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GROUP MEETING

May 16, 1939.
9:30 A. M.

1

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

H.M. Jr: I am sorry I could not see you people last night.
Did you have something, Mac?

McReynolds: Before Mr. King comes over to see you, I want to
talk to you.

H.M. Jr: All right.

McReynolds: And I have a couple of other things here, but I
imagine you are too busy to take them up now.

H.M. Jr: I have nothing until 10:30.

McReynolds: I have just these two things that I wanted to take
up particularly.

(Insert telephone conversation with Ickes 9:48 -
May 16th between pages 1 and 2.)

May 16, 1939
9:48 a.m.

Operator: Secretary Iokes.

HMJr: Hello.

O: Go ahead.

HMJr: Hello.

Harold
Iokes:

Yes.

HMJr: Hello, Harold.

I: Yeah.

HMJr: How are you?

I: Fine.

HMJr: You don't sound fine.

I: I know what you're going to talk about.

HMJr: What? What?

I: You're going to talk about a man on Public Works staff.

HMJr: No, no, I'm calling about helium.

I: Oh, about helium.

HMJr: (Laughter) You done me wrong, mister.

I: I have you wrong this time. All right.

HMJr: No, I -- I thought if you could give me an appointment. You see, the Munitions Board want a blanket authority on export of helium, using Poland as an excuse. The White House has called us up to do it.....

I: Yeah.

HMJr: we're standing pat.

I: I haven't any objection to that export.

HMJr: No.

I: They cant do anything with that six.....

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HMJr: No, but they want a blanket authority.

I: They want blanket authority up to five hundred.....

HMJr: Thousand.

I:thousand cubic feet a year in any one country.

HMJr: Yeah.

I: That isn't dangerous, Henry.

HMJr: Oh, you're willing to go along on that?

I: Yeah, I'm willing to go along on that.

HMJr: Yeah, during -- five hundred thousand cubic feet in any one year.

I: Yeah, not over that in any one year, but they have to -- they have to have some safeguards in there that it isn't being accumulated. You have to look out for that too, their diplomatic agents, or something.

HMJr: You're -- you're satisfied with that?

I: Yeah, I'm.....

HMJr: Well, after this magnificent fight you made, I didn't want to do anything out of line, you know.

I: No, no. You see, they -- for a zeppelin they take -- they take a tremendous lot as compared with that.

HMJr: Now.....

I: Five hundred thousand isn't -- isn't much.

HMJr: You evidently know something that I don't know.

I: What?

HMJr: That I wanted some man? Or were you kidding?

I: What?

HMJr: Were you kidding me about wanting some man?

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I: No.

HMJr: No, this is all I wanted.

I: All right, Henry.

HMJr: This is all I wanted.

I: All right, Henry.

HMJr: Thank you.

I: Good bye.

- Gibbons: The secretary of Congressman Casey, of Massachusetts, called yesterday and wanted to make an appointment for Colonel Speaks, President of the Fisk Rubber Corporation, of Chicopee Falls. I did not tell her anything definite, because I thought, perhaps, it was something you did not want to talk to him about, and I did not want to bother you until you knew what it was all about.
- H.M. Jr: This is something for Bell, the Director of the Budget, and it is rather embarrassing for me to be asking the Director of the Budget to do something for the President, when the Director of the Budget is no longer under me. The President wants the Director of the Budget -- this is the way it is put up to me -- to inform him as to the proper figures on the Senate Agricultural Bill. Is Senator Russell right or is he not right? A copy should be sent to the President, and I might add that I would like a copy and send one to Wallace. The President said the people in the House do not know, and I do not know whether to tell the Director of the Budget or --
- McReynolds: He can take it up directly, on the President's instructions, with the Chairman of the Committee. I will see Hal Smith and see if he understands it.
- H.M. Jr: All right. You will tell him that that is the way I got the message?
- McReynolds: Yes. He can check up on it.
- H.M. Jr: On the reorganization plan -- the Chicago plan.
- McReynolds: Well, of course, the sixty days are not up yet. It is still under you.
- H.M. Jr: I know.
- McReynolds: He was District Commissioner; he was Administrator.
- H.M. Jr: Oh, he was Administrator?
- McReynolds: He is one of you fellows.
- H.M. Jr: Harold?
- Graves: You wanted a memorandum about these motion picture cases for the Attorney General.
- H.M. Jr: Oh, yes.

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Graves: I understood you to say you wanted that for the consideration of Mr. Hanes some time in advance of your giving it to the Attorney General.

H.M.Jr: That is right.

Graves: Mr. Ireys has that memorandum, --

H.M.Jr: Right.

Graves: And I take it that he will be ready any time you are.

H.M.Jr: Well, let it come up through Mr. Hanes to me, and I will try to get it to the Attorney General by the 19th, if possible; so that if Ireys and you can get it to Mr. Hanes and he can get it to me tomorrow --

Graves: Very well.

H.M.Jr: Is that all?

Lochhead: The foreign exchanges are not as strong as they were, but they are gaining dollars, at least they are not losing. They are gaining gold now instead of having to sell their shipments to the Treasury.

H.M.Jr: Yesterday was the 15th.

Lochhead: I was going to ask about that.

H.M.Jr: So was I. We both got trimmed.

Lochhead: I think I got trimmed more than you did.

H.M.Jr: Oh, no, I refuse to take second place.

Lochhead: Well, I was kind of optimistic.

Gaston: Harry and I are still two of those long-haired fellows.

Lochhead: I am building up to the time when I will not need any at all.

H.M.Jr: I do not know, but it is like they say on the radio -- I am a sustaining program, a sponsored program, or just a recording. I think it is just a recording. That isn't bad; is it?

Lochhead: It is hot off the griddle.

Gaston: You are non-commercial, anyway.

H.M.Jr: But I think it is just a recording. Harry?

White: There was an outflow of gold the week of the 5th for the first time, and the capital inflow has dropped to forty million a week from twice that amount. Wagner said that he was going to see you about this investigation. I wanted to tell you now, because he said the President, he gathered, wants --

H.M.Jr: An investigation.

White: A monetary study. He wants to make it a "study", because he said apparently there is going to be increasing pressure for it.

H.M.Jr: I read some place, or somebody told me that he went down to see Mr. Eccles, and asked Mr. Eccles why, after six years, we had to have a study to find out what we were doing.

White: I did not hear about that.

H.M.Jr: I think that would be swell -- that study.

White: He is going to change it from an "investigation" to a "study".

H.M.Jr: All right. Have a study. Bring it in about September, 1940.

McReynolds: Or any September thereafter.

H.M.Jr: Anything else?

White: That is all.

H.M.Jr: George, have you been ill?

Haas: Yes, sir; I have had the grippe.

H.M.Jr: George, just answer this yes or no, if you can: Is business getting better, is it standing still, or getting worse?

Haas: Yes. (Laughter)

H.M.Jr: O.K. That helps a lot. You do not want to be locked on that.

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Haas: It is going sideways; but there is something that coincides or checks; yes.

H.M.Jr: Meaning what?

Haas: Favorable.

H.M.Jr: Favorable?

Haas: Yes.

Foley: Jim Rowe called the White House yesterday, and said Hull had asked the President to get these regulations changed in regard to the sale of helium. On the 4th of February, we approved the granting of a license to sell 500,000 cubic feet of helium to Poland for stratosphere flight, and at the same time the State Department asked for a change in the regulations; so that today, without the approval of the Munitions Control Board, they could grant licenses for the sale of helium up to a certain amount. Now, we have held up those regulations, but it is not necessary to approve those regulations in order to sell this helium to Poland. It is just Joe Green telling the White House that we are blocking the sale of helium. Mr. Hopkins does not believe all of this power should be concentrated in the State Department, but that the Board should pass on each sale of helium, and I also think that should be done.

H.M.Jr: It is not blanketed?

Foley: It would amount to the regulations saying that up to a certain amount helium could be sold to any country without taking the matter up with the Munitions Control Board, but I think the Board should pass on those --

H.M.Jr: Can we get just one cleared up?

Foley: We have already cleared it, Mr. Secretary, but they have told the White House that they have to have these regulations changed which is not so.

H.M.Jr: Why don't you point that out to Jim Rowe?

Foley: And may I also tell him that you do not think the regulations should be changed, and that these requests for helium export should be passed upon by the full Board?

H.M.Jr: Yes.

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Foley: I think that is the position of Commerce also.

H.M.Jr: All right; and also get word to Mr. Ickes.

Foley: Yes.

H.M.Jr: Before you call back the White House.

Viner: Would you want to add that the amounts of helium which they would want to clear without special permission would presumably be too small for military use? That is what they claim, that its sale be limited to so low a level that it has no military use.

Foley: I think the Board should pass on that. I do not see why there should be any exception. What they are trying to do over there is to do it by themselves and go around this Board. There are five Cabinet members on this Board, and they all have representatives, and it is very easy to get them together in a few minutes. They have not done so, and I do not think the regulations should be changed.

McReynolds: They do not expect to get approval. That is the trouble.

Foley: That is right. They are afraid the people would block these things. Ickes is not on the Board.

McReynolds: No, I understand.

H.M.Jr: But he has put up a swell fight.

McReynolds: He is not on the Board, but he has control.

Foley: He has control of the helium. The Board grants the licenses for the export of helium, if it is of no military importance.

H.M.Jr: O.K.

Foley: Do you know about this controversy up at the World's Fair in regard to the destruction of that statue?

H.M.Jr: I have had it for breakfast, lunch and supper. Do you know who the attorney for the artist is?

Foley: Yes. Eddie Greenbaum. He has called a couple of times.

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H.M.Jr: Ed said he has a swell case, but he does not know what to sue for.

Foley: He has an application returnable this morning in the Supreme Court up there for an examination of the statue to determine what his cause of action is going to be.

H.M.Jr: But he does not know what he is going to sue for.

Foley: He is going to ask for a mandamus to compel the Commission to put the statue back on exhibition, if it has not been destroyed.

(Insert telephone conversation with Gordon Rentschler 9:58 - May 16th between pages 7 and 8.)

May 16, 1939
9:58 a.m.

Operator: Go ahead.

HMJr: Hello.

Gordon

Rentschler: Hello, Henry. Good morning.

HMJr: How are you?

R: All right. Fine. Henry, Jim Perkins is coming down for the Red Cross meeting on the 23rd.

HMJr: Well, that's too far off.

R: Too far off?

HMJr: Yeah. I wished -- I was hoping to see him before that. That's next week.

R: Well, let's see, that is next week.

HMJr: Yeah.

R: You'd like to -- you'd rather see him this week.

HMJr: I'd like to see the two of you this week -- I really would. I mean, what he -- this -- all of this stuff moves so fast.

R: Yeah. Well, let me check back and see if we can -- we can arrange that then.

HMJr: Well now, if you fellows want to come down and have lunch with me tomorrow I'd love it.

R: Yeah. Now let's see, tomorrow.....

HMJr: Is Wednesday. Have you got a bank meeting or something or other?

R: No, Wednesday -- let me see. I'd have to check on that, Henry. How are you fixed on Thursday?

HMJr: I give you the choice of Wednesday or Thursday.

R: Wednesday or Thursday?

HMJr: Yeah.

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R: All right, fine, Henry. Now I'll see if we can arrange that.

HMJr: Let Mrs. -- would you mind letting Mrs. Klotz know?

R: Yes, indeed I'll -- I'll let her know.

HMJr: Yeah, and when you.....

R: There's something else -- I wanted to tell you that -- it's stuck -- it's been stuck for a couple of weeks now.

HMJr: What's that?

R: And that is that the Jap banks came in.

HMJr: Yeah.

R: And Paid all of their secured loans.

HMJr: Yes.

R: First one, and then another, and then another.

HMJr: Yes.

R: And I don't know whether that has any significance to you or whether it hasn't.

HMJr: No, I don't -- I'd have to think about it.

R: Their acceptances are revolving just the same as usual.

HMJr: Yeah.

R: That which -- that stuff which relates to shipments of goods.

HMJr: Yeah.

R: But these were the borrowings against securities which were American Treasuries, and in some instances British Treasuries.

HMJr: Well, that -- would you infer that they were selling their -- their governments?

R: They might -- they unquestionably sold some of their governments, but on the other hand some of their governments are still here. They took -- they took

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about two millions of governments out and the balance of their governments are here, so they've sold three millions of them because they liked the price, but the others.....

HMJr: I see.

R: -- the others they still have and nothing borrowed against them.

HMJr: Uh-huh.

R: It's just one of the things that you might put along with the other things you're thinking of.

HMJr: Right. And if you do come down, I'd like a thumbnail sketch what you think about the prospects for business for the rest of this year -- unless that's looking too far ahead.

R: Yes, fine.

HMJr: Well, give it to me as far as you can see anyway.

R: Yes, all right. All right. Now, I'm sure that I can do either one, Henry, because I can change any of my plans.....

HMJr: Well, I'd really like to talk with you, and you know how this stuff is -- it gets cold awful fast.

R: Yeah. All right, fine. I'll see how he's fixed and see how we can work it out.

HMJr: Thank you.

R: Right!

HMJr: Good bye.

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- H.M.Jr: He said that is all right. I will just keep it for the record. (Secretary handed Foley paper).
- Foley: Surely.
- H.M.Jr: He said that is all right.
- Foley: Surely.
- H.M.Jr: He said he is satisfied; he knew all about the five hundred thousand cubic feet in one year, and he says it is all right.
- Foley: My point is that it was not necessary to change the regulations, because we have approved this specific sale.
- Viner: They do not want this to be a special favor to Poland; they want to say that they have a general rule for all countries, and they are operating under general regulations.
- White: If they could get the regulations changed, then they could not get any special regulations in regard to Poland, and then they could get it through without any objections.
- Foley: Bruce had written to the Attorney General and asked him for advice and help, and asked me if I would call the Attorney General, and I told him I did not want to do anything until I could talk to you.
- H.M.Jr: Surely. Give him all the advice you can, that is swell. The only thing is his wife was taken out to see the statue and it was not there.
- Foley: He told us last night that Flynn was willing to have another statue made and have it put back.
- Gaston: He had a new idea. He called me up last night, and said he had a request from the man in charge of pictures to supply fifty pictures for exhibition, and he wanted to write a letter to Ed Flynn, telling him he would let him have the pictures, only if he would give bond that they could not be destroyed, and he wanted you to give that out, together with a letter from Ed Flynn's man.
- H.M.Jr: There is a smaller statue that they want to put down in the Lincoln Memorial. I think he has always had a run for his money, personally.

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Gaston: Do you want to let him write such a letter and give it out?

H.M.Jr: No.

Gaston: I do not think so.

H.M.Jr: No.

Foley: Do you want me to do anything on this Public Works Finance Act of 1939?

H.M.Jr: You tell him what to do. I have here an article, on the basis of which Mr. Hanes has grounds for suit for defamation of character. I do not know whether it is up to the Secretary or his General Counsel to sue for him or not, but I will read this, anyway. I think it is one of the worst things I have heard said about anybody. Have you read it?

Gaston: Yes.

H.M.Jr: This is what it says -- I do not know how these things are handled.

Gaston: The Secretary did pretty well.

H.M.Jr: Listen. It says:

(The Secretary read the article by Pearson and Allen dated May 16, 1939 and attached hereto.)

I think that is ground for suit.

Foley: I have nothing further.

H.M.Jr: Can you boys be ready at eleven?

White: Yes.

(Conference concluded -- 10. A.M.)

Washington Daily Merry-Go-Round

(Times Staff Report)

By **DREW PEARSON** and **ROBERT S. ALLEN**

THEY WERE ALREADY all the talk of keeping Congress in session through the summer. Congressmen and Administration leaders have secretly set the machinery in motion for a wind-up around July 15.

That will mean shelving some major controversial issues, but both groups are in complete accord on that. Capitol Hill's conferees are very weary of the slogging legislative grind, and want to go home, while the Administration is just as anxious to get Congress off its neck.

The President, who is getting restless again and eager to start his trip to the West Coast, had several private talks with key legislators in strategy to speed an adjournment. An initiative agreed upon, this is the program:

ONE—Effective all neutrality legislation, including renewal of the cash-and-carry provision which expired May 1.

TWO—Same date to proposals for amending the Wagner labor disputes act.

THREE—Slam the gates on new farm legislation, particularly the very controversial cost-of-production scheme which is being pushed by farm-belt senators.

FOUR—Confine changes in the social systems to the few amendments worked out by the Ways and Means Committee, and block efforts to bring up the Townsend and general welfare plans.

FIVE—Confine tax legislation to routine removal of the various excise taxes that expire this year.

Little Opposition

With the exception of neutrality and taxation, this program probably will encounter little opposition, and even on the two exceptions the dissent is likely to be mostly talk.

Outside of a few sessions, such as Senator Nye's Johnson on neutrality and Senator Pat Harrison on his revision, there is no real pressure in Congress to wrangle on either matter, most of the members of the Ways and Means Committee, where tax legislation must originate, are cold to tackling issues this late date. In fact, the only two ardent enthusiasts are Harter and Secretary Morgenthau. One on this is going directly counter to Roosevelt.

Walter Morgenthau, Secretary of the Treasury, has agreed with the President on maintaining neutrality. The State Department, too, has privately told congressional leaders there is no need for new legislation and urged them to squish it for this year.

Radio Broadcast

Closing an interview with Director Lowell Elliott of the National Emergency Council that was recorded for radio transmission, the President said: "May the interest of the people in the Government never grow less. This is good work the National Emergency Council is doing. Mr. Director, thank you."

Two hours later, in the second government reorganization order sent to Congress for approval, Roosevelt abolished the NEEC.

Money in Bank

While those plain cards are neatly white cards, three by two inches, with an engraved gold presidential seal in the upper corner and the name of the owner—Mr. Jones or Mrs. Smith, written in cursive ink—across the middle. From the top of the stack, William Douglas' name is an unobtrusive one of "What Does Under Date."

by Ferdinand Pecora, famed investigator, now a justice of the New York Supreme Court. It was Pecora's sensational disclosures that led to establishment of the Securities and Exchange Commission, from whose chairmanship Douglas was elevated to the Supreme Court.

Successor to resigned U. S. Circuit Judge J. Warren Davis of Philadelphia, will be Charles Alvin Jones, unsuccessful Democratic candidate for governor last year. In Connecticut, Governor F. B. O'Sullivan, longtime Congressman, can, if he wants it, have the vacancy of resigned District Judge Thomas, involved in the McNewen-Robbins scandal.

Big Shot

St. Styles Bridges, New Hampshire presidential aspirant, the other day put on an interesting exhibition of his senatorial prerogatives.

One of the oldest and strictest rules of the Senate is the injunction against gallery visitors leaning with their arms on the wide balustrade overhanging the chamber. Escorting two women to seats in the front row of one of the galleries, Bridges pumped his hefty arms on the balustrade and began pointing out various colleagues.

A guard promptly dashed down the steps and asked him to remove his arms.

"I'm Senator Bridges," was the haughty reply.

Abashed, the guard reported to a superior who returned with him. Bridges still had his arms on the balustrade and was still pointing out Senators. But the older guard made no move to admonish him.

"That's Bridges, all right," he remarked. "I guess we'd better let it go. He's a Senator and if he wants to break the rules, who are we to stop him?"

NOTE—The two O.G.P. Representatives from New Hampshire have joined a Bridges-in-President Club launched by the State, but Senator Charles W. Tobey, Bridges' freshman colleague, has made no move to sign on.

Byrd's Book

Senator Harry F. Byrd doesn't know it, but he is directly responsible for a pro-New Deal book being published in New York.

Inspiration for the book was a rip-roaring speech in which the Virginia Senator assailed Roosevelt's spending policies, and which was read by Mrs. Noble Sawyer, 23-year-old wife of a CCC warden and mother of two children.

She sat down and wrote Byrd a 12-page letter answering his charges and denouncing him as a "Tory." Through pure luck, she also sent a copy of the letter to Hoover Board Chairman Harriner Hoels, because he had been engaged in a running war with Byrd over spending.

Hoels was so impressed with Mrs. Sawyer's vigorous style and logic that the letter was sent to the publishing house, which promptly engaged Mrs. Sawyer to write a book giving the housewife's slant on the New Deal.

Off-the-Record Snack

In the House of Representatives the other day, husky Representative L. E. Marshall, of Ohio, was sitting alone on the steps when side listening to the details. He walked Representative Jesse H. Hines, of Illinois.

Sliding into a seat next to Marshall, she left behind her a bag of mixed peanuts and like school children afraid of teacher's dissection, they watched covertly with their eyes fixed on the speaker.

(Copyright, 1934, by United Press)

Memorandum of Conference held
in the Secretary's Office at 10:30 a. m.

May 16, 1939.

Present: Secretary Morgenthau
Mr. Edward H. Heller and an associate of Mr. Heller's
Captain Collins, Procurement
Mr. McReynolds

Mr. Heller came in to see the Secretary, pursuant to an engagement previously made, to discuss a bid that he and his associates had submitted to the Procurement Division for a very large quantity of cement to be used by the Reclamation Bureau on the Shasta Dam.

The Secretary informed Mr. Heller that there were two reasons why he would not personally review this case for him. One reason, which was only incidental, was that he had no time available to devote to it. The other reason, which was the controlling reason, was the fact that Mr. Heller is a relative of the Secretary's family and he would not under those circumstances take action on the case personally.

He requested Mr. Heller to go with Captain Collins to the Procurement Division and instructed Captain Collins to handle this case the same as any other, and after his decision had been reached and promulgated, he was to inform the Secretary what action he had taken.

* * *

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

May 15, 1939

MEMORANDUM TO THE SECRETARY:

On May 1 bids were opened for cement to be used by the Reclamation Service in construction of Shasta Dam, California. The Proposal on which quotations were received provided for

Schedule 1, 1,400,000 barrels to be delivered during the calendar year 1940.

Schedule 2 provided for 5,800,000 barrels to be delivered through the calendar years 1940 to 1944. (This item includes quantity covered by Schedule 1).

Schedule 3 provided for the total quantity of 5,800,000 barrels with varying delivery requirements.

It appears that the question of immediate moment concerns only Schedules 1 and 2, decisions reached with reference to them being equally applicable to Schedule 3.

Bids were submitted by the following:

The Permanente Corporation,
Oakland, California (Schedule 2 only)

California Portland Cement Company,
Los Angeles, California (Schedule 1 only)

Riverside Cement Company,
Los Angeles, California (Schedule 1 only)

Beaver Portland Cement Company, et al.
San Francisco, California (All Schedules)

An analysis of bids submitted is attached hereto.

The Permanente Corporation did not bid on Schedule 1, covering 1,400,000 barrels but did quote on Schedule 2 calling for 5,800,000 barrels. Their price, plus cost of transportation from Simla, California, to destination at Coram, California, amounted to \$1.89 $\frac{23}{4}$ per barrel. This is the low bid under Schedule 2.

The only other bid submitted on Schedule 2 was that received from Beaver Portland Cement Company, et al, which consists of 5 other cement companies as follows:

- 2 -

Calaveras Cement Company
Monolith Portland Cement Company
Pacific Portland Cement Company
Santa Cruz Portland Cement Company
Yosemite Portland Cement Corporation

The 6 companies, listed above as Beaver Portland Cement Company, et al, have so worded their combined quotation as to make it obligatory on the Government, in the event of its acceptance, to prorate the amount which each company will supply at delivered prices varying from \$2.06 $\frac{1}{2}$ to \$2.35 $\frac{1}{2}$ per barrel. If an award were made to the 6 companies on Schedule 2, such action would result in a cost to the Government in excess of \$1,500,000 over the Permanente bid. Time has not permitted a study of this bid from a legal point of view to determine its validity.

It is understood that the Permanente Corporation at present has no cement mill but proposes to erect such a mill near Simla, California and that Mr. Henry J. Kaiser, President of the Permanente Corporation, claims to have ample finances for the construction of such a mill. A query received several days ago from R. F. C. indicated that it had received through its San Francisco office, an application for a loan of \$3,000,000.

Inasmuch as current studies indicate that cement companies on the west coast are operating at approximately 50% of capacity, the question of policy arises as to whether the unutilized capacity should be further increased by the construction of a plant to meet the requirements of the proposals herein discussed. This question is one which it appears necessary to settle prior to any award being made.

The Permanente Corporation has included in its proposal, the following provision:

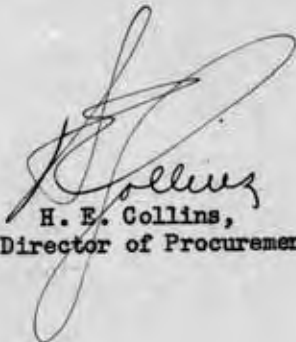
"Any delay of the contractor in making deliveries due to interference or delay in the construction or operation of contractor's cement mill by any order of any court or of any public officer, board, commission, or other public authority, shall be deemed a delay due to unforeseeable causes as that term is used in this Article 5 despite any threats or warnings of any such order or action."

If it is decided as a matter of policy to encourage the construction of a mill by the Permanente Corporation, then it will be necessary to negotiate with that Corporation for the elimination or modification of the provision which it inserted in its bid which would relieve it from the responsibility of supplying cement in the event of action by a court or other public body estopping it from performance.

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Further, in the event of an affirmative decision on the question of policy it is believed that the acceptance of the bid as modified should be referred to the Comptroller General before any formal contract is entered into in order to avoid any complications from that source.

Concerning the bids on Schedule 1, in addition to that submitted by Beaver Portland Cement Company, et al, the Riverside Cement Company and the California Portland Cement Company also quoted prices. If an award is to be made on Schedule 1, (on which Permanente did not submit a bid) it would have to be made to Riverside for 610,000 barrels, the low bidder on this quantity, and to Beaver, et al, for the remainder of this item, viz. 790,000 barrels. Such an award is subject to a favorable legal decision as to the validity of the Beaver, et al, bid, and a further agreement with them to accept an award for less than the amount bid on under Schedule 1.



