in effect sanction large public expenditures financed from taxes and probably growing in magnitude, without inclusion in the Budget. At the outset, it should be noted that the elimination of such an important item as this from the Budget would limit the effective use of fiscal policy as an instrument of economic control.

Furthermore, any plan for the payment of agricultural benefits would be less subject to abuse and would be more likely to promote the public interest over the long run if the tax collections and benefits were included in the Budget and handled in the same manner as other taxes and appropriations.

There is need for a better general comprehension rather than a concealment or confusion of the detailed receipts and expenditures of the Federal Government. The adoption of the income certificate plan would make it more difficult to determine the amount of actual public expenditures and the actual tax burden of the various groups of taxpayers. 1/

1/ Representative Andresen (Minn.): "Well, this is more or less a plan to fool the people so they will not know they are ever paying the taxes....." (Hearings on H. R. 6654, page 56.)

Only by the inclusion of all public expenditures in the Budget and by the submission of all public expenditures to periodic executive and legislative review can there be any assurance that the proper allocation of public funds among the many public uses is approximated.

In the memorandum submitted by the Department of Agriculture the view is expressed that "It is more appropriate to compare the Certificate Program with tariff legislation or minimum wage and collective bargaining legislation than with expenditures under the Budget. The issue is primarily one of agricultural policy rather than fiscal policy, except as it may affect other appropriations."

Certain legislation for the benefit of agriculture, such as the Agricultural Adjustment Act of 1938 appropriately may be compared with tariff legislation, minimum wage and collective bargaining legislation. The certificate plan, however, may more properly be considered from the point of view of fiscal policy. Under its provisions taxes would be collected and revenues would be distributed by an agency of the Government. The operation of the plan would not differ materially from the processing taxes and benefit payments provided under the Agricultural Adjustment Act of 1933. The fact that in this instance some of the actual operations would be conducted by a special revolving fund and not the general fund does not alter the fact that the fiscal aspects of agricultural benefit payments are substantially similar to those of other governmental services or expenditures.

Furthermore, the parity payments provided the producers of the 3 or 4 commodities covered by the certificate plan would not differ significantly (excepting perhaps in amounts) from the parity payments which are now provided through the Budget and from the general fund to the growers of agricultural commodities and would no doubt be continued for the commodities not covered by the plan.

In the Department of Agriculture's memorandum the view is expressed that "under existing circumstances," an increase in direct governmental payments "is neither practical nor desirable." It is urged that since Congress is not likely to continue to make direct appropriations for the benefit of a particular group, an indirect subsidy should be provided.

The democratic process assumes that Congressional determination represents the nearest possible approach to the expression of the public will. This is recognized in certain parts of the Department of Agriculture's memorandum. In respect to the parity payments, however, a contrary position appears to be taken, namely, that while the present Congress represents the public will, succeeding Congresses may not represent it.

Although there is thus an apparent anomaly, those taking this position hold that agricultural aids should be adopted as a permanent policy outside the Budget, because other economic and industrial groups have protective legislation of various kinds which need not be reconsidered at each session of Congress. The tariff is the principal example mentioned.

Many agricultural commodities are protected by tariffs and, in recent years, even the tariff on wheat has been effective in raising the farm

price. Aside from this consideration, however, the observation may be made that the tariff is either a policy or a disease. If it is a policy intended to achieve a certain result the measures should not be taken which would operate to nullify it. If instead the tariff is a disease, the cure would seem to be its elimination rather than to spread the disease by measures which in no respect reduce the economic loss caused by the tariff in misdirecting the use of the nation's productive resources. The tariff hits primarily consumers. This proposal would hit them again.

Moreover, the type of tax pressure afforded by the tariff is very different from the payment of governmental cash benefits financed from taxes. The distribution of burdens is different, the distribution of benefits is different, and the effect on internal competition and productive efficiency is different.

A line must be drawn somewhere between the incidental effects of governmental policy on the fortunes of people and the direct payments of money forcibly collected from the people. The latter is more susceptible to the dangers of misuse, and accordingly requires more careful scrutiny to achieve an allocation of governmental burdens and benefits in accordance with the public interest. Although similar scrutiny should no doubt be accorded to tariffs, the fact that it has not been given does not warrant extending the lack of scrutiny to direct governmental payments. In addition to what has already been said on this point, it should be noted that the pursuit of the proposed policy would logically involve the granting of indirect subsidies to numerous additional groups. The plan would

establish a dangerous precedent, which other economic groups would strive to emulate. If the plan is suitable for agriculture, why not for mining, for instance? The plan is so ideally adaptable to various kinds of income-redistribution schemes that its sponsorship for other groups seems reasonably probable. The resulting multiplicity in tax-levying and collecting bodies, operating independently within the Federal Government, would raise havoc with fiscal planning.