H. E. Collins,
Acting Director of Procurement.

Enclosures

ANALYSIS OF BIDS
LOW-HEAT CEMENT FOR SHASTA DAM

Specifications No. 17138-SP-5-1

Bidder	Schedule No.	Item No.	Quantity bbls.	Guaranteed Deliveries		Delivered Cost to the Government			
				bbls.		Quantity bbls.	Cost per bbl.	Total for Item	Total for Schedule
				Daily	Monthly				
Riverside Cement Co.	1	1	610,000	3,400	85,000	610,000	\$2.085576	\$ 1,272,201.36	\$ 2,931,689.98
Beaver Port. Cem. Co., et al	1	1	1,400,000	8,000	195,000	790,000	2.1006185	1,659,488.62	
California Port. Cem. Co.	1	1	500,000	2,000	60,000	500,000	2.11948	1,059,740.00	
The Permanente Corp.	2	2	5,800,000	11,000	290,000	5,800,000	1.901016	11,025,892.80	11,025,892.80
Beaver Port. Cem. Co., et al	2	2	5,800,000	11,000	290,000	5,800,000	2.171336	12,593,748.80	12,593,748.80
Permanente Corp.	3	3	3,100,000	4,000	100,000	3,100,000	2.021016	6,265,149.60	
Beaver Port. Cem. Co., et al	3	4	2,700,000	7,000	190,000	2,700,000	2.233213	6,029,675.10	12,294,824.70
Permanente Corp.	3	3	3,100,000	4,000	100,000	3,100,000	2.021016	6,265,149.60	
Beaver Port. Cem. Co., et al	3	5	575,000	4,000	95,000	575,000	2.1006185	1,207,855.64	7,475,005.24
Beaver Port. Cem. Co., et al	3	3	3,100,000	4,000	100,000	3,100,000	2.189015	6,785,946.50	
Beaver Port. Cem. Co., et al	3	4	2,700,000	7,000	190,000	2,700,000	2.233213	6,029,675.10	12,815,621.60
Beaver Port. Cem. Co., et al	3	3	3,100,000	4,000	100,000	3,100,000	2.189015	6,785,946.50	
Beaver Port. Cem. Co., et al	3	5	575,000	4,000	95,000	575,000	2.1006185	1,207,855.64	7,993,802.14

Schedule No.	Item No.	Item Quantity	Required Deliveries	
			Daily	Monthly
1	1	1,400,000	8,000	195,000
2	2	5,800,000	11,000	290,000
3	3	3,100,000	4,000	100,000
3	4	2,700,000	7,000	190,000
3	5	575,000	4,000	95,000

Specifications No. 17136-SP-5-1
 =====

SPECIFICATIONS AND PROPOSAL FOR CEMENT

ISSUED

APRIL 4, 1939

By the Treasury Department, Procurement Division
 Branch of Supply, Washington, D. C.

- - -

LOW-HEAT PORTLAND CEMENT

for

USE BY THE

UNITED STATES

DEPARTMENT OF THE INTERIOR

BUREAU OF RECLAMATION

FOR THE SHASTA DAM

CENTRAL VALLEY PROJECT, CALIFORNIA

Bid of _____

Address _____
 (To be submitted in duplicate)

To be opened at 10 a.m., May 1, 1939, at the office of the
 Procurement Division, Branch of Supply, 7th and D Streets, S. W.,
 Washington, D. C.

(1214-D)

TREASURY DEPARTMENT
PROCUREMENT DIVISION
BRANCH OF SUPPLY

Washington, D. C., April 8, 1939.

To all prospective bidders under Specifications No. 17136-SP-5-1 for Low-Heat Portland Cement for Use by the United States Department of the Interior, Bureau of Reclamation, for the Shasta Dam, Central Valley Project, California, for which bids will be opened at 10 a.m., May 1, 1939, at the office of the Procurement Division, Branch of Supply, 7th and D Streets, S. W., Washington, D. C.

1. The word "decrease" is hereby inserted before the third word from the end of line 13 of paragraph 19 of the above-described specifications.

2. Bids submitted must be in accordance with this notice which shall accompany the bid.

- - -

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LOW-HEAT PORTLAND CEMENT

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44. Premature stiffening
45. Compression tests
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Standard Form No. 31
Approved by the President
June 16, 1937

STANDARD GOVERNMENT FORM OF BID

(SUPPLY CONTRACT)

ORIGINAL | Indicate which
DUPLICATE | by erasure

PROCUREMENT DIVISION.

Branch of Supply, 7th & D Sts., S.W.,
Washington, D. C.

In compliance with your invitation for bids to furnish materials and supplies listed on the accompanying schedule,
undersigned,

corporation organized and existing under the laws of the State of
partnership consisting of
individual trading as

a city of _____, hereby proposes to furnish, within the time specified, the materials
supplies at the prices stated opposite the respective items listed on the schedule, and agrees upon receipt of notice of the
acceptance of this bid (by the date beginning the contract period), to execute, if required, the Standard Government Form of
Contract (Standard Form No. 32) in accordance with the bid as accepted, and to give bond, if required, with good and sufficient
sureties, for the faithful performance of the contract, within 10 days after the prescribed forms are presented for signature.

Discount will be allowed for prompt payment as follows: 10 calendar days percent; 20 calendar days
percent; 30 calendar days percent; or as stated in the schedule. (Time will be computed from date of the delivery of the
goods to carrier when final inspection and acceptance are at point of origin, or from date of delivery at destination or port of embarkation
when final inspection and acceptance are at those points, or from date correct bill or voucher properly certified by the contractor is
received if the latter date is later than the date of delivery.)

THE UNDERSIGNED REPRESENTS THAT THE PRICES IN THIS BID ARE
NEITHER DIRECTLY NOR INDIRECTLY THE RESULT OF ANY AGREEMENT
WITH ANY OTHER BIDDER.

.....
(Witness to signature) (Full name of bidder)

IMPORTANT.—State below address to which orders should be forwarded.

.....
.....
.....
(Address)

NOTE.—See Standard Government Instructions to Bidders and copy of the Standard Government Form of Contract, Bid
and Performance Bond, which may be obtained upon application.
To insure prompt payment, bills should be certified as follows: "I certify that the above bill is correct and just and that
payment therefor has not been received."

LOW-HEAT PORTLAND CEMENT
FOR USE BY THE
UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF RECLAMATION
FOR THE SHASTA DAM
CENTRAL VALLEY PROJECT, CALIFORNIA

- - -

Schedules nos. 1, 2, and 3 are alternative schedules, and award of contract will not be made for more than one of the schedules. Items 4 and 5 of schedule no. 3 are alternative items, and award of contract will not be made for more than one of these items. Bids on part of all or any of the items of the schedules will be considered in accordance with paragraph 24 of the specifications.

SCHEDULE NO. 1

Item no.	Articles or services	Quantity	Unit	Unit price	Amount Dollars
1	Low-heat portland cement in bulk, in accordance with the attached speci- fications;				
	F.o.b. cars or trucks at point of production				
	(State location)				
	F.o.b. cars or trucks at point of storage				
	(State location)				
	(full quantity)	1,400,000	bbl.		
	or	bbl.			
	(partial quantity)	Amount to be stated by bidder			
	Point of production _____			Rail connection _____	
	Point of storage _____			Rail connection _____	

SCHEDULE NO. 1 (Continued)

Item no.	Articles or services	Quantity	Unit	price	Amount Dollars
	The guaranteed daily and monthly deliveries for the quantity bid on will be as follows:				
	<u>Daily delivery</u>		<u>Monthly delivery</u>		
	_____	bbl.	_____		bbl.

SCHEDULE NO. 2

Item no.	Articles or services	Quantity	Unit	Unit price	Amount Dollars
2	Low-heat portland cement in bulk, in accordance with the attached specifications;				
	F.o.b. cars or trucks at point of production				
	(State location)				
	F.o.b. cars or trucks at point of storage				
	(State location)				
	(full quantity)	5,800,000	bbl.		
	or				
	(partial quantity)				
		Amount to be stated by bidder			
	Point of production _____			Rail connection _____	
	Point of storage _____			Rail connection _____	
	The guaranteed daily and monthly deliveries for the quantity bid on will be as follows:				
	<u>Daily delivery</u>			<u>Monthly delivery</u>	
		bbl.			bbl.

SCHEDULE NO. 3

Item no.	Articles or services	Quantity	Unit	Unit price	Amount Dollars
3	<p>Low-heat portland cement in bulk, in accordance with the attached specifications;</p> <p>F.o.b. cars or trucks at point of production</p> <hr/> <p>(State location)</p> <p>F.o.b. cars or trucks at point of storage</p> <hr/> <p>(State location)</p> <p>(full quantity)</p> <p>or</p> <p>(partial quantity)</p>	<p>3,100,000 bbl.</p> <hr/> <p>Amount to be stated by bidder</p>	<p>bbl.</p>		
	<p>Point of production _____</p> <p>Point of storage _____</p>			<p>Rail connection _____</p> <p>Rail connection _____</p>	
	<p>The guaranteed daily and monthly deliveries for the quantity bid on will be as follows:</p>				
	<p><u>Daily delivery</u></p> <p>_____ bbl.</p>			<p><u>Monthly delivery</u></p> <p>_____ bbl.</p>	

SCHEDULE NO. 3 (Continued)

Item no.	Articles or services	Quantity	Unit	Unit price	Amount Dollars
4	Low-heat portland cement in bulk, in accordance with the attached specifications;				
	F.o.b. cars or trucks at point of production				
	(State location)				
	F.o.b. cars or trucks at point of storage				
	(State location)				
	(full quantity)	2,700,000	bbl.		
	or				
	(partial quantity)	Amount to be stated by bidder			
	Point of production _____			Rail connection _____	
	Point of storage _____			Rail connection _____	
	The guaranteed daily and monthly deliveries for the quantity bid on will be as follows:				
	<u>Daily delivery</u>			<u>Monthly delivery</u>	
	_____ bbl.			_____ bbl.	

SCHEDULE NO. 3 (Continued)

Item no.	Articles or services	Quantity	Unit	Unit price	Amount Dollars
5	Low-heat portland cement in bulk, in accordance with the attached speci- fications;				
	F.o.b. cars or trucks at point of production				
	(State location)				
	F.o.b. cars or trucks at point of storage				
	(State location)				
	(full quantity)	575,000 bbl.	bbl.		
	or				
	(partial quantity)				
		Amount to be stated by bidder			
	Point of production _____			Rail connection _____	
	Point of storage _____			Rail connection _____	
	The guaranteed daily and monthly deliveries for the quantity bid on will be as follows:				
	<u>Daily delivery</u>			<u>Monthly delivery</u>	
	_____	bbls.		_____	bbls.

GENERAL CONDITIONS

1. Acceptance of bids. Bids are solicited on the basis that acceptance of the offer to furnish any or all of the articles described therein shall constitute a contract between the bidder and the United States Government, which will bind the bidder to furnish and deliver the articles for which his offer is accepted. The placing in the mail of a list of awards, properly addressed to the bidder whose proposal is accepted, shall be considered a sufficient notice of acceptance.

2. Bid guaranty. Guaranty will be required with each bid in an amount not less than 10 percent of the total price bid.

3. Execution of contract and performance bond. There shall be a formal contract, signed by each bidder whose proposal is accepted, and by the contracting officer on behalf of the United States, which formal contract is to be considered as additional and further evidence of the agreement made by the acceptance of the proposal. Such formal contract shall be executed and returned by the contractor within 10 days after receipt thereof, and shall be supported by a performance bond to the United States of America, on U. S. Standard Form No. 25, in an amount not less than 50 percent of the estimated aggregate payments to be made under the contract, and shall be signed by the contractor and a corporate surety, which has been approved by the Secretary of the Treasury, or two or more individual sureties, and be conditioned for the faithful performance of said contract and all of its conditions and provisions. In lieu of sureties or performance bonds, there may be deposited (in accordance with Treasury Department Circular No. 154, dated Feb. 6, 1935) bonds or notes of the United States. ("Bonds or notes of the United States" means "any public debt obligation of the United States and any bonds, notes, or other obligations which are unconditionally guaranteed as to both interest and principal by the United States.") Certified checks drawn payable to the order of the Treasurer of the United States will be accepted when the bonds of contractors are signed by two individual sureties, in which event the individual sureties will not be required to furnish affidavits of justification as to their financial responsibility.

4. Patents. The contractor shall hold and save the Government, its officers, agents, servants, and employees harmless from liability of any nature or kind, including cost and expenses, for or on account of any patented or unpatented invention, article, or appliance manufactured or used in the performance of the contract, including their use by the Government.

5. Oral statements. No oral statement of any person shall be allowed in any manner or degree to modify or otherwise affect the terms of those specifications or the contract.

6. Advertising. Successful bidders shall not use awards as a basis for advertising.

7. Proposals. Proposals, after being prepared and signed in accordance with conditions herein given, shall be placed in the special envelope provided, which shall be properly sealed, marked on the upper left-hand corner with the name and address of the bidder and the class number, and sent by mail, postage prepaid, or delivered personally to the Treasury Department, Procurement Division, Branch of Supply, Seventh and D Streets, S.W., Washington, D. C. As openings commence at 10 a.m., proposals, to receive consideration, must reach the Division not later than that hour on the date of opening. An addressed envelope, which should be used for mailing, is enclosed.

8. Representations and stipulations pursuant to Public Act No. 846, 74th Congress. It is understood and agreed that this bid is submitted, and any contract awarded thereon in any amount exceeding \$10,000 will be performed, subject to the representations and stipulations of Public Act No. 846, 74th Congress, and regulations issued by the Secretary of Labor pursuant thereto, as follows:

(a) The contractor is the manufacturer of or a regular dealer in the materials, supplies, articles, or equipment to be manufactured or used in the performance of the contract.

(b) All persons employed by the contractor in the manufacture or furnishing of the materials, supplies, articles, or equipment used in the performance of the contract will be paid, without subsequent deduction or rebate on any account, not less than the minimum wages as determined by the Secretary of Labor to be the prevailing minimum wages for persons employed on similar work or in the particular or similar industries or groups of industries currently operating in the locality in which the materials, supplies, articles, or equipment are to be manufactured or furnished under the contract: Provided, however, That this stipulation with respect to minimum wages shall apply only to purchases or contracts relating to such industries as have been the subject matter of a determination by the Secretary of Labor.

(c) No person employed by the contractor in the manufacture or furnishing of the materials, supplies, articles, or equipment used in the performance of the contract shall be permitted to work in excess of eight hours in any one day or in excess of 40 hours in any one week, unless such person is paid such applicable overtime rate as has been set by the Secretary of Labor.

(d) No male person under 16 years of age and no female person under 18 years of age and no convict labor will be employed by the contractor in the manufacture or production or furnishing of any of the materials, supplies, articles, or equipment included in the contract.

(e) No part of the contract will be performed nor will any of the materials, supplies, articles, or equipment to be manufactured or furnished under said contract be manufactured or fabricated in any plants.

factories, buildings, or surroundings, or under working conditions which are insanitary or hazardous or dangerous to the health and safety of employees engaged in the performance of the contract. Compliance with the safety, sanitary, and factory inspection laws of the State in which the work or part thereof is to be performed shall be prima-facie evidence of compliance with this subsection.

(f) Any breach or violation of any of the foregoing representations and stipulations shall render the party responsible therefor liable to the United States of America for liquidated damages, in addition to damages for any other breach of the contract, in the sum of \$10 per day for each male person under 16 years of age or each female person under 18 years of age, or each convict laborer knowingly employed in the performance of the contract, and a sum equal to the amount of any deductions, rebates, refunds, or underpayments of wages due to any employee engaged in the performance of the contract; and, in addition, the agency of the United States entering into the contract shall have the right to cancel same and to make open-market purchases or enter into other contracts for the completion of the original contract, charging any additional cost to the original contractor. Any sums of money due to the United States of America by reason of any violation of any of the representations and stipulations of the contract as set forth herein may be withheld from any amounts due on the contract or may be recovered in a suit brought in the name of the United States of America by the Attorney General thereof. All sums withheld or recovered as deductions, rebates, refunds, or underpayments of wages shall be held in a special deposit account and shall be paid, on order of the Secretary of Labor, directly to the employees who have been paid less than minimum rates of pay as set forth in such contracts and on whose account such sums were withheld or recovered: Provided, That no claims by employees for such payments shall be entertained unless made within one year from the date of actual notice to the contractor of the withholding or recovery of such sums by the United States of America.

(g) The contractor shall post a copy of the stipulation in a prominent and readily accessible place at the site of the contract work and shall keep such employment records as are required in the Regulations under the act available for inspection by authorized representatives of the Secretary of Labor.

9. Delivery reports. Successful bidders will be required to furnish on the tenth day of each month a written report of the number of barrels of cement and the amount in dollar value of sales during the preceding month under each item upon which award is received as a result of this proposal. The report should be directed to the Treasury Department, Procurement Division, Branch of Supply, Washington, D. C., and a copy of the report shall be furnished to the Department of the Interior, Bureau of Reclamation, Denver, Colorado.

10. Domestic materials. Unless otherwise specified by the bidder, it is understood and agreed that only such unmanufactured articles, materials, and supplies as have been mined or produced in the United

States and only such manufactured articles, materials, and supplies as have been manufactured in the United States substantially all from articles, materials, or supplies mined, produced, or manufactured, as the case may be, in the United States shall be delivered pursuant to a contract awarded as a result of this bid.

11. Federal tax. The prices bid herein shall include any Federal tax heretofore imposed by the Congress which is applicable to the materials on this bid. If any sales tax, processing tax, adjustment charge, or other taxes or charges are imposed or changed by the Congress after the date set for the opening of this bid, and made applicable directly upon the production, manufacture, or sale of the supplies covered by this bid, and are paid by the contractor on the supplies herein contracted for, then the price named in this bid will be increased or decreased accordingly, and any amount due the contractor as a result of such change will be charged to the Government and entered on vouchers (or invoices) as separate items.

12. Rejection of bid. The right is reserved to the contracting officer to reject any and all bids, to waive technical defects, and to accept or reject any part of any bid if, in his judgment, the interests of the Government shall require it.

13. Termination for breach. In the event any of the provisions of this contract are violated by the contractor or any subcontractor, the contracting officer may terminate the contract by written notice to the contractor and purchase similar supplies in the open market or otherwise, and the contractor and his sureties shall be liable to the Government for any excess cost occasioned the Government thereby.

14. Shipment. Material furnished and delivered f.o.b. cars at the shipping point shall be shipped on Government bills of lading furnished by the contracting officer. The contractor shall prepare all materials for shipment in such manner as to protect them from damage in transit and shall be responsible for and make good any and all damage due to improper preparation or loading for shipment.

15. Extras. The contractor shall, when ordered in writing by the contracting officer, perform extra work and furnish extra material not covered by the specifications or included in the schedule but forming an inseparable part of the work contracted for. Extra work and material will ordinarily be paid for at a lump-sum or unit price agreed upon by the contractor and the contracting officer and stated in the order. Whenever, in the judgment of the contracting officer, it is impracticable, because of the nature of the work or for any other reason, to fix the price in the work, the extra work and material shall be paid for at actual necessary cost as determined by the contracting officer, plus 10 percent for superintendence, general expense, and profit. The actual necessary cost will include all expenditures for material, labor (including compensation insurance and social security taxes), and supplies furnished by the contractor, and a reasonable allowance for the use of his plant and equipment, where required, to be agreed upon

in writing before the work is begun but will in no case include any allowance for office expenses, general superintendence, or other general expenses.

16. Failure of Congress to appropriate funds. If the operations of this contract extend beyond the current fiscal year, it is understood that the contract is made contingent upon Congress making the necessary appropriations for expenditures thereunder after such current year has expired. In case such appropriation as may be necessary to carry out this contract is not made, the contractor hereby releases the Government from all liability due to the failure of Congress to make such appropriations.

17. Protests. If the contractor considers any work demanded of him to be outside the requirements of the contract or considers any record or ruling of the contracting officer or of the inspectors to be unfair, he shall immediately, upon such work being demanded or such record or ruling being made, ask for written instructions or decision, whereupon he shall proceed without delay to perform the work or to conform to the record or ruling, and, within 10 days after the date of receipt of the written instructions or decision, he shall file a written protest with the contracting officer, stating clearly and in detail the basis of his objections. Except for such protests or objections as are made of record in the manner herein specified and within the time limit stated, the records, rulings, instructions, or decisions of the contracting officer shall be final and conclusive. Instructions and/or decisions of the contracting officer contained in letters transmitting drawings to the contractor shall be considered as written instructions or decisions subject to protest or objection as herein provided.

18. Comparison of bids. Whenever applicable, equalizing elements or factors not specifically mentioned or provided for herein, such as the cost of transportation or of inspection (including salaries, travel, and subsistence expenses), or any other element or factor in addition to that of price which would affect the final cost to the Government, will be taken into consideration in making award of contract. In determining awards, consideration will be given to transportation costs indicated by rates legally available to the Government, based upon commercial rates on file with the Interstate Commerce Commission and the various state commissions. Special rates will be considered provided they are filed with the Procurement Division, Branch of Supply, Treasury Department, Washington, D. C., not later than the date of opening of bids.

19. Increase or decrease in quantity. The Government reserves the right to increase or decrease the quantities specified and the quantities stated by the bidder in the schedules by not to exceed 25 percent at any time before award of contract: Provided, That, with the consent of the contractor, such increase or decrease may be made in the total quantity under any contract at any time before complete shipment: Provided further, That in the event the quantity stated by the bidder for any item of the schedules is in excess of an amount which is the same proportion of the total quantity in that item that the guaranteed monthly delivery stated by the bidder is of the maximum monthly requirement for that item, the Government reserves the right to decrease the quantity stated by the bidder to such an amount and also to the adjusted quantity by not to exceed 25 percent: Provided further, That, with the consent of the bidder, the Government may increase or decrease the quantities stated by the bidder in the schedules by any amount which may be necessary to secure the maximum monthly requirements specified in paragraph 22 and the full quantity required, at the minimum net delivered cost to the Government.

20. Contracting officer. Pursuant to article 14(b) of the standard Government form of contract for supplies (U. S. Standard Form No. 32), the Chief Engineer of the Bureau of Reclamation, or any person authorized to act for him, is the authorized representative of the contracting officer in all transactions with respect to placing purchase orders, inspection, delivery, adjustments, extras, changes, and payments.

SPECIAL CONDITIONS

21. The requirement. It is required that there be furnished and delivered f.o.b. cars or trucks at the point of production or f.o.b. cars or trucks at the point of storage approximately 1,400,000 barrels of low-heat portland cement, in bulk, under schedule No. 1, approximately 5,800,000 barrels of low-heat portland cement, in bulk, under schedule No. 2, approximately 3,100,000 barrels of low-heat portland cement, in bulk, under item 3 of schedule No. 3, approximately 2,700,000 barrels of low-heat portland cement in bulk under item 4 of schedule No. 3, or approximately 575,000 barrels of low-heat portland cement in bulk under item 5 of schedule No. 3 for use by the United States Department of the Interior, Bureau of Reclamation, in the construction of the Shasta Dam, Central Valley project, California. Schedule No. 1 covers the estimated quantity of cement required for the construction of the Shasta Dam during the calendar year 1940 only. Schedule No. 2 covers the estimated entire quantity of cement required for the completion of the dam, with estimated delivery requirements extending through the years 1940 to 1944, inclusive. Under schedule No. 3, items 3 and 4 combined also cover the estimated entire quantity of cement required for the completion of the dam. Item 3 covers the estimated maximum quantity of cement which will be required to be delivered at a uniform rate. The uniform delivery provided for is 100,000 barrels per month, and, if award of contract or contracts is made for item 3, the cement

requirement for each month up to and including 100,000 barrels will be ordered from the contractor or contractors for this item. Items 4 and 5 are alternative items and cover the estimated fluctuating requirements in excess of 100,000 barrels per month. Item 4 covers the estimated fluctuating requirements for the entire construction period, and item 5 covers the estimated fluctuating requirements for the calendar year 1940 only. The Government reserves the right to award a contract or contracts for item 3 of schedule no. 3 without making award of items 4 or 5. The diagrams on attached drawing no. 214-D-2201 show the estimated distribution, by months and years, of the cement requirements. The diagrams are included in the specifications for the general information of bidders, and the Government does not guarantee that deliveries ordered will conform to the distribution shown.

22. Deliveries. No bid will be considered unless based on a delivered price f.o.b. cars or trucks at the bidder's point of production or point of storage. The cement shall be delivered in carload or truck lots and at times as required and ordered by the contracting officer. The estimated maximum daily and monthly deliveries, in barrels, under the various schedules are as follows:

	<u>Maximum deliveries</u>	
	<u>Daily</u>	<u>Monthly</u>
Schedule no. 1, item 1	8,000	195,000
Schedule no. 2, item 2	11,000	290,000
Schedule no. 3, item 3	4,000	100,000
Schedule no. 3, item 4	7,000	190,000
Schedule no. 3, item 5	4,000	95,000

Failure of the bidder to state guaranteed daily and/or monthly deliveries in the spaces provided therefor in the schedules will be sufficient cause for rejection of the bid. If more than one shipping point is designated by the bidder, complete information as to quantities and guaranteed monthly and daily deliveries shall be given with respect to each shipping point.

23. Failure to meet delivery requirements. If the contractor fails to begin delivery within thirty (30) calendar days after being notified that the first shipment is to be made and/or to meet the guaranteed daily and/or monthly requirements when requested to do so, the Government reserves the right to secure the deficiency elsewhere and to charge to the contractor the difference in delivered cost to the Government. Whatever sums may be due as difference in delivered cost to the Government may be

deducted from payments due to the contractor or may be collected from the contractor or the contractor's surety or sureties. The term "delivery" shall be construed as applying to shipment of tested and accepted cement.

24. Division of award. If the lowest bidder cannot furnish the full quantity stated in the item or meet the maximum monthly requirement of the Government, as stated in paragraph 22, the Government reserves the right to divide the award between or among the bidders in such a manner as to assure a guaranteed monthly delivery not less than that required by the Government and the procurement of the full quantity required at the minimum net delivered cost to the Government. Division of award between two or more bidders will be made in the following manner, subject to the provisions of paragraph 19: To the lowest bidder may be awarded that quantity which is the same proportion of the total quantity in the item that the guaranteed monthly delivery stated by the bidder is of the maximum monthly requirement under that item. Awards for the remainder of the total requirement may be made to the next lowest bidder or bidders on a like basis. Insofar as practicable, orders will be prorated among the various contractors on the same basis as that on which awards are made, and, in the event that deliveries under any contract are to be made from more than one mill, as stated in the schedule, daily requirements shall be prorated among the various mills in the same proportion as the total amounts to be furnished from said mills.

25. Shipment. In addition to the requirements of paragraph 14, the contractor shall prepare all railroad cars in which bulk cement is to be shipped in such manner as to protect the cement from moisture and to prevent contamination of the cement by tramp metal or other foreign material and to avoid loss of cement in transit. The contractor shall be liable for loss of cement in transit due to improper preparation of railroad cars and for any damage resulting from such cause. Cars shall be loaded to maximum capacity. The cost of preparation of railroad cars for shipment of cement shall be included in the unit prices bid in the schedules. The unit of measurement will be the barrel, which is 376 pounds, net. The brand and name of the manufacturer shall be shown on all shipping advices accompanying shipments.

LOW-HEAT PORTLAND CEMENT

General Requirements

26. References. Those parts of Federal specification SS-C-158 referred to herein shall form a part of these specifications.

27. Type and definition. The cement furnished under these specifications shall be low-heat portland cement, conforming to the detail requirements specified herein, and shall be the product obtained by finely pulverizing clinker produced from an intimate and properly proportioned mixture of materials selected to give properties hereinafter specified, with no additions subsequent to calcination except water, gypsum, and, at the option of the contractor, an organic compound manufactured under the trade name "TDA"; Provided, That the quantity of "TDA" to be used and the manner of its use shall be submitted for the approval of the contracting officer.

Detail Requirements

28. Foreign materials in cement. The cement shall be free from tramp metal or other foreign materials which might cause injury to or interfere with the operation of cement-handling equipment. The contractor shall be liable for damages resulting to such equipment from contained foreign materials.

29. Chemical composition. The following limits shall not be exceeded:

	<u>Percent</u>
Loss on ignition	2.25
Insoluble residue	0.75
Sulphuric anhydride (SO ₃)	2.25
Magnesia (MgO)	5.00
Uncombined lime (CaO) in clinker	1.25

The ratio of the percentage of iron oxide to the percentage of aluminum oxide shall not exceed 1.50.

30. Compound composition. The theoretical compound composition shall be within the following limits:

Tricalcium silicate (3 CaO·SiO ₂)	Not more than 30 percent.
Dicalcium silicate (2 CaO·SiO ₂)	Not less than 40 percent. and not more than 65 percent.
Tricalcium aluminate (3 CaO·Al ₂ O ₃) ..	Not more than 7 percent.
Tetracalcium aluminoferrite (4 CaO·Al ₂ O ₃ ·Fe ₂ O ₃)	Not more than 20 percent.

31. Fineness. The average specific surface of the cement in a bin sampled shall be not less than 1,800 square centimeters per gram, and the specific surface of cement in any individual test sample shall be not less than 1,600 square centimeters per gram.

32. Soundness. A specimen of neat cement shall not exhibit a linear expansion in excess of 0.20 percent of its initial gage length when tested in the manner hereinafter prescribed.

33. Time of setting. The cement shall not develop initial set in less than 60 minutes when the Gillmore needle is used. Final set shall be attained within 10 hours.

34. Premature stiffening. Samples of cement taken from the bin at the time or times of proposed shipment shall show no evidence of premature stiffening when tested by the method hereinafter prescribed. Composite samples of cement will be tested for premature stiffening before completion of the 7-day strength tests and again, if deemed advisable, just before all of the cement in a bin or the cement in any portion of a bin is to be released for shipment. Should any such tests on composite samples indicate premature stiffening or an approach to premature stiffening, additional tests will be made on samples of cement drawn from the bin at the time or times of proposed shipment or at any other time before shipment as the Government may elect or as the contractor may request. In lieu of making several tests on the same cement to insure that there is no evidence of premature stiffening up to the time the cement leaves the mill, a single test for establishing whether a cement exhibits premature stiffening or is susceptible to the early development of premature stiffening may, with the consent of the contractor, be substituted if and when a satisfactory test for the purpose has been developed.

35. Compressive strength. The average compressive strength, in pounds per square inch, of three mortar cubes composed of 1 part cement and 2.75 parts fine testing sand, by weight, shall be equal to or greater than the following:

Age at test (days)	Storage of specimens	Compressive strength (pounds per square inch)
7	1 day in moist air, 6 days in water	750
28	1 day in moist air, 27 days in water	2,000

The average compressive strength at 28 days shall be at least 35 percent greater than the strength at 7 days.

Sampling and Inspection

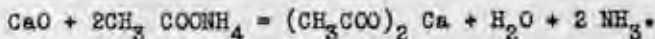
36. Sampling. The provisions of Federal specification SS-C-158 for storage and sampling of cement shall be applicable to the cement to be furnished under these specifications except as hereinafter specified. At least 12 days from the time of sampling shall be allowed for the completion of 7-day tests and at least 33 days for the 28-day tests. Unless otherwise specified by the contracting officer, one test sample of cement shall represent each 400 barrels of cement, and one test sample of clinker shall represent each 2,000 barrels of cement. Cement clinker for testing for uncombined lime shall be sampled by the composite method as it is delivered to the grinding mill, unless otherwise directed in writing by the contracting officer. Each sample entering into the composite sample shall be of such size and so taken that each size of clinker is fairly represented. Each composite sample shall be crushed, in suitable crushing equipment provided by the contractor, to a maximum size of one-quarter of an inch and reduced to a representative 2-pound test sample. Sufficient tests for uncombined lime will be made on samples of both clinker and cement representing early production to establish the relationship between test results, and it is contemplated that subsequent tests will ordinarily be made on the cement instead of the clinker, in which case appropriate allowance will be made for difference in results between tests made on the clinker and those made on the cement. Additional tests of the clinker will be made, when necessary, to insure that the cement is within specification requirements.

37. Rejection. Cement may be rejected at the discretion of the contracting officer if it fails to meet any of the requirements of these specifications or if, on retest, any sample fails to meet the soundness requirements. Cement remaining in storage prior to shipment for a period greater than six months after test shall be retested. Cement will be accepted by the Government without awaiting the 28-day test results when the characteristics of the cement have been established and there is definite justification for anticipating, from the 7-day test results, that the 28-day requirements will be satisfied: Provided, That any cement formally accepted on the basis of 7-day or 28-day test results will be subject to rejection if there is evidence of premature stiffening at the time or times of proposed shipment.

Tests

38. Chemical analysis. The methods of chemical analysis, except for the determination of uncombined lime, shall be in accordance with those described in Federal specification SS-C-158.

39. Uncombined lime determination. The uncombined lime content shall be determined by the method outlined below. This is the method given by Lerch and Bogue in Paper No. 23, Portland Cement Association Fellowship at the Bureau of Standards, on "Revised Procedure for the Determination of Uncombined Lime in Portland Cement." The determination is based on the solution of the uncombined lime in a hot solution of glycerol and alcohol and the subsequent titration of the dissolved lime with an alcoholic solution of ammonium acetate in accordance with the reaction



(a) Glycerol-alcohol solution.--A solution shall be prepared consisting of one part, by volume, of U.S.P. glycerol and five parts, by volume, of absolute or anhydrous ethyl alcohol. To each liter of this solution, two ml of an indicator shall be added. The indicator shall be prepared by dissolving 1 gram of phenolphthalein in 100 ml of absolute alcohol. It is essential that the glycerol-alcohol solution be neutral to the indicator. If the solution is colorless, dilute sodium or potassium hydroxide in absolute alcohol shall be added until the pink color appears. This color shall be just removed by a drop of an alcoholic solution of ammonium acetate. If the initial color is pink, it shall be just removed by the alcoholic solution of ammonium acetate.

(b) Standard alcoholic ammonium-acetate solution.--A standard alcoholic solution of ammonium acetate, approximately 0.2N, is required. This solution shall be prepared by dissolving 16 grams of crystalline ammonium acetate in 1 liter of absolute or anhydrous ethyl alcohol. This solution shall be standardized by titrating against pure calcium oxide. The calcium oxide should be freshly prepared by calcining pure calcite or calcium oxalate in a platinum crucible at 900° to 1,000° C. to constant weight. Ordinary C.P. CaO should not be used. A few grams of the calcite or calcium oxalate shall be ground to an impalpable powder and heated as before. About 0.1 gram shall be weighed and transferred to a 200-ml Erlenmeyer flask containing 60 ml of the neutralized glycerol-alcohol solution. The solids in the solution shall be dispersed by shaking. A water or air reflex condenser shall be inserted in the neck of the flask and the mixture boiled for 20 minutes. The condenser shall then be removed and the solution immediately titrated, while near boiling, with ammonium-acetate solution. The condenser shall be replaced and the solution boiled for 20 minutes. The titration shall be repeated at 20-minute intervals. The titration is complete when no further color appears in the solution during continuous boiling for one hour. The value of the solution shall then be calculated in terms of grams of lime equivalent to each milliliter of ammonium-acetate solution.

(c) Test procedure.--The clinker to be tested shall be ground to an impalpable powder. A 1-gram sample shall be weighed and transferred to a 200-ml Erlenmeyer flask containing 60 ml of the glycerol-alcohol solution. The solids shall be dispersed in the solution by shaking. The condenser shall be attached and the mixture boiled on the hot plate. The solution shall be titrated, as in the standardization, at 20-minute intervals until no further color appears after boiling for one hour. In the final titrations, if there is doubt of the exact end point, a drop of indicator shall be added to the quiescent liquid in the flask and careful observation made of the point at which the indicator strikes the solution. If no color appears, the end point has been reached. The uncombined lime content of the clinker shall then be calculated from the known lime value of the ammonium-acetate solution used.

40. Compound computation. The compound composition shall be calculated from the chemical analysis by the method outlined below. The method is as given by Bogue in Paper No. 21, Portland Cement Association Fellowship at the Bureau of Standards, on "Calculation of the Compounds in Portland Cement," except that no account is taken of uncombined lime. Compound percentages shall be computed to tenths and reported to the nearest whole percent.

(a) Method of calculation.--Each percent of SO_3 enters into combination with 0.70 percent CaO to form 1.70 percent CaSO_4 :

$$\frac{\text{CaO}}{\text{SO}_3} = \frac{58.07}{80.065} = 0.70 \text{ percent CaO} \dots\dots\dots (c_1)$$

Each percent of Fe_2O_3 enters into combination with 0.64 percent Al_2O_3 :

$$\frac{\text{Al}_2\text{O}_3}{\text{Fe}_2\text{O}_3} = \frac{101.92}{159.68} = 0.64 \text{ percent Al}_2\text{O}_3 \dots\dots\dots (a_1)$$

and, with 1.40 percent CaO:

$$\frac{4 \text{ CaO}}{\text{Fe}_2\text{O}_3} = \frac{224.28}{159.68} = 1.40 \text{ percent CaO} \dots\dots\dots (c_2)$$

to form 3.04 percent $4 \text{ CaO} \cdot \text{Al}_2\text{O}_3 \cdot \text{Fe}_2\text{O}_3$. The total MgO is recorded as uncombined MgO. The total Al_2O_3 minus (a_1) gives the Al_2O_3 (a_2) available for combination as $3 \text{ CaO} \cdot \text{Al}_2\text{O}_3$. Each percent of (a_2) will enter into combination with 1.65 percent CaO to form 2.65 percent $3 \text{ CaO} \cdot \text{Al}_2\text{O}_3$:

$$\frac{3 \text{ CaO}}{\text{Al}_2\text{O}_3} = \frac{168.21}{101.92} = 1.65 \text{ percent CaO} \dots\dots\dots (c_3)$$

The amount of CaO available for combination with SiO_2 is obtained by subtracting, from the total CaO, the sum of the CaO (c_1) combined as CaSO_4 , the CaO (c_2) combined as $4 \text{ CaO} \cdot \text{Al}_2\text{O}_3 \cdot \text{Fe}_2\text{O}_3$, and the CaO (c_3) combined as $3 \text{ CaO} \cdot \text{Al}_2\text{O}_3$:

$$\text{Total CaO} - (c_1 + c_2 + c_3) = \text{CaO available to combine with SiO}_2 \dots\dots\dots (c)$$

The total SiO_2 (s) is calculated first to combine with CaO to form $2 \text{ CaO} \cdot \text{SiO}_2$. Each percent of SiO_2 (s) will combine with CaO to form 2.87 percent $2 \text{ CaO} \cdot \text{SiO}_2$:

$$\frac{2 \text{ CaO} \cdot \text{SiO}_2}{\text{SiO}_2} = \frac{172.20}{60.06} = 2.87 \text{ percent } 2 \text{ CaO} \cdot \text{SiO}_2.$$

This first approximation to the value of $2 \text{ CaO} \cdot \text{SiO}_2$ is subtracted from the SiO_2 (s) + CaO (c), which gives the CaO (c_4) available to combine with $2 \text{ CaO} \cdot \text{SiO}_2$ to form $3 \text{ CaO} \cdot \text{SiO}_2$. Each percent of CaO (c_4) combines with $2 \text{ CaO} \cdot \text{SiO}_2$ to form 4.07 percent $3 \text{ CaO} \cdot \text{SiO}_2$:

$$\frac{3 \text{ CaO} \cdot \text{SiO}_2}{\text{CaO}} = \frac{228.27}{56.07} = 4.07 \text{ percent } 3 \text{ CaO} \cdot \text{SiO}_2.$$

The $3 \text{ CaO} \cdot \text{SiO}_2$ subtracted from the total SiO_2 (s) + CaO (c) gives the true amount of $2 \text{ CaO} \cdot \text{SiO}_2$ present.

(b) Graphical application of the method of calculation.--Determination of the theoretical compounds may be materially facilitated by the use of the nomographs on plate 1. By careful reading, these graphs will give results comparable with those obtained by numerical computation and may be used: Provided, That, where compound percentages obtained with the graphs exceed the limits specified, the results shall be checked numerically.

41. Fineness. The specific surface shall be determined in accordance with the method described in Federal specification SS-C-158.

42. Soundness. The necessary apparatus and accessories, method of preparation and storage of specimens, and procedure for testing are described as follows:

(a) Molds.--Molds may be the single-, double-, or gang-mold type that will provide 1- by 1-inch test bars of 10-inch effective gage length. The effective gage length shall be considered as that length between the innermost points of the metal inserts used as reference points. The parts of the mold shall be tight-fitting and firmly held together when assembled. The molds shall

be made of hard metal not readily attacked by the cement paste. There shall be sufficient material in the sides of the molds to prevent spreading or warping. Each end plate of the mold shall be equipped to hold rigidly in place, during the setting period, a stainless-steel or noncorroding-metal reference point having a diameter of one-quarter of an inch. The reference points shall be set so that their principal axes coincide with the principal axis of the test specimen and shall extend into the specimen five-eighths of an inch. These requirements fix the length of the specimen at 11-1/4 inches. The distance between opposite faces shall be 1.00 \pm 0.03 inches. The height of the molds, measured separately for each bar compartment, shall be 1.00 \pm 0.03 inches. The distance between the inner ends of the reference points shall be 10.00 \pm 0.10 inches. Prior to use, the molds shall be covered thinly with petroleum jelly or stearic-acid paste and the stainless-steel or noncorroding-metal reference points set, care being taken to keep them clean. Stearic-acid paste is made by adding stearic-acid powder to heated kerosene until a mushy consistency is obtained after cooling. When cooled, this paste is applied with a stiff brush.

(b) Autoclave.--The autoclave shall consist of a high-pressure steam boiler equipped with an automatic pressure control and a safety valve. The capacity of the heating unit shall be such that the pressure of the saturated steam in the autoclave may be raised in one to one and one-quarter hours, with maximum load, from atmospheric pressure to a gage pressure of 295 pounds per square inch (absolute pressure about 310 pounds per square inch). The automatic pressure control shall be capable of maintaining a pressure of 295 \pm 5 pounds per square inch for at least three hours, which gage pressure corresponds to a temperature of 215^o C. \pm 1^o C. (420^o F. \pm 2^o F.). There shall be used, in the autoclave, such a quantity of water as will maintain saturated steam vapor for the entire time of test. The autoclave shall be designed to permit the pressure to drop from 295 to less than 10 pounds per square inch in one hour after the heat supply has been shut off. The autoclave shall be equipped with a vent valve for allowing the escape of air during the early part of the heating period and for releasing any steam pressure remaining at the end of the 1-hour cooling period.

(c) Length comparator.--Changes in length shall be measured by a dial gage or micrometer comparator having a range of at least 0.25 inch. The instrument shall be graduated to 0.0001 inch and shall be accurate to this amount in each 0.01 inch of travel of the spindle.

(d) Preparation of test specimen.--A neat-cement paste of normal consistency shall be prepared in accordance with Federal specification SS-C-158, except that the mixing shall be continued for three minutes instead of one and one-half minutes. Immediately following completion of mixing, a test bar shall be molded, in two equal layers, each layer being compacted with the forefinger by pressing the paste into the corners, around the reference inserts, and along the surfaces of the mold. A total of 100 strokes of the forefinger shall be applied to each layer, moving from one end of the bar to the other and back two times, applying 25 strokes each trip over the length of the bar. After the top layer has been compacted, the specimen shall be smoothed off with a few strokes of the trowel, leaving the paste slightly above the sides of the mold. During the operation of mixing and placing, the hands shall be protected by rubber gloves.

(e) Storage of test specimens.--After the mold has been filled, the paste shall be cut off flush with the top of the mold and the surface smoothed with a few strokes of the trowel and immediately placed in a moist closet or moist room at a temperature of $21^{\circ}\text{C.} \pm 1.7^{\circ}\text{C.}$ ($70^{\circ}\text{F.} \pm 3^{\circ}\text{F.}$) and a relative humidity of at least 90 percent. Specimens shall remain in the molds for at least 20 hours. If removed from the molds before 24 hours, they shall be kept in the moist closet or moist room until tested.

(f) Procedure for testing.--At 24 hours $\pm 1/2$ hour after being molded, the specimens shall be removed from the moist closet, one at a time, measured for length, and placed in the autoclave in a rack so that the four sides of each bar are exposed to saturated steam in the same manner. The temperature of the autoclave shall be raised at such a rate as will bring the pressure of the steam from atmospheric pressure to a pressure of 295 pounds per square inch in 1 hour ± 5 minutes. To permit air to escape from the autoclave at the beginning of the test period, the vent valve shall be left open until steam begins to escape and shall then be closed. The pressure of 295 ± 5 pounds per square inch shall be maintained for three hours. At the end of the 3-hour period at 295 pounds pressure, the heat supply shall be shut off and the autoclave allowed to cool at a rate such that the pressure will gradually fall to less than 10 pounds per square inch in one hour. At the end of the 1-hour cooling period, any small pressure remaining shall be released slowly (in about 2 to 5 minutes) by opening the vent valve until atmospheric pressure is attained. The autoclave shall then be opened and the bars immediately placed in boiling water. The water surrounding the bars shall then be slowly tempered with cool water at a rate such that the temperature of the water and bars will be lowered to 21°C. (70°F.) in 15 minutes. The water surrounding the bars shall

be maintained at 21° C. (70° F.) for an additional 15 minutes, when the specimens shall be surface-dried and measured for length.

(g) Calculation of autoclave expansion.--The difference in length of the test bars before and after autoclaving shall be expressed as a percentage of the effective gage length and shall be reported to the nearest 0.01 percent. If the expansion on any composite sample of cement representing each 2,000 barrels of cement exceeds the allowable limit, tests for soundness shall then be made on every sample representing each 400 barrels of cement in the bin.

43. Time of setting.---The method for the determination of the time of setting shall be as described in Federal specification SS-C-158, except that the paste shall be mixed three minutes instead of one and one-half minutes.

44. Premature stiffening. Five hundred grams of the cement to be tested shall be kneaded into a paste with 26.0 percent mixing water as described in paragraph F-4h of Federal specification SS-C-158, except that the mixing time shall be continued for three minutes instead of one and one-half minutes. The paste shall be quickly formed into a ball with the gloved hands, completing the operation by tossing it six times from one hand to the other with the hands maintained about six inches apart. The ball resting in the palm of one hand shall be pressed into the larger end of the conical ring, G (described in paragraph F-4i of Federal specification SS-C-158), held in the other hand, completely filling the ring with paste. The excess at the larger end shall then be removed by a single movement of the palm of the hand. The ring shall then be placed on its larger end on a glass plate, and the excess paste at the smaller end sliced off at the top of the ring by a single oblique stroke of a sharp-edged trowel held at a slight angle with the top of the ring, and the top smoothed, if necessary, with a few light touches of the pointed end of the trowel. During these operations, care shall be taken not to compress the paste. The paste confined in the ring, resting on the plate, shall be centered under the rod, B, of the Vicat apparatus described in paragraph F-4i of Federal specification SS-C-158, the plunger end, C, of which shall be brought in contact with the surface of the paste and the set screw, E, tightened. Then the movable indicator, F, shall be set to the upper zero mark of the scale or an initial reading taken, and the rod shall be released exactly two and one-half minutes after completion of the initial mixing period. The apparatus shall be free from all vibration during the test. The cement shall be considered as evidencing premature stiffening when the needle fails to settle more than two millimeters below the original surface 30 seconds after being released. For each test sample showing evidence of premature stiffening, a repeat test shall be made for verification.

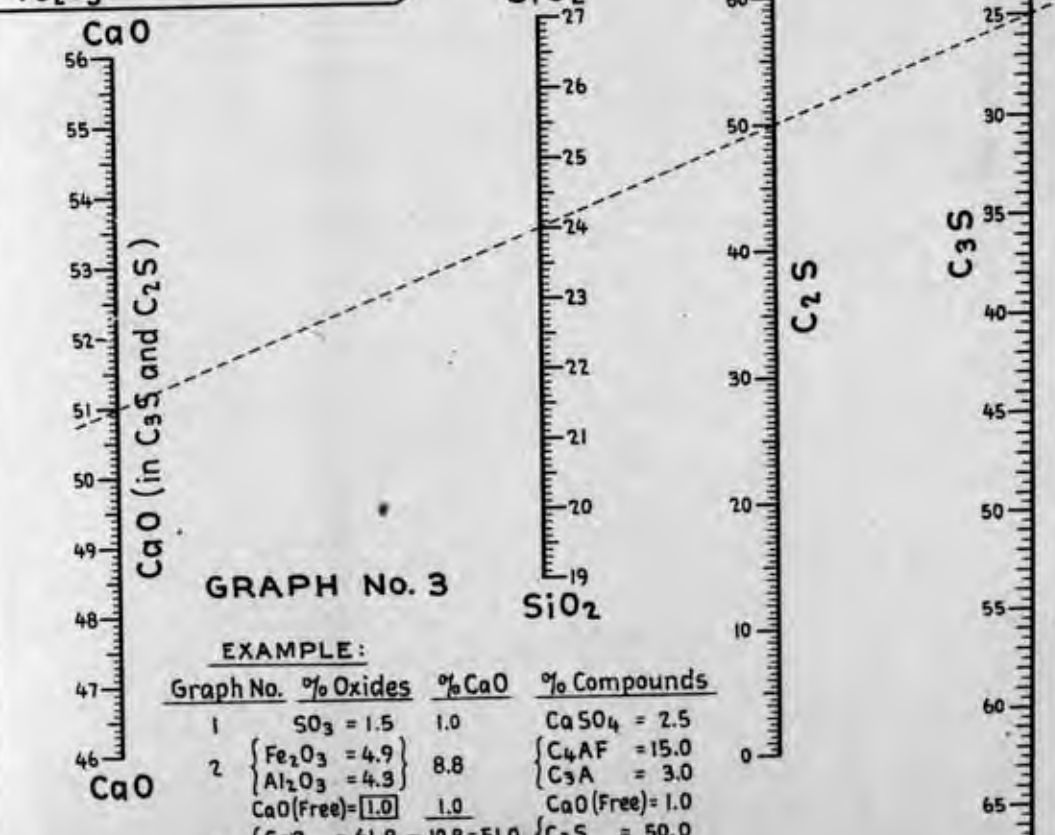
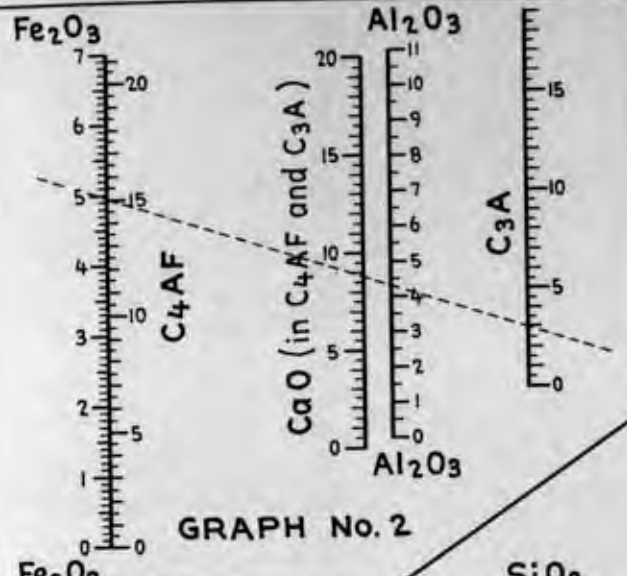
45. Compression tests. Compressive-strength tests shall be made in accordance with the method described in Federal specification SS-C-158, except that no determination for consistency of mortar shall be made and that 53 percent water, by weight, of cement shall be used.

46. Number of tests. Unless otherwise directed by the contracting officer, the number of tests shall be as follows:

(a) Tests for time of setting and fineness.--Tests shall be made on each test sample (normally each 400 barrels of cement).

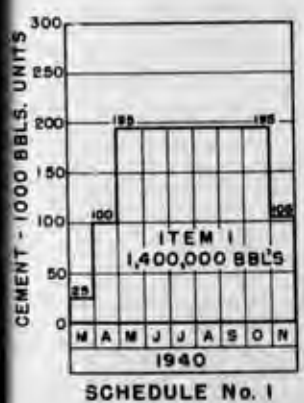
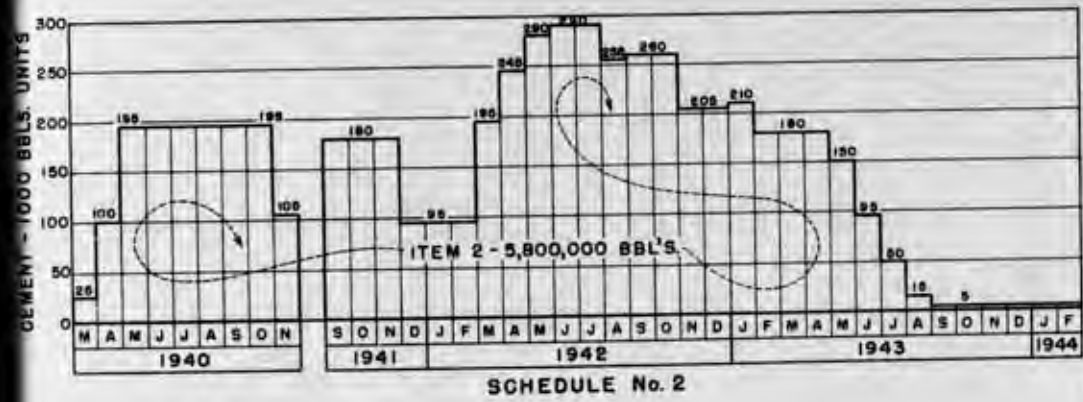
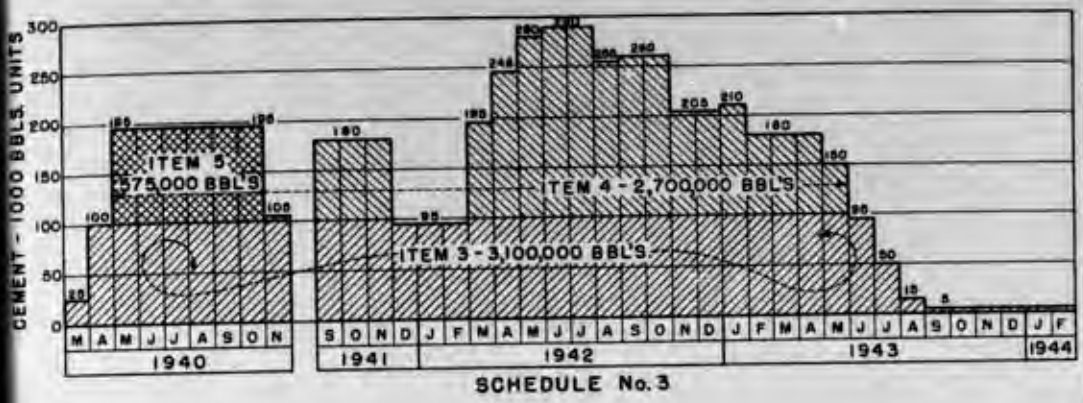
(b) Tests for chemical composition, soundness, uncombined lime, compound composition, premature stiffening, and compressive strength.--Tests shall be made on samples of cement (and clinker when tested for uncombined lime) representing each 2,000 barrels of cement, but samples shall not be combined from different bins. The samples of cement to be used shall be obtained by combining equal amounts, whenever practicable, of the unused portions of cement from the regular 5-pound test samples, except that, if the cement is sampled just previous to loading for shipment, for testing for premature stiffening, the size of such samples and number of tests will be as directed by the contracting officer.

DETERMINATION OF COMPOUNDS IN PORTLAND CEMENT



EXAMPLE:

Graph No.	% Oxides	% CaO	% Compounds
1	SO ₃ = 1.5	1.0	CaSO ₄ = 2.5
2	{ Fe ₂ O ₃ = 4.9 Al ₂ O ₃ = 4.3	8.8	{ C ₄ AF = 15.0 C ₃ A = 3.0
	CaO(Free) = 1.0	1.0	CaO(Free) = 1.0
3	{ CaO = 61.8 - 10.8 = 51.0 SiO ₂ = 24.0		{ C ₂ S = 50.0 C ₃ S = 25.0
	Total = 96.5		Total = 96.5



NOTE
 Figures indicate monthly requirements
 in 1000 bbls. units

UNITED STATES
 DEPARTMENT OF THE INTERIOR
 BUREAU OF RECLAMATION
 CENTRAL VALLEY PROJECT - CALIFORNIA
 KENNETH DIVISION

SHASTA DAM
 ESTIMATED DISTRIBUTION BY MONTHS
 OF CEMENT REQUIRED UNDER THE SCHEDULES

DRAWN G.E.R. SUBMITTED *R. J. Blandin*
 TRACED E.W.S.-D.R.S. RECOMMENDED *W. J. Holden*
 CHECKED M.J.E. APPROVED *A. J. Walter*

DENVER, COLO. - MAR. 17, 1939 214-D-2201

TREASURY DEPARTMENT
WASHINGTON

52

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

Official

(The appropriation from which payable must be stated on above line)

U. S. GOVERNMENT PRINTING OFFICE 2-14117

Mr. Edward H. Heller
c/o Schwabacher & Co.
200 Market Street
San Francisco, California.

May 10, 1939.

SECRETARY MORCEN THAU DELIGHTED TO SEE YOU TUESDAY MORNING
MAY SIXTEENTH AT TEN THIRTY

H. S. Klotz

Private Secretary

Treasury Department

TELEGRAPH OFFICE

53

Tuesday
Collins
10:30

W M 201 NL

WUX SAN FRANCISCO CALIF MAY 9 1939

N HENRY MORGENTHAU JR

1939 MAY 10 AM 8 42

ARRIVING WASHINGTON MONDAY MORNING. WOULD APPRECIATE APPOINTMENT IN
ORDER TO DISCUSS WITH YOU THE FOLLOWING MATTER: THE PERMANENTE
CORPORATION, OF WHICH I AM A STOCKHOLDER AND ORGANIZER THE OTHER
STOCKHOLDERS BEING CONSTRUCTION FIRMS WHICH HAVE IN THE PAST BEEN
MEMBERS OF THE GROUPS WHICH BUILT BOULDER DAM, BONNEVILLE DAM AND
THE NOW BUILDING GRAND COULEE DAM, HAS SUBMITTED A BID TO THE
ACQUISITION DIVISION IN YOUR DEPARTMENT FOR 5,800,000 BARRELS OF
PORTLAND CEMENT FOR SHASTA DAM, CENTRAL VALLEY PROJECT CALIF.

Treasury Department

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TELEGRAPH OFFICE

1W/2
THIS BID IS APPROXIMATELY ONE AND ONE HALF MILLION DOLLARS LOWER THAN
THE NEXT HIGHER BID SUBMITTED JOINTLY BY THE CEMENT COMPANIES OF
NORTHERN CALIFORNIA. SOME LEGAL QUESTIONS HAVE ARISEN IN CONNECTION
WITH THE FORM OF THE BID SUBMITTED BY THE PERMANENTE CORPORATION. IN
VIEW OF THE VERY SUBSTANTIAL SAVING TO THE GOVERNMENT I WOULD
APPRECIATE AN OPPORTUNITY TO DISCUSS THIS MATTER WITH YOU PERSONALLY
BEFORE ANY DECISION IS MADE BY THE PROCUREMENT DIVISION SO THAT YOU
WILL PERSONALLY BE ADVISED CONCERNING ALL THE FACTS AND CIRCUMSTANCES
ATTENDING OUR BID. WILL YOU BE GOOD ENOUGH TO ADVISE ME CARE SCHWABACHER
GO 600 MARKET STREET SANFRANCISCO, IF YOU CAN SEE ME MONDAY

Treasury Department

TELEGRAPH OFFICE

1/3

I AM LEAVING WEDNESDAY NIGHT

EDWARD H HELLER

802A

TREASURY DEPARTMENT

56

INTER OFFICE COMMUNICATION

DATE May 16, 1939

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

The Helium Conservation Act provides in part that no helium gas shall be exported from the United States until a license authorizing the exportation has been obtained on the joint recommendation of all the members of the National Munitions Control Board and the Secretary of Interior. The Act further provides that, under regulations approved by the National Munitions Control Board and the Secretary of Interior, export shipments of quantities of helium that are not of military importance as defined in the regulations, and which do not exceed a maximum to be specified therein, may be made under license granted by the Secretary of State without such specific recommendation.

We have before us for approval regulations authorizing the export of helium, upon licenses to be issued by the Secretary of State, in quantities not to exceed during any one year to the ultimate consignees or purchasers within any one country 500,000 cubic feet.

Mr. Rowe has requested Treasury action with respect to the proposed regulations, and stated that the President has been advised that a request of the Polish Ambassador for an allotment of helium to be used in a stratosphere flight was being held up pending the approval of the regulations.

On February 4, 1939, you advised the Department of State that you had no objection to granting the request of the Polish Ambassador for an allotment of helium in the amount set forth in his request. Secretary Ickes and Secretary Hopkins gave their approval to this request yesterday.

It is my view that the proposed regulations should not be approved. I was advised yesterday that this is also Secretary Hopkins' view.

E. H. F.

May 16, 1939

3 p. m.

Present:

Mr. Jean Monnet
Mr. Hanes
Mrs. Klotz

HM, Jr: I don't know whether you want to make notes. I have an answer for you from the President and I am reading from here. On this, of course, you will have to use your judgment, but I am quoting from the President.

I told him about our talks; also told him about your doubts about raising it at this time. See?

Mr. Monnet: Yes.

HM, Jr: So he says this: that the formula which you and I discussed -- in my note to him I called it the Monnet formula -- was the money we loaned you during the war, to forgive; the money we loaned you to buy our war supplies, to trade on a barter basis; and then the money we loaned you after the War, you were going to pay cash.

Mr. Monnet: That's right.

HM, Jr: But having covered that, "it's an interesting basis for future discussion," and then, he said, "to be kept in our safe ready to take out (this plan) at a time that looks more propitious." In other words, he agrees with you and me that this is not a good time. And then he says he does not want to take money out of France at this time. He thinks it's a mistake.

Now, I could enlarge on that for an hour, but that is -- doesn't that boil it down, Mr. Monnet?

Mr. Monnet: Yes. Surely.

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HM, Jr: I don't know whether you see the Gallup poll or anything so mundane as that. They asked two questions in case of war.

Mr. Monnet: I saw that one.

HM, Jr: And 69% were against lending money to England or France in case of war.

Mr. Monnet: I saw that. I saw that.

HM, Jr: But I have written my letter to him. I think we wrote it the next day.

Mr. Hanes: The day after you were here.

HM, Jr: So, as we say, "that's that!". You being a business man, I don't go through the usual palaver of talking about the weather and the late spring and how beautiful the French building is at the World's Fair and how are your children, but I do want to say we don't brush a thing like this aside lightly. The President is very much interested and, in diplomatic language, we thank your Government for bringing this thing up at this time, but really, more for your sake than ours, we think it is a poor time to do it and I personally feel -- I don't see how France could be regarded more highly than it is at this time in this country and I think raising this thing at this time can only do one thing and that is hurt you -- talking for Hanes and myself.

Mr. Hanes: We were all unanimous, of the same opinion, that it would be injurious. In this country public sentiment, we think, would turn right against France at this time on this thing.

Mr. Monnet: At this moment.

HM, Jr: Public opinion towards France could not be higher; could not be better. Here I am, showing my confidence in you, saying as Secretary of the Treasury that I don't want to be paid at this time, because I know I can't get it through Congress with this formula.

Mr. Monnet: Through Congress?

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HM, Jr: Impossible. Out of the question. And all you would have is you would make it -- you would get your publicity -- France would get turned down and leave a bad, sour taste in everybody's mouth and everybody would say, Uh-huh; that's all they are after.

Mr. Hanes: Especially the press in the interior.

HM, Jr: I did not wait for you to express your sentiment on this point. You were very frank. You remember I said, "You are a hell of an Ambassador."

Mr. Monnet: I do think this; that this question should be settled one day and I think that's very essential. That day is a matter of choosing.

HM, Jr: Choosing the day?

Mr. Monnet: Choosing the day.

Now, whether or not time would be gained by elaborating a little more clearly what we mentioned the other day or not, is a matter for you to say.

HM, Jr: The President said, "Put it in the safe and leave it there for the time being." Mr. Bell, Hanes and I went over the whole things afterwards. We are all in accord. When I wrote this letter, I thought it was important. I wanted to put it down on paper. The three of us went over it together and we sent it up. Aside from everything else, if we applied the Monnet formula to England, England would only owe us \$5,000,000, which is impossible.

Mr. Monnet: I know.

HM, Jr: And even you, as a good Frenchman, don't want us to give you better treatment than England. You wouldn't sleep nights!

Mr. Monnet: I don't know about that.

(Both the Secretary and Mr. Monnet got a good laugh out of their remarks.)

Mr. Monnet: I appreciate fully your position and

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you also understand I appreciate that irrespective of any settlement, Mr. Paul Reynaud was willing to pay a few million dollars cash as a gesture to make American public opinion feel that at least France was doing what they could, irrespective of their remaining or not remaining in default.

HM, Jr: He wants to do that?

Mr. Monnet: He was suggesting that.

HM, Jr: I did not get that. Did you, John?

Mr. Hanes: No. I understood that was a part of the deal; that if these other things could be done, the \$300,000,000 would be forthcoming.

Mr. Monnet: I thought I had made this clear when I tried to recite. I think the President understood that, because he made a remark to me. He said, "I don't want" let me say again, that irrespective of the consequences, this was a suggestion of Reynaud that France might pay, give \$300,000,000 or so as a gesture to recognize that while they haven't paid, it isn't that they don't intend or will not pay, and in view of circumstances they want to make that gesture so as to convince and satisfy public opinion of America of the intentions of France. To that the President said to me, "I don't want that because it would not solve anything and you would remain, France would remain just as much in default as if you had paid nothing and I don't know that France, under present circumstances, would gain very much from it." So he

HM, Jr: I did not know it.

Mr. Monnet: But I want you to know that.

HM, Jr: If Mr. Paul Reynaud thinks that by doing that maybe it would be possible to come over and borrow some money

Mr. Monnet: No. No. Again I make the point clear that it was irrespective of any consequences.

HM, Jr: I think it was a sort of useless gesture. If things continue to get better, which they have over the

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week-end

Mr. Hanes: Less worse.

HM, Jr: ... and France should continue to gain money; money returns to France, there is always a time and if I ever thought it was a good time, I would initiate it, but I haven't because I just don't think it's the right time.

How long are you going to be in this country?

Mr. Monnet: I think another ten days or two weeks.

HM, Jr: Well, before you go back, drop in. I would like to see you.

Mr. Monnet: I would like to very much.

HM, Jr: Just before you go.

Mr. Monnet: Yes. I will ring up Mrs. Klotz, if I may.

I want to leave with you, in strict confidence, on account of what is said at the end of the telegram about transportation in FrenchIndia.

I wish you would keep it strictly between us, because naturally our friends, the Chinese, must not know. The Governor is being changed and they are going to send a new man.

HM, Jr: Between us, we did something.

Mr. Monnet: I think it is moving.

HM, Jr: Now, can you see what I can do for you? I can send some ships there with merchandise. We can direct ships there, because it is the rainy season, and we can re-direct ships there, and you people gain the business.

Mr. Monnet: But this changing the Governor is naturally very confidential because he does not know anything about it. He's now in Indo-China and he's returning the beginning of June and then he will know that he is going

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to be changed, so naturally nobody knows so the Chinese should not know about that.

HM, Jr: But the first part? Except for the President, there is no sense my telling anybody.

Things are a little bit better financially in England.

Mr. Monnet: In England? They are ?

HM, Jr: Just over the weekend.

Mr. Monnet: I don't know how you feel, but this speech of Mussolini does not affect me.

HM, Jr: But this is very interesting and you might ask among your friends -- the Bourse which has gone up more than anything -- Italian stocks for 30 days have gone up and up and up, in Rome. Stocks have been climbing in Rome steadily for a month. What does that mean? For a month, on the Rome stock exchange. In Germany stocks are about the same or a little off, but in Rome for over a month they have been going up very sharply. When I say stocks I mean issues.

Mr. Monnet: I don't understand the Italian situation at all.

HM, Jr: Ask some of your friends for an explanation.

Mr. Monnet: I will, but I am sure I will get a bad explanation.

HM, Jr: I am asking why should stocks on the stock exchange in Rome be going up so fast.

Mr. Monnet: You hear the most strange rumors about Italy. My wife was born in Italy. She was Italian originally.

HM, Jr: Wasn't her maiden name Giannini?

Mr. Monnet: Not of the same family. She is divorced. She married a man in Italy, but he had nothing to do with this family.

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HM, Jr: Not my Giannini? Her maiden name was Giannini?

Mr. Monnet: No. Biondini and she was married to a man in Milan who was called Giannini, but no more relation to your man than I am.

HM, Jr: Just see how you have been slandered!

Mr. Monnet: She has, naturally, relatives and friends. You hear the most extraordinary things. For instance, friends of hers told her several instances which show that the police, German police, Gustafo, is actually established with the Italians. She cited this example for a lady, very well known in Italy, friend of her mother, who was an Admiral's wife. She had three maids. One was a Jewess -- no, went to a Jewish doctor who is a very good doctor, and after she had been to him three or four times two Germans appeared at this lady's house -- it's not gossip OO and said, Well, now, this maid must not go any more to this Jewish doctor. And they were Germans!

Now another lady who recently came to this country, a friend of my wife, said to her the other day that she had three maids, one of whom was Jewish. You have to declare the number of maids you have. She went to -- this lady went to the Police Commissioner of the district, Fascist of course. She goes in and she is badly treated by the Italian officers, the police. Finally she said she resents it, naturally, and goes away in a bad temper. This officer runs after her, catches her at the door and in a whispering voice said, "Don't mind that. Come back this afternoon, because this morning the German superintendent is here."

They are small things, but a friend of mine the other day in Milan had to have his passport visa-ed. When he went into the Milan office, there was an Italian Fascist and there was a German.

Those are small stories. I am not drawing any conclusion from them, but they are true.

HM, Jr: That's amazing. There is all this talk

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that keeps coming up about German troops in Italy.

Mr. Monnet: I can't understand the situation. You put those things together-- at the same time there is great antagonism on the part of the Italians against Germans. I can't make it out.

HM, Jr: Did you read Matthews' story yesterday in the New York Times explaining five hours, what happens after Mussolini comes to Turin? Amazing picture! Beautifully written.

Anything you want to ask, John?

Mr. Hanes: No.

HM, Jr: This is very encouraging and I will hand it to the President, but nobody else.

Mr. Monnet: I am sure Bullitt will communicate with you, too, because I know they are keeping posted with all these things because Loren had a talk with him the other day.

HM, Jr: Tell me something about Mannheimer in Holland. What sort of a fellow.

Mr. Monnet: What do you want me to say?

HM, Jr: The truth. I keep hearing about him. I hear about Mendelssohn's firm and I just wondered what kind of people they were. That's all. I have no ulterior motive other than I see their name mentioned all the time. I have never been to Holland. If you ask me what kind of a firm is XYZ in New York, I will tell you.

Mr. Monnet: I will tell you about him. I have known him for many years.

HM, Jr: The question is up -- there is some talk about his making a loan to Franco.

(Mr. Monnet requested that his remarks be off the record.)

Mr. Monnet: He's a very extraordinary fellow, I

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should say about 50. Some people hate him; others swear by him. Very curious. Certainly extremely competent. Certain genius for business. Ruthless. No doubt he has achieved one thing and that is this: that he has achieved the leadership of financing any loan in Switzerland or Holland which is really financed in greatest part by the very deposits

HM, Jr: ... that have sought refuge.

Mr. Monnet: sought refuge in Holland and Switzerland, reservoir of money which has sought refuge there and which lends on short terms, sometimes on long, mostly to the French Government. Mannheimer has established an authority, unquestioned authority, over the Swiss Bank, with the Dutch Bank, and in Paris he works with the Bank of Paris and Lazard, so he is really head of that syndicate. Certainly more capable than anybody else in Europe to mobilize whatever free money there is to be mobilized outside of England.

oOo-oOo

May 16, 1939.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston



SUBJECT: President's Press Conference, Tuesday, May 16, 4:00 P.M.

BEEF - The President was told that there seemed to be some feeling about the country that in his statement on Friday about Argentine canned beef he had impugned the virtue of the American cow. The President said he hadn't intended to cast any aspersions on the character of the American cow or the valor of the American bull. He said he would be among the first to rise to the defense of American cattle, but then he went on to explain - much as Arthur Krock did - that the South Americans canned the whole cow but that American cattle were used mostly for fresh beef and that the American canneries didn't make canned corned beef any more except on Government orders. The President added that this was not a canned corned beef country and asked if anybody in the room had eaten canned beef in the last year. There was a general chorus of "Yes" and the President joined in the laugh.

TAXES - The President said that he expected the conferences with the representatives of the Committees to continue. The date of the next conference is uncertain but will probably be held as soon as the two gentlemen from the House have talked it over with members of the Committee on Ways and Means, where all tax legislation must originate. The conferences are making progress he said. Asked whether the next conference would be limited to the Ways and Means representatives he said he supposed Pat Harrison would come. He was asked about the situation of the undistributed profits tax. He said the situation was still about the same. Any substitute would have to have safeguards against tax avoidance and provision for making up lost revenue. Asked if Section 102 wasn't a sufficient safeguard, he said we didn't know yet because it had only been in effect for one year. There were two opinions about it, one was that it was working all right and the other was that it wouldn't work at all. He added "We are talking it over in a perfectly friendly way. If we can find some safeguard, that will be perfectly fine." Asked if he thought the next tax conference would produce anything concrete, he said: "We have been talking over fifteen or twenty different things and I suppose we will continue to discuss them." He added that the three men from the Hill who were present yesterday were going to talk things over and let him know the result. Asked by Pete Brandt "Is this a filibuster?" the President replied: "No, not a bit."

(Cecil Dickson outlined the tax situation to me after the conference. He said we were right back where we were several weeks ago. He added that talk among the "New Dealers" on the Hill is that the program is to stall off any tax action at this session and give the President an opportunity to present a tax reform program of his own next year, for which he can get the credit and on which he can go to the country. He added that Pat Harrison seemed to have the bit in his teeth, but that Bob Doughton was being pulled and hauled in several directions and besides that was old and tired. He said that Jerry Cooper is a thousand per cent Roosevelt supporter and was trying to prevent Doughton from doing anything while John McCormack was belaboring him on the other hand to take command and pass a real tax bill. He added that of course it put Secretary Morgenthau and John Hanes in an uncomfortable position and wanted to know if Hanes wouldn't resign.)

FARM PARITY - Asked if consideration was being given to any taxes for making up the farm parity deficiency, the President said "NO."

PEACE - The President threw down the New York Times story about his having plans for a new peace conference. He said he had read it in the press but that was the first intimation that he had had of it.

DIRIGIBLE - The President has consulted with the Secretary of the Navy and the Chief of Operations and decided not to build any dirigible with the three million dollar appropriation voted by Congress. Their original idea was to build a small dirigible, to cost about a million dollars, for coast patrol work, but one of the companies which submitted bids submitted an alternative bid for a big ship with the statement that they didn't consider the small ship as safe. Since doubt had thus been cast on the practicability of the smaller ship, the decision was not to build any.

MINE STRIKE - The President said the use of the National Guard in Kentucky is a matter that is wholly up to the Governor and declined any other comment. He said he hadn't received any telegram from John Lewis.

VIRGINIA - Harry Byrd issued a statement this morning that he and Senator Glass had both been consulted about the nomination of Dean Dobie of the University of Virginia Law School to the Federal bench and that both had given their approval. The President was asked if the Senators had been notified before the appointment was made and he said: "Yes, Steve notified both offices this morning about 11:30."

DATE May 16, 1939.

TO Secretary Morgenthau

FROM Mr. Haas *CA*

Subject: Recent behavior of banks with respect to Government bonds

1. In the three months ended April 26, New York City banks have been heavy purchasers of direct and guaranteed Government securities, increasing their holdings by more than \$500 millions. On the other hand, weekly reporting member banks outside of New York City have decreased their holdings in the last two months by about \$250 millions.

2. The increase in the holdings of New York City banks represents a partial replacement of the large reductions in their holdings made by these banks subsequent to the all-time peak in holdings established in June 1936. Between that date and September 1937, the amount of Government and Government-guaranteed securities held by New York banks decreased by \$1.4 billions. This liquidation accompanied an increase in loans of \$700 millions, a decrease in excess reserves of \$700 millions, and a reduction in outstanding Treasury notes and bills of \$750 millions. From the low point in holdings reached in September 1937, there were irregular increases until the end of January 1939, by which time less than \$400 millions of the reduction from the June 1936 high had been made up, although excess reserves had meanwhile increased by \$1.8 billions and loans had decreased by more than \$1 billion. At the present time, New York City banks still hold about \$500 millions less of Government and Government-guaranteed securities than at the peak of June 1936.

3. The behavior of weekly reporting member banks outside of New York City has been considerably different. In February of this year, these banks held direct and guaranteed Government obligations in a larger amount than ever before, slightly surpassing the previous peak established in January 1937. Subsequent to the January 1937 peak, there had been a liquidation of \$800 millions running to March 1938, a much smaller absolute and proportional decrease than the corresponding one experienced by the New

Secretary Morgenthau - 2

York City banks, which may be explained by the fact that excess reserves of member banks outside of New York City declined by only \$400 millions and loans increased by only \$200 millions. Moreover, the decrease in bills and notes outstanding did not affect these banks as much as the New York banks, inasmuch as the preference for short-term securities is less pronounced on the part of banks outside of New York.

4. In the year ended December 31, 1938, New York banks purchased \$1 billion of Treasury bonds and guaranteed obligations, and reduced their holdings of Treasury bills and notes by about \$700 millions. The acquisition of Treasury bonds and guaranteed obligations may be attributed largely to the fact that the outstanding supply of Treasury bills and notes was reduced during the year by \$2.7 billions.

5. In the case of member banks outside of New York City, a reduction of \$500 millions in the holdings of Treasury bills and notes, between December 31, 1937 and December 31, 1938, was more than offset by an increase of \$600 millions in the holdings of Treasury bonds and guaranteed obligations.

6. Mutual savings banks have been steadily increasing their holdings of Government securities. During the last half of 1938, these banks bought almost \$200 millions of direct and guaranteed Government securities, raising their holdings to \$2.9 billions.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE May 16, 1939

TO Secretary Morgenthau

FROM Mr. Haas *BA*

Subject: Wheat export sales and other wheat market information, as reported by Federal Surplus Commodities Corporation.

May 9: World demand for cash wheat slow; no figures on export sales.

Domestic crop conditions not satisfactory. Continued dryness reported from Southwest and Pacific Northwest, and more complaints from Dakotas and Minnesota.

Wheat crops in Russia, Germany and France expected considerably under last year.

May 10: Demand for cash wheat abroad is the slowest in a long time. It appears that, at least for the time being, all countries have purchased enough cash wheat to take care of them for some time.

May 11: Demand for cash wheat abroad has fallen to almost nothing, due to more settled political situation and to the fact that all countries are now well supplied with wheat and flour.

To date Australia has sold about 50 per cent of her estimated 90,000,000 bushel surplus. Of the Argentine surplus of about 230,000,000 bushels, approximately 90,000,000 bushels have been shipped and an additional 30,000,000 bushels sold but not yet shipped.

May 12: Export sales: Australia to England 500,000 bushels
Australia to China 250,000 bushels

Liverpool prices lower because of lower offers by Canada and Argentina, and prospect of large purchases of Rumanian wheat.

May 13: No export sales reported.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 16, 1939

TO Secretary Morgenthau

FROM Mr. O'Connell

For your information.

The Securities and Exchange Commission today commenced the presentation of a public hearing before the Temporary National Economic Committee on the problems involved in the savings and investment fields. Today's presentation consisted of testimony by Dr. Alvin H. Hansen, of Harvard University, and Dr. Leuchlin Currie, Assistant Director, Division of Research and Statistics of the Federal Reserve Board, and involved in the main an analysis of the problem in a way calculated to form a background for the future more detailed testimony.

Dr. Hansen developed, in general terms, his thesis that recovery can not be attained until some means is found for creating a volume of expenditures for capital outlays in an amount at least equal to new savings for the same period, and developed to some extent his belief that this can only be brought about by a combination of public and private spending in this field.

He also took occasion to recommend extensive reforms in our tax structure, both Federal and State, and in so doing recommended revision of our Social Security taxes along the lines heretofore suggested to Congress by you. He also suggested the advisability of reducing the proportion of what he calls "consumption taxes", pointing out that the percentage of such taxes has increased from about 33 1/3% in 1929 to about 50% in 1938. In this connection, he suggested maintaining the necessary revenues by an increase in income taxes in the so-called middle brackets.

He further intimated a need for reform in the corporate tax structure, but merely suggested the need for a study of this problem as one of the things to consider in solving the general problem he was discussing, namely, the encouragement of the investment of savings for capital outlay.

He adverted generally to the question of business confidence, and pointed out that our economy now operates under what he calls "a high risk factor" and that business should recognize that fact, as well as the fact that substantially all of the reform measures such as Social Security legislation, labor legislation and the like are here to stay, though they can and should be improved.

He urged the necessity of public expenditures for projects which are self liquidating in character as well as public expenditures for projects not directly self liquidating but beneficial to our economy through the conservation of human and natural resources. In this latter connection he adverted specifically to hospitalization, public low cost housing and expenditures for the conservation of natural resources. He also urged a change in what he termed "obsolete accounting practices" by taking government expenditures for capital outlays of the types above

referred to out of the regular budget.

Dr. Hansen and Dr. Currie were both very good witnesses, although the subject under discussion was obviously quite controversial and brought forth a number of searching questions, particularly from Chairman O'Mahoney.

It is expected that this hearing will continue for at least two weeks, with representatives of investment bankers, insurance companies and other large reservoirs of investment capital, as well as representatives of industry being given an opportunity to be heard. It is expected that Mr. Stettinius, President, U. S. Steel Corporation, will testify tomorrow afternoon.

For your information I attach a copy of a letter sent by the President to Chairman O'Mahoney today relative to the importance of the present inquiry.

Joseph J. Connell Jr.

THE WHITE HOUSE
WASHINGTON

May 16, 1939

Dear Joe:

In my message to the Congress initiating the work of the Temporary National Economic Committee, I had occasion to say that "Idle factories and idle workers profit no man." It may equally be said that idle dollars profit no man. The present phase of the hearings before the Committee bear directly upon this problem.

It is a matter of common knowledge that the dollars which the American people save each year are not yet finding their way back into productive enterprise in sufficient volume to keep our economic machine turning over at the rate required to bring about full employment. We have mastered the technique of creating necessary credit; we have now to deal with the problem of assuring its full use.

In the series of hearings which the Securities and Exchange Commission is to hold before your Committee, I take it that a major problem of your Committee will be to ascertain why a large part of our vast reservoir of money and savings have remained idle in stagnant pools.

Is it because our economy is leaving an era of rapid expansion and entering an era of steadier growth, calling for relatively less investment in capital goods?

Is it because of lag, leak and friction in the operation of investment markets which pervert the normal flow of savings into non-productive enterprise?

These are questions for your Committee to answer.

I know of no more urgent ones in the country today.

The hearings before your Committee, I hope, will assume the task of analyzing the financial machine in its relation to the creation of more needed wealth. We know that the mechanism can be improved. Improvement can only be made on a basis of clear analysis. Having made that analysis, I hope that your Committee will then be able to indicate ways by which the machine may be made to function more efficiently.

We have an immense amount of wealth which needs to be created in this country. Much of it can be created through private enterprise. Some of it can properly be created through quasi-public agencies. The problem is to use our added savings and increased credit to get this wealth moving, that is, to get it now in productive enterprise; and, at the same time, to make savings available for use in all categories of private enterprise, as well as for the great and recognized enterprises which can command capital, but have less actual need of capital than many smaller but equally deserving enterprises. There is also the problem of determining how credit can best be made available for instrumentalities of local government and for those quasi-public enterprises which must do the work which cannot be done by private enterprise.

We have developed several methods of connecting money with men and materials so as to get useful work done. We shall need to use all of these opportunities, or, if you choose to put it differently, we must meet all of the demands made on our system, if we are to have lasting prosperity. It is our task to find and energetically adopt those specific measures which will bring together idle men, machines and money. In proportion as we succeed, we shall strengthen the structure of democratic economy.

Very sincerely yours,

(Signed) Franklin D. Roosevelt

Honorable Joseph C. O'Mahoney,
Chairman, Temporary National Economic Committee,
United States Senate
Washington, D. C.

May 16, 1939

Secretary Morgenthau:

E. H. Foley, Jr.

The Helium Conservation Act provides in part that no helium gas shall be exported from the United States until a license authorizing the exportation has been obtained on the joint recommendation of all the members of the National Munitions Control Board and the Secretary of Interior. The Act further provides that, under regulations approved by the National Munitions Control Board and the Secretary of Interior, export shipments of quantities of helium that are not of military importance as defined in the regulations, and which do not exceed a maximum to be specified therein, may be made under license granted by the Secretary of State without such specific recommendation.

We have before us for approval regulations authorizing the export of helium, upon licenses to be issued by the Secretary of State, in quantities not to exceed during any one year to the ultimate consignees or purchasers within any one country 500,000 cubic feet.

Mr. Howe has requested Treasury action with respect to the proposed regulations, and stated that the President has been advised that a request of the Polish Ambassador for an allotment of helium to be used in a stratosphere flight was being held up pending the approval of the regulations.

On February 4, 1939, you advised the Department of State that you had no objection to granting the request of the Polish Ambassador for an allotment of helium in the amount set forth in his request. Secretary Ickes and Secretary Hopkins gave their approval to this request yesterday.

It is my view that the proposed regulations should not be approved. I was advised yesterday that this is also Secretary Hopkins' view.

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

HE/op 5/15/39

original taken to Group Meeting 5-16-39

May 16, 1939
10:48 a.m.

HMJr: Hello.

Operator: Mr. Sproul.

HMJr: Hello.

Allan
Sproul: Hello, Mr. Secretary.

HMJr: How are you?

S: Fine.

HMJr: Say, Sproul, Bell is riding me awful hard on these H.O.L.C. bonds, see?

S: Yeah.

HMJr: To do something. I don't know whether you're riding him or what.

S: No, we haven't been recently. We did for a while.

HMJr: Well, now, Bell is going to be back tomorrow, I think, and he was talking of the possibility of calling these things as of Monday. I mean, calling them right away, see, and doing the financing Monday, on the 22nd. Hello?

S: Yeah.

HMJr: Bell said to date the new bonds as of the 15th, but my inclination, if we were going to do it, I'd rather date them June 1.

S: Yeah.

HMJr: Now, what would you think if we announced on Thursday -- I mean, wait until the last minute that we were going to do some financing next Monday?

S: And date them June 1?

HMJr: Well, either June 1 or May 15th -- either way.

S: Yeah.

HMJr: I hate to sort of date them back. I don't know why Bell wants to do that.

S: Neither do I. My preference would be to date them June 1.

HMJr: That's the first call date, isn't it?

S: Yes, it is.

HMJr: Yeah.

S: Announce on Thursday and do it on Monday?

HMJr: Yeah. Well, I don't expect an answer. I wish you'd talk it over with George Harrison and call me back this afternoon.

S: Well, he's not here today.

HMJr: Well, then, you think it over.

S: Yeah.

HMJr: I'm going to ask you not to talk about it outside of the Fed. though.

S: All right.

HMJr: Which means outside of your own office.

S: Yeah.

HMJr: See?

S: I won't.

HMJr: Now.....

S: But your idea -- his idea -- Dan's idea would be to announce on Thursday that you were going to make the terms of the offering known on Monday?

HMJr: Monday, and -- and offer the exchange on Monday.

S: Yeah.

HMJr: And get it behind us.

S: Yeah.

HMJr: I mean, things seem moderately quite now, and Dan says why not do it and get it over with.

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S: Well, there's something to that. The -- the market is quiet and firm.

HMJr: And then have it out of the way and that gives us another two weeks before our own stuff comes up.

S: Yeah.

HMJr: He liked the idea the way we did last time -- we waited until the last minute and then did it.

S: Yeah. Well, I'll think it over and call you back this afternoon.

HMJr: But I don't see this May 15 stuff.

S: No, I'd rather do it for June 1st.

HMJr: Have you any idea what we'd offer these people?

S: Well, I think something around seven nine or seven ten-year bond would go all right.

HMJr: Well, with what coupon?

S: Well, if it's a seven ten-year, something around one and three-quarter.

HMJr: I see. I see. Well, will you call me back this afternoon?

S: Yes, I will.

HMJr: And turn it over.

S: All right.

HMJr: I'd appreciate it.

S: All right.

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Mr. [unclear]
Pls file as of 1/16

Miss Chauncey-~~e~~

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Mr. Foley carried this to the Secretary
at the Secretary's house around noontime on
Wednesday, May 17.

s

MAY 16 1939

Secretary Morgenthau

E. H. Foley, Jr.

You recently asked me whether it would be proper for your children to purchase United States Savings Bonds. For your information, I am attaching a copy of a memorandum prepared by Mr. Oliphant for Mr. Magill, when he was Under Secretary, on the question whether Mr. Magill's wife could lawfully purchase Savings Bonds. The conclusion reached was that there was no legal restriction which would prevent the wife of the Under Secretary of the Treasury from purchasing these bonds.

The reasoning employed in the memorandum would, in general, apply to the question you have raised concerning your children. In my opinion, there would be no legal reason which would prevent the children themselves from purchasing Savings Bonds.

Of course, you could not purchase Savings Bonds for your own account nor should you purchase them for the account of your children.

(Signed) E. H. Foley, Jr.

Attachment

NOT/EHF: Retyped 5/16/39

May 16th 1939.

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During the past five years I have appeared seven times before the Committee on Ways and Means to discuss taxation. On none of these occasions have I made specific tax recommendations to Congress. As Secretary of the Treasury I have tried to follow a policy consistent with the Budget and Accounting Act of 1921 which says that "no recommendation as to how the revenue needs of the Government should be met shall be submitted to Congress or any Committee thereof by any officer or employee of any Department or establishment unless at the request of either House of Congress." Today, as on previous occasions when I appeared here, I should like to discuss with you certain broad fiscal problems and certain specific tax questions without presenting ~~any~~ ~~taxed~~ recommendations for their solution.

Tax proposals can not be discussed comprehensively except in relationship to our broad national and fiscal position. We are now in the midst of a world situation which imposes on this Government a special responsibility. We must demonstrate that a democratic government has the power and the flexibility to survive a prolonged crisis and chaotic world conditions and yet emerge with the strength of its free institutions unimpaired. Preservation of our democratic form of government over

- 2 -

a long period of years requires, in my opinion, a fiscal program which has a fourfold objective: (1) promotion of free enterprise and private investment; (2) attainment of full business recovery; (3) maintenance of our public finances in a sound and unassailable position, and (4) a just distribution of tax burdens and a more equitable distribution of national income.

Successful operation of democracy demands that all four objectives be solidly linked together. When we consider any specific change in our fiscal program we must satisfy ourselves that the change makes for a better and not a worse distribution of tax burdens and of national income, that the change promotes and does not retard business recovery, and that the change makes easier and not more difficult establishment of a balanced relationship between revenues and expenditures.

Full attainment of these objectives is difficult at best. It is made more difficult by a new and ominous development in world affairs -- the armament race now gripping the important nations of the world. Great Britain in the present fiscal year is spending \$3 billion on armaments, or almost 50 percent of its national budget; France is devoting over 40 percent of its national governmental expenditures to the same purpose; Italy, 50 percent; Germany, probably 60 percent; Japan over 70 percent.

- 3 -

These huge expenditures are being financed largely by borrowing. The race is becoming more intense and there is no end in sight.

For us the danger is that these developments may mean a necessarily increased cost for national defense here, together with monetary instability abroad, disruption of our foreign commerce, and perhaps other unsettlements, the consequences of which we can not fully predict. In this connection, it is interesting to note that in our budget for this fiscal year expenditures for past wars and national defense are almost one-fourth of total expenditures.

No major problem facing this government today can be solved properly without full consideration of the position of this country in relation to the present international crisis. The unmistakable implication of the international situation is that we should look ahead to our future fiscal position and redouble our efforts to attain full recovery. High national income and a sound fiscal position are essential to adequate national defense. It is against this background that we reexamine our fiscal program.

A fundamental objective of sound finance clearly is a balanced budget. There is, of course, no good reason why taxes must exactly balance expenditures each year any more than each month, each week or each day. There are periods during which sound fiscal policy calls for an

excess of outgo over income, and others when it calls for an excess of income over outgo. In a depression it is inevitable that there will be deficits. Revenues decline at the same time that the Federal Government is called upon to undertake inescapable social and economic burdens. If, however, deficits are too long continued, the depressive effects of uncertainty tend to make recovery more difficult. The sequel to deficits in emergencies should be surpluses during years of prosperity. That was and is one of the broad purposes of seeking to raise the national income to a high level, thus assuring revenue great enough not only to end the deficits which began in 1931, but also to reduce the public debt.

In carrying out our fiscal policy it would be helpful to have machinery which would more fully coordinate our efforts. It is not the prerogative of any administrative Department to make suggestions to the legislative branch of the Government for the conduct of its work, but I am sure that you would wish me to be frank in suggesting ways of surmounting difficulties which I believe now attend the joint efforts of the Ways and Means and Finance Committees and the Treasury Department.

If, for instance, the Ways and Means and Appropriations Committees of this House and the Finance and Appropriations Committees of the Senate could meet each session as one

Joint Committee on Fiscal Policy, to consider the over-all aspects of the expenditure and revenue programs, simplification and greater effectiveness would result. The Budget Act of 1921 set up a procedure for the orderly formulation by the Executive of fiscal proposals and for their submission to the Congress as a unified budget. No comparable procedure has been set up in Congress for considering revenues and expenditures together as two interrelated aspects of a single problem. I hope this Committee will agree with me that some such innovation would improve the efficiency of the Government. By providing for a preliminary legislative consideration of the over-all picture of appropriation and revenue measures it would give Congress a broad perspective of the management of the Government's finances and permit a better ordered coordination between the executive and the legislative branches in this field. This Joint Committee would in effect be a lens through which all appropriation and revenue measures could be viewed in relationship to both what the nation needs and the nation can afford.

In my opinion the fundamental fiscal question raised by the pending Department of Agriculture appropriation bill is precisely the type of question with which this Joint Committee should concern itself. This bill proposes to increase budgeted expenditures for farm parity payments

by \$372,000,000 with no compensating increase in revenue indicated although we already face a deficit of \$3,426,000,000 in the coming fiscal year. The bill is typical of scores of others which seem to me to present questions appropriate for consideration by a Joint Committee which looks at each proposed expenditure and each proposed revenue measure as a part of an integrated budget policy.

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

Thus far I have dealt with the financial problems of the Federal Government alone. We must remember, however, that even if we had in operation the best conceivable Federal fiscal plan, we still would have touched less than half of the tax problem which confronts the nation. Almost 60 percent of the total tax revenues of the country are collected by state and local governments.

In the last five years we have given serious study to the problems created by Federal-State tax conflicts. The same problems had been recognized by our predecessors. It is my belief that we ought not delay taking steps to make these studies effective. I suggest that Congress create a small temporary national commission to report to Congress as soon as feasible on the various aspects of

intergovernmental fiscal policy. Such a commission should be made up of men of ability who enjoy the highest possible public confidence, who are familiar with the fiscal problems of Federal, state and local governments, but who will represent the public at large rather than particular governmental units.

Overlapping taxes have grown in number and size as both Federal and state governments have sought new revenue. Grants-in-aid are being demanded of the Federal Government in increasing amounts. The results of our fiscal situation are increasingly unsatisfactory to both the state governments and the Federal Government, and more and more burdensome to many taxpayers. The findings of such a commission should assist us in achieving a more orderly relationship between the Federal, state and local fiscal systems.

Thus far I have talked about two broad fiscal matters of great importance to the Treasury. Let me turn now to questions of taxation.

I desire first to reiterate a number of recommendations for tax changes which have previously been presented to you.

1. In his Budget Message of January 3, 1939, the President recommended that Congress extend the miscellaneous internal revenue taxes which under existing law will expire next June and July, and to maintain the current rates of those taxes which otherwise would be reduced in June.

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

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

4. The Treasury Department has pointed out from time to time that the present law allows excessive deductions for depletion of oil and gas wells and certain mines. Removing this inequitable special privilege would produce a substantial amount of revenue.

It seems physically impossible at this session of Congress to rewrite the tax laws before the special study committee has conferred with states and municipalities and brought in a report. That fact, however, should not, in my opinion, restrain your Committee from giving serious attention at this time to removing from the tax laws any manifest inequities or defects which may be hampering business. On another occasion I made the statement that, "We want to adjust inequalities and remedy defects in the tax laws."

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It seems to me that we should have this purpose in mind at all times. Therefore, I should like to bring to your attention certain features of the tax system which merit your consideration. Before indicating them, however, I wish to emphasize the importance of maintaining the present revenue in any tax revisions which may be made. We must not forget that one of the important objectives of our fiscal program is to approach a balance between revenues and expenditures. For this reason any tax reductions must of necessity be offset by tax increases elsewhere. In my opinion we should under no circumstances weaken the revenue-producing capacity of our tax structure. I regard this as the keystone of any program of tax revision that may be undertaken at this session. If tax revision were confined to tax reductions the resulting uncertainty over our fiscal program would injure and not help business. We must take no step which the public may interpret as moving away from the objective of a balanced budget.

The elements or features of the tax system which you may wish to re-examine fall roughly into three groups.

The first group comprises features which have been characterized as substantial deterrents to business in that

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they impose tax burdens at points where they are especially likely to hinder business expansion and investment.

One example of an element so characterized is the absence of provision in our income tax laws for carrying over net business losses to be deducted from business profits of future years. The profits or losses of each year are considered without reference to those of any other year with the result that businesses with alternating income and loss now pay higher taxes over a period of several years than do those with stable incomes. New enterprises and the capital goods industries are especially subject to wide fluctuations in earnings.

The second example is the schedule of surtax rates in the top brackets of the individual income tax. Under the present law a taxpayer with \$500,000 of surtaxable net income would have left only 26¢ from an additional dollar of income, 74¢ being taken in Federal income taxes. His share may be further reduced by State taxes. The rate may be so high as to have passed the point of maximum revenue return. Furthermore, it may encourage the shifting of funds from risky to safe investments and from taxable to tax-exempt securities.

It is important that we fully appreciate the effect of a large and growing volume of tax-exempt securities as a major deterrent to business and for this reason I introduce

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the subject again even though I have already reiterated the recommendations previously made. Tax exemption of securities is a magnet which pulls persons subject to high income taxes away from investments in private business and not to tax-exempt securities. Lowering surtax rates in the high brackets will have a relatively minor effect in encouraging investment in venturesome enterprise unless at the same time you take away the attraction of tax-exempt interest. If, however, we eliminate tax exemption from future issues of government securities we can then reduce the surtax rates with the feeling that investment in new and venturesome enterprise will be encouraged.

There are a number of features in our tax system which have been described as major tax irritants although they are probably not important deterrents. In this class undoubtedly belongs the conflicting tax situation which I have previously mentioned and with regard to which I have suggested the establishment of a commission to make recommendations to Congress.

As another example of a tax which has been considered an irritant I would mention the undistributed profits tax. In its present form, it is quite unimportant and does not accomplish the objectives which the original proposal was intended to accomplish. The tax produces little revenue and has little effect on business. It has acquired prominence

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as a psychological irritant, largely because of the widespread and emotional criticism which has been directed against it. The end which the law sought to attain was to prevent the avoidance of the personal income tax through the retention and accumulation of earnings by corporations. This is still an important, and to my mind, a sound objective. The law in its present form does not attain it. Since the income tax on corporations, of which the undistributed profits tax is a minor segment, expires by its own terms at the end of this year, the solution of this problem is a necessary part of the task of your Committee. The Treasury stands ready to work with you on it.

A third example is found in the capital stock tax and the related excess profits tax, enacted in 1932. Under the present law the capital stock tax is based upon a declared capital stock value which the taxpayer may revise every three years. The declared value may be any figure that the taxpayer desires to submit regardless of the actual value of the stock. The excess profits tax applies to profits in excess of 10 percent of such a declared value. The taxes are thus not really taxes on the value of capital stock or on excessive profits. Their major defect is that they operate very erratically. The tax liability they impose depends on the taxpayer's ability to forecast profits for the next three years as well as upon the amount of profits actually

realized during each of the three years. Forecasts of earnings are particularly difficult to make in the case of new businesses and those with unstable incomes such as the capital goods industries with the result that taxes imposed on such businesses are at times inordinately high.

A third class of provisions are features of the law which should be studied from the standpoint of equity, possibly with a view to action at a later session. An example is the double taxation of corporate dividends paid to individuals. Under the present law corporations pay the normal corporate tax on their earnings. When these earnings are distributed to the individual stockholder they are subject to both the individual normal tax and to the surtax. Eliminating the normal tax on dividends received by individual stockholders would not nearly equalize taxes paid on income earned through corporate business and income earned through individual business but it would be a step in that direction.

Another example in the same class is the limitation now placed on the deduction of corporation capital losses. Under the present law an excess of corporate capital losses over capital gains can be deducted from ordinary income only to the extent of \$2,000. As a result a corporation may be obliged to pay an income tax in a year when its income from other sources was wiped out or more than wiped out by capital losses. Allowing the deduction of corporate net capital losses from other income might encourage investment in capital assets by corporations.

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Another tax provision which I think merits your consideration because of differences of opinion over its equity is the present treatment of consolidated returns and intercorporate dividends. At the present time consolidated returns are permitted only in the case of railroad corporations. This results in hardship to corporations which are obliged by the provisions of state laws to operate as holding companies with subsidiaries. There are, of course, many other types of holding company systems which we should be careful not to encourage.

The taxation of intercorporate dividends likewise burdens socially beneficial holding company arrangements as well as the socially harmful. Congress may desire to examine the possibility of imposing the tax more precisely on the types of corporations which it wishes to burden.

There are, of course, numerous minor provisions of the tax laws which are found through experience to work in an inequitable manner or to be unnecessarily complicated. The Treasury at practically every session of Congress has brought to the attention of Congress items of this kind which have become of major importance during the recent past. I shall not endeavor to discuss detailed measures of this kind but suggestions will be made later by the Treasury Legislative Counsel.

Many of the tax measures previously discussed would, if adopted, result in a reduction in the revenue-producing

capacity of the tax system. I have already emphasized the importance of not permitting the revenue-producing power of the tax system to be reduced. Accordingly, the adoption of any of the above measures involving loss of revenue must be coupled with revenue-producing revisions elsewhere. This is a very difficult problem for Congress to face. The taxes resorted to for replacing any lost revenue should have the least harmful effects on business and should contribute to greater equity. I suggest the following three possibilities:

1. The corporation income tax rate could be increased. Such increase would not destroy the beneficial effects of removing tax deterrent features since the taxes would be removed at points where they are particularly harmful and would be increased to a lesser extent over the whole corporate structure.

2. Individual income taxes could be increased. There is merit to the suggestion that the rates on taxable income brackets between \$5,000 and \$75,000 are relatively low compared with the rates on other incomes. Furthermore, to promote wholesome tax consciousness and good citizenship the personal and family exemptions should be decreased. The exemption for an individual could be decreased from \$1,000 to \$500 or even below, while the exemption for married couples could be decreased from \$2,500 to \$2,000

or below. The tax imposed on small incomes could be at a low rate and still constitute a valuable instrument for making a larger group of our citizens directly aware of our Federal tax problem.

3. Estate and gift taxes could be increased. Although high rates are applied to extremely large estates the great majority of the estates pay little or no tax. The exemption could be reduced, the insurance allowance could be eliminated and rates in the lower and middle brackets could be increased. Furthermore, consideration might well be given to the possibility of combining the estate and gift taxes into one consolidated tax. At the present time a person with a large volume of property who is in position to give much of it away during life can reduce his total tax far below that which must be paid on the estate of a person who is not in position to give away his property during life.

In connection with all of the matters I have mentioned the Treasury is prepared to furnish further information and will be happy to work with you to the extent that you desire.

In conclusion, permit me to say that the most important task we have before us is to do everything we can to promote lasting business recovery. As I said in November 1937, "The basic need today is to foster the full

application of the driving force of private capital.
We want to see capital go into the productive channels of
private industry. We want to see private business expand."
Our consideration of tax changes must have that necessity
in mind as well as revenue needs.

MAY 16 1939

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In carrying out our fiscal policy it would be helpful to have machinery which would more fully coordinate our efforts. It is not the prerogative of any administrative Department to make suggestions to the legislative branch of the Government for the conduct of its work, but I am sure that you would wish me to be frank in suggesting ways of surmounting difficulties which I believe now attend the joint efforts of the Ways and Means and Finance Committees and the Treasury Department.

If, for instance, the Ways and Means and Appropriations Committees of this House and the Finance and Appropriations Committees of the Senate could meet each session as one

Joint Committee on Fiscal Policy, to consider the over-all aspects of the expenditure and revenue programs, simplification and greater effectiveness would result. The Budget Act of 1921 set up a procedure for the orderly formulation by the Executive of fiscal proposals and for their submission to the Congress as a unified budget. No comparable procedure has been set up in Congress for considering revenues and expenditures together as two interrelated aspects of a single problem. I hope this Committee will agree with me that some such innovation would improve the efficiency of the Government. By providing for a preliminary legislative consideration of the over-all picture of appropriation and revenue measures it would give Congress a broad perspective of the management of the Government's finances and permit a better ordered coordination between the executive and the legislative branches in this field. This Joint Committee would in effect be a lens through which all appropriation and revenue measures could be viewed in relationship to both what the nation needs and the nation can afford.

In my opinion the fundamental fiscal question raised by the pending Department of Agriculture appropriation bill is precisely the type of question with which this Joint Committee should concern itself. This bill proposes to increase budgeted expenditures for farm parity payments

- 6 -

by \$372,000,000 with no compensating increase in revenue indicated although we already face a deficit of \$3,426,000,000 in the coming fiscal year. The bill is typical of scores of others which seem to me to present questions appropriate for consideration by a Joint Committee which looks at each proposed expenditure and each proposed revenue measure as a part of an integrated budget policy.

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

Thus far I have dealt with the financial problems of the Federal Government alone. We must remember, however, that even if we had in operation the best conceivable Federal fiscal plan, we still would have touched less than half of the tax problem which confronts the nation. Almost 60 percent of the total tax revenues of the country are collected by state and local governments.

In the last five years we have given serious study to the problems created by Federal-State tax conflicts. The same problems had been recognized by our predecessors. It is my belief that we ought not delay taking steps to make these studies effective. I suggest that Congress create a small temporary national commission to report to Congress as soon as feasible on the various aspects of

- 7 -

intergovernmental fiscal policy. Such a commission should be made up of men of ability who enjoy the highest possible public confidence, who are familiar with the fiscal problems of Federal, state and local governments, but who will represent the public at large rather than particular governmental units.

Overlapping taxes have grown in number and size as both Federal and state governments have sought new revenue. Grants-in-aid are being demanded of the Federal Government in increasing amounts. The results of our fiscal situation are increasingly unsatisfactory to both the state governments and the Federal Government, and more and more burdensome to many taxpayers. The findings of such a commission should assist us in achieving a more orderly relationship between the Federal, state and local fiscal systems.

Thus far I have talked about two broad fiscal matters of great importance to the Treasury. Let me turn now to questions of taxation.

I desire first to reiterate a number of recommendations for tax changes which have previously been presented to you.

1. In his Budget Message of January 3, 1939, the President recommended that Congress extend the miscellaneous internal revenue taxes which under existing law will expire next June and July, and to maintain the current rates of those taxes which otherwise would be reduced in June.

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

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

4. The Treasury Department has pointed out from time to time that the present law allows excessive deductions for depletion of oil and gas wells and certain mines. Removing this inequitable special privilege would produce a substantial amount of revenue.

It seems physically impossible at this session of Congress to rewrite the tax laws before the special study committee has conferred with states and municipalities and brought in a report. That fact, however, should not, in my opinion, restrain your Committee from giving serious attention at this time to removing from the tax laws any manifest inequities or defects which may be hampering business. On another occasion I made the statement that, "We want to adjust inequalities and remedy defects in the tax laws."

- 9 -

It seems to me that we should have this purpose in mind at all times. Therefore, I should like to bring to your attention certain features of the tax system which merit your consideration. Before indicating them, however, I wish to emphasize the importance of maintaining the present revenue in any tax revisions which may be made. We must not forget that one of the important objectives of our fiscal program is to approach a balance between revenues and expenditures. For this reason any tax reductions must of necessity be offset by tax increases elsewhere. In my opinion we should under no circumstances weaken the revenue-producing capacity of our tax structure. I regard this as the keystone of any program of tax revision that may be undertaken at this session. If tax revision were confined to tax reductions the resulting uncertainty over our fiscal program would injure and not help business. We must take no step which the public may interpret as moving away from the objective of a balanced budget.

The elements or features of the tax system which you may wish to re-examine fall roughly into three groups.

The first group comprises features which have been characterized as substantial deterrents to business in that

- 10 -

they impose tax burdens at points where they are especially likely to hinder business expansion and investment.

One example of an element so characterized is the absence of provision in our income tax laws for carrying over net business losses to be deducted from business profits of future years. The profits or losses of each year are considered without reference to those of any other year with the result that businesses with alternating income and loss now pay higher taxes over a period of several years than do those with stable incomes. New enterprises and the capital goods industries are especially subject to wide fluctuations in earnings.

The second example is the schedule of surtax rates in the top brackets of the individual income tax. Under the present law a taxpayer with \$500,000 of surtaxable net income would have left only 26¢ from an additional dollar of income, 74¢ being taken in Federal income taxes. His share may be further reduced by State taxes. The rate may be so high as to have passed the point of maximum revenue return. Furthermore, it may encourage the shifting of funds from risky to safe investments and from taxable to tax-exempt securities.

It is important that we fully appreciate the effect of a large and growing volume of tax-exempt securities as a major deterrent to business and for this reason I introduce

the subject again even though I have already reiterated the recommendations previously made. Tax exemption of securities is a magnet which pulls persons subject to high income taxes away from investments in private business and not to tax-exempt securities. Lowering surtax rates in the high brackets will have a relatively minor effect in encouraging investment in venturesome enterprise unless at the same time you take away the attraction of tax-exempt interest. If, however, we eliminate tax exemption from future issues of government securities we can then reduce the surtax rates with the feeling that investment in new and venturesome enterprise will be encouraged.

There are a number of features in our tax system which have been described as major tax irritants although they are probably not important deterrents. In this class undoubtedly belongs the conflicting tax situation which I have previously mentioned and with regard to which I have suggested the establishment of a commission to make recommendations to Congress.

As another example of a tax which has been considered an irritant I would mention the undistributed profits tax. In its present form, it is quite unimportant and does not accomplish the objectives which the original proposal was intended to accomplish. The tax produces little revenue and has little effect on business. It has acquired prominence

as a psychological irritant, largely because of the widespread and emotional criticism which has been directed against it. The end which the law sought to attain was to prevent the avoidance of the personal income tax through the retention and accumulation of earnings by corporations. This is still an important, and to my mind, a sound objective. The law in its present form does not attain it. Since the income tax on corporations, of which the undistributed profits tax is a minor segment, expires by its own terms at the end of this year, the solution of this problem is a necessary part of the task of your Committee. The Treasury stands ready to work with you on it.

A third example is found in the capital stock tax and the related excess profits tax, enacted in 1932. Under the present law the capital stock tax is based upon a declared capital stock value which the taxpayer may revise every three years. The declared value may be any figure that the taxpayer desires to submit regardless of the actual value of the stock. The excess profits tax applies to profits in excess of 10 percent of such a declared value. The taxes are thus not really taxes on the value of capital stock or on excessive profits. Their major defect is that they operate very erratically. The tax liability they impose depends on the taxpayer's ability to forecast profits for the next three years as well as upon the amount of profits actually

- 13 -

realized during each of the three years. Forecasts of earnings are particularly difficult to make in the case of new businesses and those with unstable incomes such as the capital goods industries with the result that taxes imposed on such businesses are at times inordinately high.

A third class of provisions are features of the law which should be studied from the standpoint of equity, possibly with a view to action at a later session. An example is the double taxation of corporate dividends paid to individuals. Under the present law corporations pay the normal corporate tax on their earnings. When these earnings are distributed to the individual stockholder they are subject to both the individual normal tax and to the surtax. Eliminating the normal tax on dividends received by individual stockholders would not nearly equalize taxes paid on income earned through corporate business and income earned through individual business but it would be a step in that direction.

Another example in the same class is the limitation now placed on the deduction of corporation capital losses. Under the present law an excess of corporate capital losses over capital gains can be deducted from ordinary income only to the extent of \$2,000. As a result a corporation may be obliged to pay an income tax in a year when its income from other sources was wiped out or more than wiped out by capital losses. Allowing the deduction of corporate net capital losses from other income might encourage investment in capital assets by corporations.

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Another tax provision which I think merits your consideration because of differences of opinion over its equity is the present treatment of consolidated returns and intercorporate dividends. At the present time consolidated returns are permitted only in the case of railroad corporations. This results in hardship to corporations which are obliged by the provisions of state laws to operate as holding companies with subsidiaries. There are, of course, many other types of holding company systems which we should be careful not to encourage.

The taxation of intercorporate dividends likewise burdens socially beneficial holding company arrangements as well as the socially harmful. Congress may desire to examine the possibility of imposing the tax more precisely on the types of corporations which it wishes to burden.

There are, of course, numerous minor provisions of the tax laws which are found through experience to work in an inequitable manner or to be unnecessarily complicated. The Treasury at practically every session of Congress has brought to the attention of Congress items of this kind which have become of major importance during the recent past. I shall not endeavor to discuss detailed measures of this kind but suggestions will be made later by the Treasury Legislative Counsel.

Many of the tax measures previously discussed would, if adopted, result in a reduction in the revenue-producing

- 15 -

capacity of the tax system. I have already emphasized the importance of not permitting the revenue-producing power of the tax system to be reduced. Accordingly, the adoption of any of the above measures involving loss of revenue must be coupled with revenue-producing revisions elsewhere. This is a very difficult problem for Congress to face. The taxes resorted to for replacing any lost revenue should have the least harmful effects on business and should contribute to greater equity. I suggest the following three possibilities:

1. The corporation income tax rate could be increased. Such increase would not destroy the beneficial effects of removing tax deterrent features since the taxes would be removed at points where they are particularly harmful and would be increased to a lesser extent over the whole corporate structure.

2. Individual income taxes could be increased. There is merit to the suggestion that the rates on taxable income brackets between \$5,000 and \$75,000 are relatively low compared with the rates on other incomes. Furthermore, to promote wholesome tax consciousness and good citizenship the personal and family exemptions should be decreased. The exemption for an individual could be decreased from \$1,000 to \$500 or even below, while the exemption for married couples could be decreased from \$2,500 to \$2,000

- 16 -

or below. The tax imposed on small incomes could be at a low rate and still constitute a valuable instrument for making a larger group of our citizens directly aware of our Federal tax problem.

3. Estate and gift taxes could be increased.

Although high rates are applied to extremely large estates the great majority of the estates pay little or no tax. The exemption could be reduced, the insurance allowance could be eliminated and rates in the lower and middle brackets could be increased. Furthermore, consideration might well be given to the possibility of combining the estate and gift taxes into one consolidated tax. At the present time a person with a large volume of property who is in position to give much of it away during life can reduce his total tax far below that which must be paid on the estate of a person who is not in position to give away his property during life.

In connection with all of the matters I have mentioned the Treasury is prepared to furnish further information and will be happy to work with you to the extent that you desire.

In conclusion, permit me to say that the most important task we have before us is to do everything we can to promote lasting business recovery. As I said in November 1937, "The basic need today is to foster the full

- 17 -

application of the driving force of private capital.
We want to see capital go into the productive channels of
private industry. We want to see private business expand."
Our consideration of tax changes must have that necessity
in mind as well as revenue needs.

Given me by Hanes May 16, 1939.

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MEMORANDUM PREPARED BY MR. STAM OF JOINT COMMITTEE FOR SENATOR HARRISON

No. 1. Substitute for the corporation income tax applicable to corporations with net incomes of over \$25,000. a flat rate of 18%.

Leave corporations with net incomes of under \$25,000. subject to the rates provided for in existing law.

No. 2. Allow corporations a three year carry-over of net losses, excluding capital losses.

No. 3. Repeal the \$2,000. limitation on the deduction by corporations of capital net losses from other income, insofar as such losses result from assets held over 18 months.

No. 4. Allow a corporation to increase its declared value for capital stock tax purposes for the fiscal years ending June 30, 1939, and June 30, 1940, but do not permit them to decrease such value for such years.

Estimates of revenue for the calendar year 1939 under such a plan.

Gains from (1)	\$59,000,000.
Losses from (2) and (3)	53,000,000.
Losses from (4)	<u>3,500,000.</u>
Net gain	2,500,000.

1. Under the first suggestion the little corporations will be left alone and the larger corporations will be subject to the flat rate of 18%. This will result in a slight increase for banks and insurance companies which now pay a flat rate of 16%.

2. The second suggestion will allow corporations to carry over operating net losses to be applied against their net income for the succeeding year. And if in excess of the net income of the succeeding year to be applied against the net income for the second year. And if in excess of the net income for the second year to be applied against the net income for the third year.

3. This suggestion permits corporations which have capital net losses from assets held over 18 months to apply such losses against their other income for the same year. In this respect these corporations will be treated like individuals who are permitted to offset their capital net losses to a certain extent against their other income.

- 2 -

The \$2,000. limitation will still apply as to capital net losses from the sale or exchange of capital assets held 18 months or less. This will prevent corporations from using these speculative losses to reduce their ordinary income. Unless this safeguard should be put in, the limitation on short-term capital losses applied to individuals might be evaded by the formation of personal holding companies and the elimination of investment income by speculative losses.

4. If we allowed a corporation to declare a value for capital stock tax purposes each year, it might be that loss in revenue would result, especially with those corporations having fiscal years ending shortly after the close of the capital stock tax year, which ends June 30 of each year. Therefore, to avoid any loss of revenue from this source, it is suggested that for the fiscal years ending June 30, 1939, and June 30, 1940, the corporations be permitted to increase their capital stock value but not to decrease such value. This will only result in a slight loss of revenue from the excess profits tax, and because of the additional capital stock tax to be paid, it is not believed that it will exceed two and a half million dollars.

MINUS 13 604 10-38

FEDERAL RESERVE BANK
OF NEW YORK

DATE May 16, 1939.

OFFICE CORRESPONDENCE

TO CONFIDENTIAL FILES
FROM L. W. Knoke

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

I called Mr. Hawker at 11:30 this morning. Things were very quiet now. The Anglo-Turkish pact and Mussolini's speech of last Saturday had made people in England a little less pessimistic, the Continent was more confident and the general atmosphere there was better. How far it was justified he could not say but the effect had been to cause the dollar to be just a shade more offered instead of being bid as heretofore. Offers, however, were not in large amounts. They had come from Paris against French francs and, against guilders, from the holders of (he thought guilders 50 million) French railroad credits maturing almost immediately which had attached to them a dollar clause giving the holder the option to insist on payment in dollars or in guilders. In view of the present low guilder rate, holders had, of course, opted for payment in dollars with which they were then buying guilders in the market at present low rates. These transactions he thought were in part at least responsible for the recent sudden strength of guilders. He also understood, Hawker continued, that French railroads had arranged with Mendelssohn a new guilder credit (he thought guilders 150 million) to be used in consolidating three railroad credits maturing in June, July and October. This new loan was in the form of three months bills with the railroads having the option of 25 renewals. In other words the transaction was a six year loan. It also had the same dollar clause as above. Strange to say Cariguel did not seem to know anything about this loan, the railroads not having approached the Bank of France.

OFFICE CORRESPONDENCE

DATE May 16, 1939.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnokeBANK OF ENGLAND.

The French franc continued firm and the French fund even though not gaining as much as in recent weeks, nevertheless was still gaining.

The Belgians were doing fairly well having managed by means of an embargo on the import of gold to squeeze the shorts rather badly. As a result the belga rate had gone way above parity and ^{the} Belgians were gaining sterling at a rate at which they could afford to buy gold in London and ship it to New York. But naturally by allowing the rate to go this high they had reduced the volume of their gold gains. Now the discount on forward belgas had narrowed so considerably that the shorts rather than cover their belga short position at the present high belga figure were tempted to buy spot and simultaneously sell forward belgas at comparatively small cost. Hawker did not altogether seem to approve of what the Belgians had done and thought that the whole story was not finished yet.

I referred to the number of cables received last week from the Bank of England asking us to transfer certain specified bars from their gold under earmark to the Belgians. I explained that we had been able to comply with these requests because the bars were all part of one shipment and we had been able, on arrival of that shipment, immediately to set it aside. We might, however, have serious difficulties in the future, I explained, because as a result of the recent enormous inflow of gold into our vaults, in order to save time and particularly space, we have been compelled to discontinue stacking earmarked gold on shelves

OFFICE CORRESPONDENCE

DATE May 16, 1929.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.FROM L. W. Knoke

3

but instead stack it on the floor of our vaults in piles with the result that if any special bar were needed we might have to move tons of gold if that particular bar did not happen to be right on top. Under the circumstances would it be asking too much that they consider in future instructing us to deliver a certain amount of ounces giving us the maximum amount not to be exceeded and leaving it to us to pick out from their holdings those bars most conveniently situated for us. Hawker replied that he could appreciate our difficulties and that they would hereafter make it a point to send us instructions as suggested. I thanked him.

As regards the dollar market Hawker stated that recently they had been in the forward market on a rather substantial basis as they had wanted future sterling to be a bit stronger and since there was no reason why the rate for the dollar for forward delivery should stay up as high as it had. In addition they were rather anxious to build up a dollar balance in New York which would technically place them in a strong position to cope with sudden spasms of weakness of the poundsterling. Accordingly their main operations recently seem to have been the purchase of spot and the simultaneous sale of forward dollars. As a result they had built up a short position for forward delivery of roughly \$80,000,000. Against this they were holding in New York in gold or dollar balances an amount exceeding \$100,000,000.

LWK:KW

JR

GRAY

Paris

Dated May 16, 1939

Rec'd 12:30 p.m.

Secretary of State,
Washington.

949, May 16, 5 p.m. (SECTION ONE).
FOR THE TREASURY.

It was officially announced last evening that the limit of cash subscriptions of six billion francs to the new loan issue had been reached early in the afternoon and that as provided under the decree of May 3 subscriptions to the conversion portion of the issue will be received up to May 25. The closing of cash subscriptions to this issue was announced in the Journal Official of today. It is learned from banking circles that while substantial subscriptions were received from the public the banks as usual absorbed a large part of the issue to be passed on to the public.

BULLITT

HPD

CJ

GRAY

PARIS

Dated May 16, 1939

Received 1:15 p.m.

Secretary of State,
Washington.

949, May 16, 5 p.m. (SECTION TWO).

A joint communique issued last evening by the Ministries of Foreign Affairs and Finance reads as follows:

"Contrary to certain reports it is entirely inaccurate that there is any question at the present time of a Spanish loan to be issued on the French market and that French and foreign bankers have conferred on the subject at the Quai d'Orsay."

Trading on both the exchange and security markets today was very restricted and without important changes except that the florin showed some weakness.
(END OF MESSAGE.)

HPD

BULLITT

REB

GRAY

London

Dated May 16, 1939

Rec'd 3:50 p. m.

Secretary of State,
Washington.

694, May 16, 9 p. m.

CONFIDENTIAL FOR TREASURY FROM BUTTERWORTH.

1. The British Treasury gave me the following summarized account regarding the press report that Van Zeeland will act on behalf of Dutch, French, and Swiss banking interests in the matter of a twenty million pounds loan to the Spanish Government about which an official communique were issued in Paris last evening. The instigator of the idea is said to be Fritz Mandellheim. Bonnet was favorably disposed to the project regarding it desirable to keep such a prospect before Franco's eyes without necessarily doing much about it. To this end he attempted to commit the British in the matter with, they feel, the intention of leaving them to hold the bag. Accordingly they instructed the British Ambassador in Spain to make clear to Franco that they were not party to this project at all.

My own view is that (A) the British have not yet made
up

REB

2-#694, From London, May 16, 9 p.m.

up their mind whether or to what extent the present Franco regime will be hostile to Great Britain and (B) whether or how long the present Spanish personalities and set up will endure and therefore (C) whether the time is ripe for real action on their part. Furthermore, they would prefer to make an individual and more subtle approach. The loan negotiations referred to in paragraph two my 253, February 20, 6 p. m., have never been consummated. Although the British Treasury points to this as indicative of the fact that British banks would be unwilling to loan money to Franco the British Treasury admits that Franco has obtained from his nationals considerable quantities of British securities including British Government bonds. If and when the word "go" is officially given the British banks will no doubt be quite prepared to consider these and perhaps other assets as good collateral.

2. The British Treasury states that three German officials, one from the Reichsbank, one from the Ministry of Finance, and one from the Foreign Office are coming to London to begin discussions on Thursday regarding the financial problems arising out of the seizure of
Czechoslovakia.

REB

3-#694, From London, May 16, 9p.m.

Czechoslovakia. The British Treasury expects a critical press when this becomes known and is aware of its anomalous position in negotiating with the German authorities on the question of Czech assets and liabilities when it has not yet legally recognized the incorporation. I gathered that the Czech liabilities to Great Britain are greater than the impounded Czech assets which are furthermore dwindling as refugees are permitted to draw on their balances here.

(END SECTION ONE)

KENNEDY

HPD

FS

PLAIN

London

Dated May 16, 1939

Rec'd 4:05 p.m.

Secretary of State,
Washington.

694, May 16, 9 p.m. (SECTION TWO).

3. The Bank of England has asked the so-called outside houses which circulate price lists of dollar bonds to discontinue this practice in view of the Chancellor of the Exchequer's "request prohibition" relating to purchases of foreign securities. No special request has yet been addressed to the American brokerage houses. One of their number called on the Bank of England and was told that this action had been taken because such price lists tended to incite buying. The American broker expressed the view to the Bank of England that the American brokerage houses were prepared to cooperate but saw no objection to facilitating switches or the purchasing of American securities by British investors having dollar balances already in New York. The Bank of England official did not take exception to this view but was rather noncommittal. Accordingly the American broker has called a private meeting for Friday of
the

FS 2-No. 694, May 16, 9 p.m. from London

the American brokerage houses operating here which number about thirty in an attempt to formulate proposals for submission to the Bank of England with a view to clarifying the position.

The fact that Stock Exchange jobbing firms have discontinued circulating dollar security price lists has no doubt played a part in the Bank of England's action with respect to the outside houses.

4. Supplementary estimates for the building up of war reserves of merchant shipping and agricultural machinery were circulated today in the House of Commons the Prime Minister stating that the necessary legislation would be introduced in due course but that meanwhile he would ask Parliament for the required authority before commitments are entered into and hoped this would be obtained before the end of this week. No figures of the amounts involved have yet been made public.

5. Sterling was slightly weaker today but the British fund apparently found no need to operate in either spot or forward dealings, and the market closed around 4.68 3/16. Gold was fixed at a half penny premium and of the 156 bars dealt in 6 were married and about 50 supplied by the British fund. Samuel Montagu was the only buyer. (END MESSAGE).

HPD

KENNEDY

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: May 16, 1939, 8 p.m.

NO.: 377

Reference is made to telegram No. 278 of April 24, 11 a.m., from the Embassy.

Susskind, who is in charge of British relations in the Reich Ministry of Economics, is the head of a German delegation which left for London today for the purpose of negotiating the question of payments between Great Britain and Memel. They will also try to lay the foundation for a trade and payments agreement between Great Britain and Bohemia-Moravia, and to have the Czech funds now blocked in England released.

The British Embassy here in Berlin has said that since the acquisition of Memel has been recognized by Great Britain, there will be no difficulty on that question. An extension of the existing payments agreement between Germany and Great Britain will govern the trade and payments between Memel and Great Britain.

Great Britain has, however, not recognized the protectorate of Bohemia-Moravia, and therefore my informant says no formal agreement will be concluded at this meeting with regard to Bohemia-Moravia; it is probable that they will reach a preliminary understanding. It is understood that there has been a relaxation of the blockage of
Czech

- 2 -

Czech funds by the British and restrictions on payments to Czechoslovakia to the extent that British firms are permitted to make payments to Czech exporters, and Czech firms can use their London balances to buy things in England and other countries. Germany, on the other hand has been providing exchange for payment of commercial debts which Czech firms owe to suppliers in Great Britain. Germany has provided exchange for debts for essential raw materials on the date they are due, but there has been delay on/^{sterling}exchange for purchase of non-essential goods. According to my informant, before very long the British would permit the return of the gold and would free the Czech Central Bank's impounded balances.

One of the members of the German delegation, prior to his departure, said that he believed that no attempt would be made to have the present Anglo-German trade and payments agreement cover the trade between England and the protectorate of Bohemia-Moravia. The actual negotiation would be taken care of by officials of the Reich since it has assumed charge of the control of foreign relations of the protectorate, but a separate agreement would be entered into as regards trade and payments

- 3 -

payments between England and the protectorate.

Repeat to Treasury as No. 30, from Heath.

END OF MESSAGE.

KIRK.

RECEIVED

MAY 15 1900

THE NATIONAL ARCHIVES
COLLEGE PARK, MARYLAND
SERIALS ACQUISITION SECTION

EA:LWW

May 17, 1939.

Dear Dr. Feis:

On behalf of the Secretary I am acknowledging your letter of May 16th, which enclosed for his confidential information a copy of paraphrase of telegram No. 946 of May 15th, from the American Embassy, Paris, reporting on a conversation which Ambassador Bullitt had with Mr. Van Zeeland.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Dr. Herbert Feis,
Adviser on International
Economic Affairs,
Department of State,
Washington, D. C.

GEF/dbs

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Economic Affairs,
Department of State,
Washington, D. C.

GKF/abs



DEPARTMENT OF STATE
WASHINGTON

134
Pls act
for HSK's sig

May 16, 1939.

My dear Mr. Secretary:

I enclose for your confidential information one copy of paraphrase of telegram No. 946 of May 15 from the American Embassy, Paris, reporting a conversation which Ambassador Bullitt had with Mr. Van Zeeland.

Not found
in Diary
4.26.40

Sincerely yours,

Herbert Feis

Herbert Feis,
Adviser on International
Economic Affairs.

Enclosure:

No. 946 from
Paris, May 15.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

JR

GRAY

Paris

Dated May 17, 1939

Rec'd 1:10 p.m.

Secretary of State,
Washington.

958, May 17, 5 p.m.

FOR THE TREASURY.

The Government published today a "balance sheet of the first five months of the three year plan", the contents of which in the main have already been reported to the Department.

The statement reveals notably that the exchange fund at the end of October held 2,067 million gold (not including 1700 millions with the rentes fund), and at the end of January, 14,321 millions. It ceded 207,000 to the Bank of France in November; purchased 1700 millions from the rentes fund in November; and ceded 385,000 to the bank in December and January.

Between November 30 and March 31 savings deposits had grown by about 4,250,000,000 francs. The Treasury was in a satisfactory position, thanks to the return of expatriated capital and its investment in Treasury bonds. Interest rates were now more favorable to the Treasury

than

-2- #958, May 17, 5 p.m., from Paris.

than at any time since 1936. In the first week of April 1939 there were 3,300 fewer unemployed during the corresponding period of 1937. Index of retail prices had risen 1.76% between November and March. Cost of living had risen 1.50% during the same period. The general index of production had moved up from 81 in October to 92 in March. Receipts from indirect taxation during the first quarter of 1939 were 21.4% higher than for same period of last year. During the same period state had collected 65% more in direct taxation.

BULLITT

KLP:DDM

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May 21 1939

RECEIVED
 DEPARTMENT OF THE ARMY
 WASHINGTON, D. C.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: May 17, 1939, noon

NO.: 955

FOR THE TREASURY.

In unofficial trading between banks this morning, sterling and dollars were more offered and a fair amount of both currencies was obtained by the fund. This afternoon, because of Ascension Day holiday tomorrow, the exchange market will be closed; both the exchange and security markets will be closed tomorrow.

According to an official of the Ministry of Finance, the negotiations between the French Government and a banking syndicate in Amsterdam for a new guilder credit for the repayment of outstanding guilder bills were progressing satisfactorily. However, he stated that contrary to reports in the press they had not yet definitely fixed the exact terms and the amount of the credit.

BULLITT.

EA:LWW

RECEIVED

MAY 17 1939

TREASURY DEPARTMENT
COMMUNICATIONS SECTION
WASHINGTON, D. C.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bern, Switzerland

DATE: May 17, 1939, 4 p.m.

NO.: 44

Reference is made to telegram No. 7 of January 28, 1938 from the Legation.

From the same source I have learned in strict confidence that several days ago the Japanese Legation in Bern again approached the Swiss National Bank concerning the possibility of getting a large loan in Switzerland for alleged non-military purposes, the amount not being stated. Various Swiss export interests are backing the proposal. I was told that the reaction of the Swiss authorities is even less favorable than it was last year, partly due to the fact that recent withdrawals of refugee French capital have been felt by the money market here.

HARRISON.

EA:LWW

RECEIVED
MAY 17 1939
TELETYPE UNIT

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: May 17, 1939, 8 p.m.

NO.: 961

STRICTLY CONFIDENTIAL.

This morning the Polish Ambassador told me that the expense of keeping the Polish army mobilized was so great that financial assistance was needed by Poland. Therefore, he had asked the French to grant them an immediate loan of approximately two billion francs. One billion of this amount would be spent for war material in France.

The Polish Ambassador in London had at the same time asked for a loan of sixty million pounds from the British Government.

These loans, the Polish Ambassador stressed, would be for protection of the stability of the Polish zloty, and for prevention of inflation in Poland, and essential instruments of war and raw materials would be provided at the same time.

As for the raw material question, the Polish Ambassador said that instructions had been given to Roman, the Polish Minister of Commerce, who was now on his way to the New York Exposition to open the Polish pavilion, to ask the Government of the United States to extend as long term credits as possible so that the Polish Government could establish in Poland depots of American cotton

- 2 -

cotton and copper. It was the Polish Government's idea that in time of war these raw materials would be very difficult to obtain, and that a supply sufficient to cover the peacetime needs of Poland for one year should be kept on hand in Poland.

It is planned that in the case of cotton, future supplies would be used to replace any bales taken from the supply depots, so that the same amount would remain in them at all times.

The Polish Ambassador told me that it was the profound hope of his Government that this proposal would be looked on with approval by the American Government.

The Polish Ambassador concluded by saying that his Government did not expect an immediate (Omission) by Germany at the moment.

BULLITT.

This 5/17/39 draft was considered at the
Secretary's home on 5/23. See later

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○ (5/24) revision.

May 17, 1939

MEMORANDUM FOR THE SECRETARY:

The attached draft of the statement incorporates the suggestions of Dr. Viner made yesterday and this morning.

The most significant change, which he discussed with you this morning, is the addition of the paragraph at the bottom of page 16 and the top of page 17 relating to the general lines along which tax revision should proceed.

May 17, 1939.

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

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

Successful operation of democracy demands that all four objectives be solidly linked together. When we consider any specific change in our fiscal program we must satisfy ourselves that the change makes for a better and not a worse distribution of tax burdens and of national

income, that the change promotes and does not retard business recovery, and that the change makes easier and not more difficult progress toward the establishment of a balanced relationship between revenues and expenditures.

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

For us these developments present the danger that they may involve us in increased cost for national defense here and that they may result in monetary instability abroad, ^{and} disruption of our ~~foreign~~ commerce, ~~and perhaps other unsettlements~~, the consequences of which we cannot fully predict. In this connection, it is interesting to note that in our budget for this fiscal year expenditures for past wars and national defense are almost one-fourth of total expenditures.

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

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

thus assuring revenue great enough not only to end the deficits which began in 1931, but also to reduce the public debt.

In carrying out our fiscal policy it would be helpful to have machinery which would more fully coordinate our efforts. It is not the prerogative of any administrative Department to make suggestions to the legislative branch of the Government for the conduct of its work, but I am sure that you would wish me to be frank in suggesting ways of surmounting difficulties which I believe now attend the joint efforts of the Ways and Means and Finance Committees and the Treasury Department.

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

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efficiency of the Government. By providing for a preliminary legislative consideration of the over-all picture of appropriation and revenue measures it would give Congress a broad perspective of the state of the Government's finances and permit a better ordered coordination between the executive and the legislative branches in this field. This joint committee would in effect be a lens through which all appropriation and revenue measures could be viewed in relationship ~~to~~ ^{to} both what the nation needs and ^{to what} the nation can afford.

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

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

Thus far I have dealt with the financial problems of the Federal Government alone. We must remember, however, that even if we had in operation the best conceivable Federal fiscal plan, we still would have touched less than half of the tax problem which confronts the nation. Almost 60 percent of the total tax revenues of the country are collected by state and local governments.

In the last five years we have given serious study to the problems created by Federal-State tax conflicts. The same problems had been recognized by our predecessors. It is my belief that we should take steps without delay to make these studies effective. I suggest that Congress create a small temporary national commission to report to Congress as soon as feasible on the various aspects of intergovernmental fiscal policy. Such a commission should be made up of men of ability who command the highest possible public confidence, who are familiar with fiscal problems, but who will represent the public at large rather than particular governmental units.

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Overlapping taxes have grown in number and size as both Federal and state governments have sought new revenue. Grants-in-aid are being demanded of the Federal Government in increasing amounts. The results of this fiscal situation are increasingly unsatisfactory to both the state governments and the Federal Government, and more and more burdensome to ~~many~~ taxpayers. The findings of such a commission should assist us in achieving a more orderly relationship between the Federal, state and local fiscal systems.

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

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

1. In his Budget Message of January 3, 1939, the President recommended that Congress extend the miscellaneous internal revenue taxes which under existing law will expire next June and July, and to maintain the current rates of those taxes which otherwise would be reduced in June.
2. In his message of January 19, 1939, the President recommended legislation making all government salaries hereafter earned and all interest on government securities

hereafter issued subject to Federal and state income tax laws. That part of this recommendation dealing with government salaries, I am pleased to note, has already been incorporated into law.

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

4. The Treasury Department has pointed out from time to time that the present law allows excessive deductions for depletion of oil and gas wells and certain mines. Removing this inequitable special privilege would produce a substantial amount of revenue.

A comprehensive revision of the tax structure as a whole at this session of Congress scarcely seems feasible, especially in the absence of an adequate study of overlapping taxes. That fact, however, should not, in my opinion, restrain your Committee from giving serious attention at this time to removing from the tax laws any manifest inequities or other defects. In November 1937, I said that, "We want to adjust inequalities and remedy defects in the tax laws."

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It seems to me that we should have this purpose in mind at all times. Therefore, I should like to bring to your attention certain features of the tax system which may warrant reexamination. I will refrain from presenting specific tax recommendations because, as on my four previous appearances before your Committee, I wish to conform with the intent of Congress as expressed in that section of the Budget and Accounting Act which says, "No recommendation as to how the revenue needs of the Government should be met shall be submitted to Congress or any Committee thereof by any officer or employee of any Department or establishment unless at the request of either House of Congress."

Before specifying the tax provisions which I believe deserve your special attention at this time, I wish to emphasize the importance of maintaining the present revenue in any tax revisions which may be made. We must not forget that one of the important objectives of our fiscal program is to approach a balance between revenues and expenditures. For this reason any tax reductions must be offset by tax increases elsewhere. ~~(In my opinion we should under no circumstances weaken the revenue-producing capacity of our tax structure at this time. I regard this as an essential requirement to which any program of tax revision that may be undertaken at this session must conform.~~ If tax revision were confined to tax reductions the resulting uncertainty

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

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

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

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

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

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

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

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

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

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In its present form, it is ~~quite~~ unimportant and does not accomplish the objective of the original proposal. The tax produces little revenue and has little effect on business. It has acquired prominence as a psychological irritant, largely because of the widespread and emotional criticism which has been directed against it. The end which the law sought to attain was to prevent the retention and accumulation of earnings by corporations from being used to avoid the personal income tax. This is still an important, and to my mind, a sound objective. The law in its present form does not attain it. Since the income tax on corporations, of which the undistributed profits tax is a minor segment, expires by its own terms at the end of this year, your Committee ~~must~~ ^{should} deal with this problem. The Treasury, of course, stands ready to work with you on it.

Another example of a ~~tax irritant~~ is found in the capital stock tax and the related excess profits tax, enacted in 1932. Under the present law the capital stock tax is based upon a declared capital stock value which the taxpayer may revise every three years. The declared value may be any figure that the taxpayer desires to submit regardless of the actual value of the stock. The excess profits tax applies to profits in excess of 10 percent of such a declared value. The taxes are thus not really taxes on the value of capital stock or on excessive profits. Their major defect is that they operate very erratically. The tax liability they impose

depends on the taxpayer's ability to forecast profits for the next three years as well as upon the amount of profits actually realized during each of the three years. Forecasts of earnings are particularly difficult to make in the case of new businesses and those with unstable incomes such as the capital goods industries with the result that taxes imposed on such businesses are at times inordinately high.

There is a third category of tax problems now being widely discussed which raises questions of tax equity. The Treasury has already worked on these problems and, if your Committee desires, our staff could continue these studies in collaboration with the Committee, possibly with a view to action at a later session.

An example is the double taxation of corporate dividends paid to individuals. Under the present law corporations pay the normal corporate tax on their earnings. When these earnings are distributed to the individual stockholder they are subject to both the individual normal tax and to the surtax. ~~Eliminating the normal tax on dividends received by individual stockholders would be a partial step toward equalizing taxes paid on dividend income as compared to taxes paid on interest and on income earned through unincorporated business.~~

Another example ~~in the same class~~ is the limitation now placed on the deduction of corporation capital losses.

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Under the present law an excess of corporate capital losses over capital gains can be deducted from ordinary income only to the extent of \$2,000. ~~As a result a corporation may be obliged to pay an income tax in a year when its ordinary income is offset by capital losses. Allowing the deduction of corporate net capital losses from other income might encourage investment in capital assets by corporations.~~

~~Another tax provision which I think merits your consideration because of differences of opinion over its equity is the present treatment of consolidated returns and intercorporate dividends, especially in connection with corporations which are obliged by state laws to operate as holding companies with subsidiaries.~~

There are, of course, numerous minor provisions of the tax laws which have been found through experience to produce inequities or to be unnecessarily complicated. Such provisions are discovered and brought to the attention of Congress from time to time as they become of importance. While no one of them may be of great significance as a business irritant or deterrent, in combination their effects may be substantial. I shall not endeavor to discuss detailed measures of this kind but suggestions will be made later by the Treasury staff if you wish.

An important factor in the consideration of many of the possible tax changes previously discussed is that in the case

of most of them adoption would result in a reduction in the revenue-producing capacity of the tax system. I have already emphasized the importance of not permitting the revenue-producing power of the tax system to be reduced at this time. Accordingly, with the adoption of any of the above measures involving loss of revenue there should be associated revenue-producing revisions. Although this problem is difficult, Congress must face it. The taxes resorted to for replacing any lost revenue should have the least harmful effects on business and should contribute to greater equity. I suggest the following three possibilities:

1. The corporation income tax rate could be increased, with some allowance for corporations with small incomes.

2. A second possible source of additional revenue is the individual income tax. There is merit to the suggestion that the rates on incomes between the \$7500 and \$75,000 levels could be increased without inequity or material deterrent effects. Furthermore, to promote wholesome tax consciousness and good citizenship, the personal and family exemptions might well be decreased. At the present time only about 3,000,000 persons pay income taxes. If the exemption for individuals were decreased from \$1,000 to \$800 and the exemption for married couples decreased from \$2,500 to \$2,000, it is estimated that a total of 4,500,000 persons would be subject to the income tax. The rates imposed on small incomes could be low with perhaps a small minimum tax.

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Even though the tax imposed on small incomes were of little importance from the revenue point of view, the tax would constitute a valuable instrument for making a larger group of our citizens directly aware of the Federal tax problem.

3. Estate and gift taxes could be increased. Although high rates are applied to extremely large estates the great majority of the estates pay little or no tax. The exemption could be reduced, the insurance allowance could be eliminated and rates in the lower and middle brackets could be increased. Furthermore, consideration might well be given to the possibility of combining the estate and gift taxes into one consolidated tax. At the present time a person with a large volume of property who is in position to give much of it away during life can reduce his total tax far below that which must be paid on the estate of a person who is not in position to give away his property during life.

In connection with all of the matters I have mentioned the Treasury is prepared to furnish further information and will be happy to work with you to the extent that you desire.

The matters I have discussed are for the most part confined to a limited segment of the tax system. I do not consider them as constituting an adequate program of tax revision. Such a program can be developed only through long continued study and it cannot be static but must be adapted to changing conditions. But the general lines along which Federal taxation

should develop in the future appear to be quite clear. We ought to increase the part played by direct taxes that can be made to take account of differences in the abilities of individuals to support Government. This means that we should endeavor eventually to minimize the use of manufacturers' excises and other commodity taxes which tend to be shifted directly to consumers and also should reduce the importance of taxes on corporations, shifting the burden as far as practical to the individual income tax and the estate and gift taxes. Such revisions would facilitate coordination of Federal with State and local taxation. The Treasury is continuously studying the tax structure to develop a program along these lines and I hope will have the opportunity of presenting its findings to your Committee as the studies proceed and as your convenience permits.

In conclusion, permit me to say that one of the major tasks we have before us is to do everything we can to promote lasting business recovery. I must repeat now with the same deep conviction with which I said in November, 1937, that "The basic need today is to foster the full application of the driving force of private capital. We want to see capital go into the productive channels of private industry. We want to see private business expand." Our consideration of tax changes must have that necessity in mind as well as revenue needs.

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STATEMENTS ON TAXES BY MEMBERS OF THE ADMINISTRATION IN 1939

January 5 - The President's Budget Message:

**** I believe I am expressing the thought of the most far-sighted students of our economic system in saying that it would be unwise either to curtail expenditures sharply or to impose drastic new taxes at this stage of recovery. But in view of the addition to our public expenditures involved in the proposed enlarged national defense program and the program for agricultural parity payments, for which no revenue provision has yet been made, I think we might safely consider moderate tax increases which would approximately meet the increased expenditures on these accounts. It should be added, however, that it is my firm conviction that such new taxes as may be imposed should be most carefully selected from the standpoint of avoiding repressive effects upon purchasing power.

Sound progress toward a budget that is formally balanced is not to be made by heavily slashing expenditures or drastically increasing taxes. On the contrary, it is to be sought by employing every effective device we may have at our command for promoting a steady recovery, which means steady progress toward the goal of full utilization of our resources. We can contribute very materially toward that end by a wise tax program.

I am recommending the reenactment of the excise taxes which will expire in June and July of this year, not because I regard them as ideal components of our tax structure, but because their collection has been perfected, our economy is adjusted to them, and we cannot afford at this time to sacrifice the revenue they represent. If the Congress should at this session adopt new taxes more scientifically planned to care for the defense and agricultural programs, it is quite possible that the existence of these new taxes will enable us in a later year to give consideration to abolishing some of the present excise laws. *** "

January 11 - Harry Hopkins before Senate Committee considering his nomination as Secretary of Commerce: (By UP)

Harry L. Hopkins today told Senators considering his nomination as Secretary of Commerce that he has started a study of tax questions with leading business men.

Mr. Hopkins made the statement under questioning by the Senate Commerce Committee, which is considering the fitness of the former Works Progress Administrator for his new Presidential appointment as Commerce Secretary.

Mr. Hopkins said he had held three or four meetings with members of the Business Advisory Council to obtain business opinions on tax policies and plans several more sessions on the same subject. He declined, however, to express any opinion on tax policies. ****

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Mr. Hopkins said he believed taxes should be studied in relation to national income. Congress, he suggested, should determine whether imposition of new taxes at this time would halt the present upward movement of national income.

January 16 - Secretary Morgenthau at his press conference:

Q. Mr. Secretary, have you been asked for your opinion on processing taxes?

A. Not very recently.

Q. Do you favor processing taxes?

A. Do I? No.

Q. Would you say why, sir?

A. Oh, why get into the whole business, but I think the percentage of taxes on consumers is sufficiently high.

Q. Mr. Secretary, the Social Security Council recommended that means other than payroll taxes be provided for carrying forward at least part of the Social Security old-age program.

A. I am going to have to beg off on that whole thing. I haven't had a chance to read the report or the President's message, so I'm not up to date on it.

Q. Could we go back to this processing tax business, Mr. Secretary? It's obvious from what you say as chief fiscal officer of the government that you are not going to recommend that processing taxes be enacted to finance these farm benefit payments.

A. I think I've gone far enough.

Q. It's a pretty safe assumption, isn't it?

A. Well, I mean, somebody asked me whether I was for 'em - I'm agin 'em.

Q. You won't recommend 'em?

A. Right.

Q. Mr. Secretary, on this Social Security matter, I had in mind partly what he had -- also, you have Social Security, you have farm relief and you have national defense taxes under these various recommendations and I was just wondering whether you had any thought on the thing.

A. Yes, but the Treasury will withhold its thoughts until we appear before the proper committees.

Q. Your statement would indicate, Mr. Secretary, that you are opposed to any further increase in what might be termed nuisance taxes or savings taxes upon consumers.

A. I think you are going a little bit too far. I was asked a simple question about processing taxes and we here in the Treasury feel that that particular form of taxes is the least desirable and if and when Congress asks us to recommend what kind of taxes we do want to recommend, if they want additional taxes to carry out the President's suggestions in the Budget Message, the Treasury will be ready to appear before the proper committee and make its recommendations as to kinds of taxes if Congress asks us. We will carry out our usual policy here of waiting until Congress sends for us.

Q. Mr. Secretary, is that comment along the line of that speech of yours in November, 1937, in which you favored cutting out direct taxes on the consumers and broadening the tax base?

A. I think I've gone a little bit farther than I usually do and I will let it ride.

Q. The President said the other day he was against nuisance taxes.

A. Well, I don't know what he means or you mean but I think I've gone far enough.

Q. Sales taxes?

A. I think I've gone far enough.

Q. Mr. Secretary, your speech of 1937 has already been mentioned; what do you think about the Budget message? Would you restate your position on that at this time? The President abandoned all hope of a balanced budget -- never even mentioned it in his last message -- and we just wondered how you feel.

A. I simply say the budget message is all right. I'm not going to say anything more than that.

Q. The budget message is all right?

A. It's all right.

January 17 - The President's Press Conference:

The President was asked whether he was in favor of processing taxes. He said it was not a pending question; that they were one of many forms of taxes that might be considered by Congress. He added that they do fall in the general category of taxes on the consuming public. Asked if he would not consider them, therefore, as having a depressant effect on consumption, he said undoubtedly they should be considered as a depressant. Asked if he had not said in his budget message that that kind of taxes should be avoided, he answered: "Yes, that's right."

January 17 - The Wall Street Journal:

"**** While Secretary Wallace could not be reached for comment, a high Agricultural Adjustment Administration official last night described the department's attitude thus:

'Our position on processing taxes has been made very clear in speeches made by department officials over the past several months. If benefit payments are to continue, some source of funds for them must be provided. We think the processing tax is a good source. (Secretary Wallace recently said: 'If a better source can be found, I want you to show it to me.')

Of course the Treasury will have its own recommendations to make on how to get the money, but we will continue to advocate processing taxes as our idea of how the money should be raised.****"

January 20 - Under Secretary Hanes before the Winston-Salem (N.C.) Chamber of Commerce:

"**** I do not believe it is possible, as a practical matter, suddenly

to reduce expenditures to the six billion dollar level. Nor do I believe that it is possible to increase tax rates or to levy new taxes that will raise Federal revenue by fifty per cent, or that it is expedient to undertake to do so. I believe that if we undertook to do this, and if we increased our schedules and rates by fifty per cent, we would find that this very action would tend toward diminishing returns. I mean that a fifty per cent increase in schedules would not produce fifty per cent increase in revenue. Furthermore, the very act of such an increase in the rate structure now would tend to destroy the promise of cooperation between business and government which I am convinced is alone capable of bringing about in the reasonable future a situation under which income and outgo may be brought into approximate balance.

Large increases in rates and schedules now would produce progressively less and less. Increasing national income now would produce progressively more and more in dollar revenue.****"

February 17 - The President's Press Conference enroute to Key West, Florida: (Felix Belair, New York Times)

"President Roosevelt assured business and industry today that they would not be called upon to shoulder new or higher taxes for financing New Deal programs and that they could look forward without any misgivings as to the Administration's objectives in the months ahead.**** 'Some business men have suggested increased taxation as the answer to currently heavier expenditures for relief and for financing New Deal reforms,' the President was reminded.

His answer was that business men need not worry about new or heavier taxes. There was no prospect of any such legislation, he added, unless present temporary taxes were not renewed at their expiration date, or Congress authorized expenditures outside the budget. He indicated that he saw no prospect of either.****"

February 23 - Secretary Morgenthau at his press conference:

"We are studying taxes continuously. We have a large staff at work. I am very glad that the President made that statement. Speaking only for myself the thing that bothers me is that business men I see have what I would call a 'what's the use' attitude about going ahead. I feel that that attitude is holding back normal business, that it is preventing business men from expanding their businesses and taking normal business risks. I sincerely hope that Congress will take a careful look at the tax law and see whether there are any deterrents that are holding back business and holding back business men from making future commitments. Business men ought to feel that the administration wants them to go ahead and take risks and that the administration wants them to make money. Tax legislation should be of a nature that is not a deterrent to business men. We want them to make profits. After all the President's message and his recent statement speak for themselves. I am merely saying how I feel personally. Of course we must have additional revenue, but in my opinion the way to make it is for business men to make more money."

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Asked whether he had any definite ideas for changes in the tax laws, the Secretary said he didn't want to be more explicit at this time. He added, "If Congress decides it will take a look we shall be glad to put our studies at their disposal. I hope they will."

February 24 - Secretary Hopkins before The Economic Club of Des Moines, Iowa:

"While I feel that there should be no general rise in Federal taxes this year, I believe any federal taxes which tend to freeze the necessary flow of capital should be amended. If necessary, such taxes can be replaced by increasing other taxes which do not have the same deterring effect."

February 27 - Secretary Morgenthau at his press conference:

Q. Mr. Secretary, did you see the statement made by Representative Doughton inviting the Treasury to cooperate with them?

A. Eh-huh.

Q. Have you prepared to go up?

A. Yes.

Q. Are you ready to go up?

A. If they ask us to go up tomorrow I don't think the people in the Treasury will be ready, but if they give us a reasonable notice we will be ready.

Q. Do you think you will be asked to go up before the March 15 income tax date?

A. I have seen both Mr. Doughton and Mr. Harrison and the understanding among ourselves is we won't do anything until after the 15th of March.

Q. When did you see them?

A. Weren't you watching the hats?

Q. Not this week.

A. I saw one Friday and the other Saturday.

Q. Doughton, Friday?

A. Harrison, Friday, Doughton, Saturday.

Q. Why did you agree not to do anything until after the 15th of March?

A. We like to see how much the returns are going to be - get an idea.

Q. Have any estimate as yet?

A. Well, they may have but it hasn't come to me.

Q. But after the 15th it's pretty safe to assume that you are going to go ahead and start reexamining the entire --.

A. Well, as you may know, I made a statement that I hoped Congress would do this and we are ready to cooperate. Now the next move is up to Congress.

Q. Have they invited you up?

A. Well, I mean, our discussions have been very friendly and there has been a complete meeting of minds as to procedure. We couldn't go into details because we weren't ready.

Q. Mr. Secretary, could you say again, for the record, and for business, or give a statement of reassurance; ironically they seem to be, well,

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as believing as they want to be about this appeasement to business. So I wonder if you would say anything more like you said last week.

A. No, I've got nothing to add. I said it for news reels for next Thursday.

Q. Under Secretary Hanes has been quoted as saying that he favors a tax program or bill drawn up for at least five years to remove any uncertainties about the future. What is your attitude?

A. Well, all I can say is that Mr. Hanes and I are working in the closest of harmony, and I am sure we will underwrite each other's individual statements and joint statements.

March 4 - Secretary Morgenthau in letters to Chairmen Harrison and Doughton:

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

March 6 - The President at his press conference:

The President was asked whether he favored changes in the undistributed profits and capital gains taxes. He said that before answering that he would have to find out how much money they brought in.

March 6 - Secretary Hopkins at his press conference:

Hopkins said that he and Under Secretary Hanes of the Treasury were in agreement on what ought to be done on tax revision.

March 9 - Secretary Morgenthau before entering a White House conference on taxes: (AP)

The Secretary indicated to newspapermen that progress was being made in conversations of Treasury officials with President Roosevelt on tax revision, aimed at increasing business confidence.

March 14 - President Roosevelt at his press conference:

President Roosevelt today said that total corporation income tax yield should be kept at its present level regardless of any changes that might be made in the various forms of taxes on corporations.

He said that Senator Harrison and Representative Cooper would call at the White House tomorrow to discuss the tax situation and that he would have for the Senate Finance Committee Chairman a report with tax figures Harrison had suggested, but that he did not know what discussions might result from the figures.

Asked about statements by Senate Leader Barkley and Speaker Bankhead that they expected no general tax revision at the current session of Congress, the President said, "I don't think 'I've taken that up at all."

The President said he thought recent discussions of possible tax changes had overlooked the sentiment in favor of retaining the present volume of

corporation taxes. "Nobody in the majority party," he said, "wants the total reduced. The question is how to distribute the burden through the various forms of taxes." He pointed out that one of the first statements made by Chairman Harrison this year on the tax problem was to the effect that the total amount from corporations as a whole should not be reduced.

Asked specifically about Speaker Bankhead's assertion that consolidation of all the taxes on corporations might be injurious to small businessmen, the President said he would illustrate: If you repeal three or four taxes which today yield 15 per cent of the corporate tax revenue, you must add 15 per cent to the remaining 85 per cent to make up the whole. "If you don't increase the burden on the little corporation," he explained, "you have to add it on the big one. If you make it pro rata instead of graduated, you automatically make the burden greater on the little fellow."

Asked directly if he favored consolidation of the taxes on corporations, he said the subject was still in the "study stage."

In response to a question as to whether he would recommend tax legislation at this session, the President said he had in his budget message recommended continuation of all expiring taxes. "Have you changed your mind on the undistributed profits tax?" he was asked. "No," the President replied, "that would be a readjustment within the corporate structure and that is still in the study stage."

Asked if there were any doubt that the so-called nuisance taxes would be extended, the President said, "I hope not. We've got to have the revenue."

As to revenue for parity price payments, the President pointed out that Congress already had promised that legislation would be provided at this session to pick up in taxes whatever is expended for parity expenditures.

March 17 - President Roosevelt at his press conference:

The President said "we" are still working on the problem. So far the discussion has been confined to the corporation tax schedules. Senator Harrison asked for some information. The President has shown it to him but has not actually sent it up to him in written form. This information was prepared by the Treasury Department. It is predicated on Harrison's statement that the total corporation tax yield should not be decreased. Senator Harrison, the President said, made that very clear. There are many ways in which it could be done. What the Treasury has done is not being submitted in the form of a recommendation either of any particular method or of policy. It is simply a statement of what would happen in certain contingencies. "So far" the President said, "we have got only to the point of answering requests for factual information." There will probably be some information available within the next four or five days, but the President didn't think anything would be done until about two weeks after March 15.

March 21 - President Roosevelt at his press conference:

President Roosevelt said today that curtailment of Government spending would be "well worth considering" if there were some guarantee that it would

automatically improve business conditions. He doubted that such a program would meet popular approval if it were tried and the results sought were not obtained.

He had been asked to give his opinion of a proposed long-range program of tax revision in which total revenues would decline for two or three years and then purportedly would increase to compensate for the earlier loss through accelerated business activity. "I'd suggest you read my last annual message to the Congress," the President told his questioner. "In that I pointed out that we are faced with a dilemma when we consider expenditures. We either have to continue our present program or, if we wish to cut down expenditures materially, the cuts must come from certain obvious items that can be readily reduced, such as relief, public works, slum clearance and old-age assistance. That would all be predicated on the guess of many well-meaning people that thereby business would automatically take up the entire slack, plus the large number of other people who are out of work but are not in any way being helped by the Government. If there were some guarantee that this result would follow, it would be well worth considering, but I doubt that it would meet with popular approval if it were tried and the result not obtained." The President then volunteered that if the correspondents wanted to quote that statement, he would have Kannee copy it off and have it mimeographed. "It was purely extemporaneous, in answer to the question," he explained, "but I think I said a mouthful." Asked if his own appraisal of the statement could be quoted, too, the President said it could.

The President said he was sending this afternoon to Senator Harrison the tax figures he had asked for. He added that he thought Harrison and Jere Cooper would be back next week for further discussions on taxes. Clarence Lins asked if the decline of 30% in March collections would halt the discussions of possible revisions and the President pointed out that the collections were substantially above estimates. Felix Cottgn wanted to know why and the President said he didn't yet know. Asked later in the conference if there would be any change in policy with collections running ahead of estimates, the President said, "No, it will simply reduce the deficit."

To a question as to whether anyone had yet shown how corporation taxes could be revised without cutting the total dollar volume of revenue, the President repeated previous press conference statements that one suggestion was to eliminate two or three of the types of taxes on corporations and increase the straight percentage levy. If we increase this tax on the small corporations, he said, we will have protests from 153,000 of the 200,000 corporations which earn more than \$10,000 a year. And if we favor them, he pointed out, we must put the whole burden of additional revenue, on account of repeal of some of the minor types, on the big corporations, principally those earning more than \$1,000,000 a year. "And, they are the ones that are making the present requests for revisions," the President said with a smile. "I doubt if that would be extremely popular with the advocates."

The President said he wanted to repeat that Senator Harrison had agreed with him that the corporations should still pay the same total in taxes to the Government and added that the papers of the United States had not printed that fact. Many of the boys, however, chirped up with the information that they had used such information and the President amended to say, "Well, it hasn't been emphasized, then."

Pete Brandt brought up the undistributed profits tax and the President explained why it had been originally enacted. Pete asked if the objectives had now been reached and the President was willing to let it go. "I don't think the provisions that prevented tax avoidance should be eliminated from the tax laws of the United States," the President answered, "any more than we should again allow the incorporation of yachts."

Felix Cottén asked if the President favored a new corporation tax law at this session of Congress and the President said, "I'm not favoring anything. It's all still in the study stage."

March 23 - Secretary Morgenthau at his Press Conference:

Q. Well, Senator Harrison, last night, following the President's press conference the night before, detailed incident after incident and represented the Hill as accepting the idea of the Treasury to take the business deterrents out of the tax bill -- out of the tax legislation.

A. All I can say is this; as between Senator Harrison, Congressman Doughton or Congressman Cooper and the Treasury, we stand just where we stood when we exchanged letters and the Treasury is ready and anxious to have an opportunity to lay our tax studies before the proper committees. The Conferences which Mr. Hanes and I attended at the White House with Senator Harrison and Congressman Cooper, I felt were constructive and that we made progress.

April 10 - Secretary Morgenthau at his press conference:

Q. Are you still working, Mr. Secretary, on a proposal to consolidate all corporate taxes?

A. That's wonderful. Gentlemen, to make it easy for me and you, I don't think anybody will be making a statement, on or off the record, in the Treasury as to what I will say when I receive my invitation from the Hill, and I think you gentlemen will have to wait until I make my appearance on the Hill just as you did in the case of Social Security.

April 18 - President Roosevelt at his press conference:

The President was asked whether he was to have any more conferences on taxes with Senator Harrison and Representative Doughton. He replied that no date had been set, but he imagined that he would talk to them next week.

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April 24 - Secretary Morgenthau at his press conference:

The Secretary said he would give careful study to the suggestions for tax modifications in the Brookings Institution report. Pressed to say whether any Treasury program would deal primarily with small or large business, the Secretary said his questioners would have to wait until he goes up to the Hill to testify.

May 2 - President Roosevelt at his press conference: (en route to Washington from Hyde Park).

The President indicated that the administration would remain officially neutral on proposals of congressional and Treasury spokesmen for limitation of levies called "business deterrents".

May 4 - Secretary Morgenthau at his press conference:

The Secretary repeated that he will be ready to testify when the Ways and Means Committee is ready.

May 8 - Secretary Morgenthau at his press conference:

The Secretary said that the proposed farm bill would complicate the tax situation.

May 9 - President Roosevelt at his press conference:

Told that Secretary Morgenthau was "greatly disturbed" by the Senate's action in voting farm parity payments beyond budget recommendations, President Roosevelt today said, "So am I." Asked to comment further, the President said that Congress knows his position well. In the first place, he said, the bill hasn't gone through yet and therefore we don't want to talk about it too much; in the second place, he added, "all I need to do is to reiterate that 225 millions in revenue was promised last year after parity payments were voted and that amount has not been delivered." Asked who made the promise, the President said, "The leaders. It was in a joint resolution."

Asked if additional farm expenditures would not be a factor in consideration of any general tax revision program, the President answered, "Of course it would." Asked if he would veto the agricultural appropriation, the President said, "We are talking principles now. We are not talking about what I might do."

Then he was asked how the money for the parity payments might be raised. The President said, "I've told you what the situation is. I didn't get the 225 millions. Now they've made the situation worse. Go and ask them."

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May 11 - Secretary Morgenthau at his press conference:

The Secretary ridiculed reports that he had been forbidden to present a tax revision program to Congress. He gave out copies of the letter he had received early in March from Chairman Harrison and Doughton.

May 12 - President Roosevelt at his press conference:

President Roosevelt today said that the Treasury is going to present to Congress various methods of recasting the corporate tax structure to eliminate so-called deterrent taxes and replacing them with other forms of revenue from business organizations. He said the most commonly accepted substitute appeared to be increases in the straight percentage tax.

Asked whether he favored any revision of the corporation income tax this session, the President said there has been a lot of loose talk about deterrent taxes. He asked whether his questioner smoked cigarettes and, answered in the affirmative, said taxes on cigarettes might be considered a deterrent. "Every tax is a deterrent," he declared. "If the farmer pays less taxes on his farm, he will have more money with which to buy a dress for his wife."

The President complained that much of the tax discussion in the newspapers had revolved around half of a sentence in which he had talked about tax revisions and had omitted the balance in which he pointed to the need for replacements.

"If we repeal certain parts of the present corporation taxes," he said, "everyone on the Hill is agreed--I'm agreed--that we've got to make up the revenue in corporation taxes as a whole. That raises the question whether some people are not deliberately omitting that part of the sentence with the hope that some taxes will be repealed and no substitutes provided to replace them."

The President said he would "just as soon" have the undistributed profits tax repealed, provided other means could be found to prevent what he called "legal tax evasion."

Many of those who are advocating repeal of so-called deterrents want repeal of certain restrictions in the tax laws, he said. A simple example, the President explained, is "this question of eliminating entirely the undistributed profits tax." He said there had been a very definite reason behind that tax, that it was to prevent the use of closely-held corporations owned by comparatively rich men to accumulate income instead of paying taxes on it annually. The President took a crack at publishers by saying, "If they leave their wealth in the paper--I mean in the corporation--until they die, the Government will get some inheritance tax but not near what would

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be due it from taxes on upper bracket income." If there is no undistributed profits tax, he said, there ought to be some other way to prevent this form of legal tax evasion.

The President said that the so-called deterrent taxes provided 25 to 30 percent of the total corporation tax yield. For the sake of argument, he said, suppose we repeal them and try to make up that 250 millions of dollars of revenue.

"If we adopt the theory of adding that amount to the percentage tax on a straight rate basis," he said, "there will be a most awful squawk--there'll be a revolution--by the small corporations."

The President said that of 200,000 corporations, 160,000 were making less than \$10,000 a year. As a matter of practical politics, he asked, "do you think Congress is going to put an increase on them?" He asked if the correspondents thought Congress would dare to put a very large increase on the medium-sized corporations that had from \$10,000 to \$50,000 income. And then he asked what the net result would be. Answering his own question, he said the result would be that the 250 millions would have to come out of the pockets of the small number of very large corporations and from these, too, he said, there would be an awful squawk. All this, he said, must be considered by the committees and by the Congress.

The possible methods of making changes, the President said, will simply be placed before the committees, not necessarily as recommendations. That means, he explained, that the Treasury will have to say, "If you go ahead, gentlemen, and repeal some of the corporation taxes, you will have to add taxes on all of the small corporations or on all of the big ones."

Asked earlier about his meeting with Chairman Doughton and Representative Cooper, the President said it was primarily explorative, that the Congressmen planned to talk over the situation in their committee and with the Senate. He said he did not know what will happen.

May 16 - President Roosevelt at his press conference:

The President said that he expected the conferences with the representatives of the Committees to continue. The date of the next conference is uncertain but will probably be held as soon as the two gentlemen from the House have talked it over with members of the Committee on Ways and Means, where all tax legislation must originate. The conferences are making progress he said. Asked whether the next conference would be limited to the Ways and Means representatives he said he supposed Pat Harrison would come. He was asked about the situation of the undistributed profits tax. He said the situation was still about the same. Any substitute would have to have safeguards against ~~the~~ tax avoidance and provision for making up lost revenue. Asked if Section 102 wasn't a sufficient safeguard, he said we didn't know yet

because it had only been in effect for one year. There were two opinions about it, one was that it was working all right and the other was that it wouldn't work at all. He added "We are talking it over in a perfectly friendly way. If we can find some safeguard, that will be perfectly fine." Asked if he thought the next tax conference would produce anything concrete, he said: "We have been talking over fifteen or twenty different things and I suppose we will continue to discuss them." He added that the three men from the Hill who were present yesterday were going to talk things over and let him know the result. Asked by Pete Brandt "Is this a filibuster?" the President replied: "No, not a bit."

Prepared by
Lawrence H. Seltzer
and
Sidney Tickton

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE May 17, 1939

TO Secretary Morgenthau
FROM Mr. Haag *BA*
Subject: Recent Decline in British Bond Market

The attached table (taken from the London Economist of April 22, 1939, except that the last column has been added in this Division) is interesting in two respects:

(1) It indicates that the rise in interest rates in Great Britain has transformed the ascending curve of rates as maturity lengthens, which characterizes high-grade interest rates in the United States at this time and which did so in Great Britain until recently, into virtually a straight horizontal line. Thus, for example, the 4 $\frac{1}{2}$'s of 1940-44 and the 3's of 1959-69 were selling on April 19 on an identical yield basis -- 3.61 percent. Less than six weeks earlier, however, the former were selling to yield 1.94 percent, and the latter 3.30 percent, a yield differential in favor of the shorter maturity of 1.36 percent.

(2) In the sharp fall in the British bond market between March 10 and April 19, 1939, the shorter maturities fell farther than did the longer maturities, thereby duplicating the experience in our own Government market during the important declines of the last three years (as reported in our memorandum of November 26, 1938).

Attachment

Yields of British Government Securities
March 10 - April 19, 1939

Issue	Yield : March 10, : 1939	Yield : April 19, : 1939	Rise in : yield	Number of : months : yield lost
	(Percent)			:
"Shorts"				
4-1/2's of 1940-44	1.94	3.61	1.67	11
5's of 1944-64	2.65	3.73	1.08	28
2-1/2's of 1944-48	2.69	3.76	1.07	29
2-1/2's of 1944-49	2.95	3.69	.74	24
"Medium"				
3's of 1948-53	3.09	3.68	.59	23
2-3/4's of 1952-57	3.25	3.68	.43	20
3's of 1954-58	3.25	3.63	.38	18
4's from 1957	3.54	3.89	.35	15
"Longs"				
4's of 1960-90	3.43	3.79	.36	22
3-1/2's from 1961	3.59	3.80	.21	18
2-1/2's of 1956-61	3.40	3.76	.36	18
3's of 1959-69	3.30	3.61	.31	19
2-1/2's Consols	3.53	3.84	.31	19
3-1/2's from 1952	3.57	3.75	.18	18

Source: Data on market yields from London Economist,
April 22, 1939.

TO:

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Miss Chauncey

Mr. Foley carried this to the
Secretary's house on May 17, 1939

s

MR. FOLEY

May 17, 1939

Secretary Morgenthau

E. H. Foley, Jr.

For your information

At your request, I looked into the Dano incident.

It seems that Tyler and Green took Dano to Hains Point in the Pontiac this afternoon for a run. The two men were driving along the speedway and Dano was running loose on the Washington channel side of Hains Point about opposite the War College when he spied a small fox terrier owned by Mr. and Mrs. Virgil V. Hutchinson of 1220 - 5th Street, N. E. Mr. Hutchinson works in the Government Printing Office. He and Mrs. Hutchinson, who hasn't been feeling well lately, had taken their small fox terrier to the park for an airing. The dog was on a leash and Mrs. Hutchinson was sitting on one of the park benches. Dano ran up to the dog and grabbed it by the back of the neck and started to shake it. Mrs. Hutchinson became hysterical. Her husband, becoming excited, attempted to separate Dano and the Hutchinson dog. Dano bit him on the index finger of his right hand. The flesh on the back of the fox terrier's neck was torn slightly. Mr. Hutchinson asked Tyler and Green to wait while he summoned a motorcycle park policeman who was on duty in the vicinity. According to Mr. Hutchinson, Tyler said that it was impossible for him to wait and returned to the Treasury with Dano. Mr. Hutchinson summoned motorcycle park policeman Raspberry, shield number 408, who confirmed the above facts. I have not had an opportunity to talk to Tyler or Green.

I telephoned Mr. Hutchinson and told him how sorry you were about the matter. I suggested that he have the abrasion on his hand dressed by a doctor and the fox terrier treated by a veterinary and the bills sent to me. This seemed to satisfy him. Apparently he was disturbed mainly by his wife's hysteria and the fact that Tyler refused to wait when he went for the officer.

I have talked with the officer and he has promised to telephone me tomorrow if Mr. Hutchinson is not entirely satisfied. His suggestion is that the chauffeurs be cautioned, when they take Dano to the park for a run, to stop the car and get out so that they will have more control over Dano. Officer Raspberry said that the chauffeurs make it a practice to remain in the car and follow Dano around the speedway. This they consider to be dangerous because of the number of people and the presence of other dogs in that neighborhood.

I think there is nothing to worry about. I will follow the matter up and if there are any developments will advise you.

(Initialed) E. H. Foley, Jr.

EHF:s Typed 5/17/39

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

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Fin

DATE May 17, 1939.

TO Mr. Hanes

FROM Mr. Blough *RB*

Subject: Accuracy of estimates prepared by Mr. Stam in a memorandum for Senator Harrison.

The program on which Mr. Stam prepared his estimates included the following four items:

No. 1. Substitute for the corporation income tax applicable to corporations with net incomes of over \$25,000, a flat rate of 18%.

Leave corporations with net incomes of under \$25,000 subject to the rates provided for in existing law.

No. 2. Allow corporations a three year carry-over of net losses, excluding capital losses.

No. 3. Repeal the \$2,000 limitation on the deduction by corporations of capital net losses from other income, insofar as such losses result from assets held over 18 months.

No. 4. Allow a corporation to increase its declared value for capital stock ^{purposes} for the fiscal years ending June 30, 1939, and June 30, 1940, but do not permit them to decrease such value for such years.

The estimates of revenue prepared by Mr. Stam "for the calendar year 1939 under such a plan" were as follows:

Gains from (1)	\$59,000,000.
Losses from (2) and (3)	53,000,000.
Losses from (4)	<u>3,500,000.</u>
Net gain	2,500,000.

In accordance with your request, preliminary and tentative estimates have been furnished by the Division of Research and Statistics. Time has not been sufficient to make estimates of a final or official character. Furthermore, reliable estimates of the revenue effects of proposals (2) and (3) are difficult due to lack of adequate basic data.

Subject to these qualifications, the estimates which reflect the full effect of all proposals at calendar year 1939 levels of business as compared with the liabilities under the present law are as follows:

Gains from proposal (1).....	+ \$ 65,000,000	
Losses from proposals (2)		
and (3).....	- 85,000,000	
Gains from proposal 4.....	+ 6,000,000	(2)
	<hr/>	
Net loss..	- 14,000,000	

May 17, 1939.

Mr. Hanes

Mr. Blough

Subject: Accuracy of estimates prepared by Mr. Stam in a memorandum for Senator Harrison.

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- 2 -

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Subject to these qualifications, the estimates which reflect the full effect of all proposals at calendar year 1939 levels of business as compared with the liabilities under the present law are as follows:

Gains from proposal (1).....	+	\$ 65,000,000
Losses from proposals (2)		
and (3).....	-	85,000,000
Gains from proposal 4.....	+	<u>6,000,000</u>
Net loss..	-	14,000,000

RB:fmb
5/17/39

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MEMORANDUM PREPARED BY MR. STAM OF JOINT COMMITTEE FOR SENATOR
HARRISON

No. 1. Substitute for the corporation income tax applicable to corporations with net incomes of over \$25,000. a flat rate of 18%.

Leave corporations with net incomes of under \$25,000. subject to the rates provided for in existing law.

No. 2. Allow corporations a three year carry-over of net losses, excluding capital losses.

No. 3. Repeal the \$2,000. limitation on the deduction by corporations of capital net losses from other income, insofar as such losses result from assets held over 18 months.

No. 4. Allow a corporation to increase its declared value for capital stock tax purposes for the fiscal years ending June 30, 1939, and June 30, 1940, but do not permit them to decrease such value for such years.

Estimates of revenue for the calendar year 1939 under such a plan.

Gains from (1)	\$59,000,000.
Losses from (2) and (3)	53,000,000.
Losses from (4)	<u>3,500,000.</u>
Net gain	2,500,000.

1. Under the first suggestion the little corporations will be left alone and the larger corporations will be subject to the flat rate of 18%. This will result in a slight increase for banks and insurance companies which now pay a flat rate of 16%.

2. The second suggestion will allow corporations to carry over operating net losses to be applied against their net income for the succeeding year. And if in excess of the net income of the succeeding year to be applied against the net income for the second year. And if in excess of the net income for the second year to be applied against the net income for the third year.

3. This suggestion permits corporations which have capital net losses from assets held over 18 months to apply such losses against their other income for the same year. In this respect these corporations will be treated like individuals who are permitted to offset their capital net losses to a certain extent against their other income.

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The \$2,000. limitation will still apply as to capital net losses from the sale or exchange of capital assets held 18 months or less. This will prevent corporations from using these speculative losses to reduce their ordinary income. Unless this safeguard should be put in, the limitation on short-term capital losses applied to individuals might be evaded by the formation of personal holding companies and the elimination of investment income by speculative losses.

4. If we allowed a corporation to declare a value for capital stock tax purposes each year, it might be that loss in revenue would result, especially with those corporations having fiscal years ending shortly after the close of the capital stock tax year, which ends June 30 of each year. Therefore, to avoid any loss of revenue from this source, it is suggested that for the fiscal years ending June 30, 1939, and June 30, 1940, the corporations be permitted to increase their capital stock value but not to decrease such value. This will only result in a slight loss of revenue from the excess profits tax, and because of the additional capital stock tax to be paid, it is not believed that it will exceed two and a half million dollars.



OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

TREASURY DEPARTMENT

WASHINGTON

183

MAY 17 1939

Memorandum for
Mr. Hanes:

In response to your request for the names of corporations from whom additional taxes were collected in consequence of the application of Section 102 (Surtax on Corporations Improperly Accumulating Surplus), I list below six cases in which substantial amounts were recovered for the Government:

Fisher & Company, Detroit, Michigan.	\$ 2,060,739.29
Almours Securities, Inc., Jacksonville, Florida.	2,736,682.06
Ball Brothers Company, Muncie, Indiana.	1,896,200.66
Leonard Finance Corporation, Chicago, Illinois.	730,000.00
National Grocery Company, Jersey City, New Jersey.	658,705.48
Lord & Thomas, Inc., Chicago, Illinois.	493,249.56

It is, of course, true that these recoveries were made under the provisions of Revenue Acts prior to the 1938 Revenue Act, when the legislation was less favorable to the Government's opportunity to recover, inasmuch as the burden of proof under the prior Acts was upon the Government. There should be even more satisfactory results in consequence of the provisions of the 1938 Act which shifts the burden to the taxpayer.

Wm. J. Harrison

Commissioner.

May 17, 1939

To: The Secretary

From: Mr. Hanes

As I reported to you yesterday, Congressman Doughton asked me to be at his office at 9:00 this morning. When I got there I found that he wanted to discuss with me the proposals of Pat Harrison for changes in the corporate taxes, copy of which I gave to you yesterday.

I told Mr. Doughton that I could not vouch for the figures contained in the proposals because they had been prepared by the staff of the Joint Committee, headed by Mr. Stam, and I did not know the source of the figures. However, in principle, while we have not had the opportunity to study them carefully, the proposals would seem to me to have merit, and might possibly be a basis for a compromise agreement between all concerned. I told Mr. Doughton that the proposals did not go as far as we would like because they did not take up the very important question of dealing with the higher surtax rates, nor with any other provisions concerning the individual tax situation.

Mr. Doughton seemed very much worried over the fact that Jere Cooper had remained behind after the meeting at the White House and had a discussion with the President, the details of which Jere did not tell. However, Jere did tell Mr. Doughton that he was strongly in favor of passing a resolution renewing the excise taxes immediately and sending that on to the Senate Finance Committee, to be followed by a tax bill containing all the other component parts. Mr. Doughton seemed to be fearful that this would involve some delay. He was quite concerned over the attitude of the other members of his committee, and had suggested to Jere that he call a meeting of the Democratic members of the sub-committee immediately in order that the whole proposition might be laid before them and a decision reached as to procedure.

Mr. Doughton asked me for my opinion and I told him very frankly that I was in favor of incorporating the excise taxes, and the corporate and individual tax changes in one bill which we could agree upon in advance, hold hearings of very short duration, and send to the Senate Finance Committee a tax bill which had originated in its proper place, the Ways and Means Committee of the House. He said that he was going to insist on Jere Cooper calling a meeting of the sub-committee immediately and in the event of his failure to do so he would call together the full Ways and Means Committee for a discussion of this problem.

J. W. H.

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(Continued) J.W.H.

Sent to Secretary by special
messenger - 5-17-39 - 1:00 P.M.

JWH:jf

May 17, 1939

To: Mr. Hanes

From: Mr. Blough RB

Subject: Penalty taxes on corporations accumulating surpluses in excess of the reasonable needs of the business (Section 102 and former Sections 104 and 220).

I.

The imposition of penalties on corporations accumulating surpluses in excess of actual business needs was introduced in the Revenue Act of 1921. Prior to that Act the law provided that when surpluses were thus accumulated, the distributive share was to be added to and taxed as part of the stockholder's personal income. The change in the method in 1921 was presumably due to Supreme Court decisions.

Certain revisions have been made in the section since 1921, the most important of which was the provision in the Revenue Act of 1938 placing on the taxpayer the burden of proving that an accumulation of surplus was not excessive.

II.

Past experience in enforcing the penalty tax on corporations has not been encouraging. It has been found difficult to prove the motive of accumulation for the purpose of avoiding the personal surtax. The Board of Tax Appeals and the courts have in general insisted on a strong preponderance of evidence to prove such a motive. Relatively few cases have been raised in the Bureau of Internal Revenue and very few have been finally adjudicated.

The Bureau of Internal Revenue has furnished information to this office with respect to cases closed and cases pending, and tax deficiencies asserted and agreed to under the provisions of Section 102 and similar provisions in prior revenue acts. This information shows that no cases involving Section 102 of the Revenue Act of 1938 have been considered to date. There exists, therefore, no administrative experience covering the new provision which shifts to the taxpayer corporation the burden of proving that an unreasonable accumulation of surplus was not effected with the purpose of avoidance of the imposition of the surtax upon its shareholders.

The available data are summarized in the following table. They cover the assertion of deficiencies in cases involving alleged improper accumulation of surplus under the 1921 Act through the 1937 Act.

Summary of cases in which Section 102 and similar provisions in prior revenue acts were asserted to May 1, 1939

	: Number : : of cases:	Tax proposed	: Tax : collected
Settled in Income Tax Unit	483	\$ 66,795,655.00	\$ 13,275,091.00
Settled after petition to B.T.A. or courts	311	104,519,928.00	27,184,657.00
Total cases settled	794	171,315,583.00	40,459,748.00
Pending in Income Tax Unit	84	20,001,678.00	-
Pending before B.T.A. and courts	168	57,489,243.00	-
Total cases pending	252	77,490,921.00	-

Source: Internal Revenue Bureau data, supplied May 16, 1939.

As of May 1, 1939, as shown in table on page 2, 794 cases have been closed. The tax proposed in these cases was approximately \$171.3 million, of which \$40.4 million, or 23.6 percent, was agreed to. These 794 closed cases are made up of 483 settled in the Income Tax Unit and 311 settled after petition to the Board of Tax Appeals or the courts.

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It is significant to note that of the 483 cases handled by the Income Tax Unit, 307 were closed with no tax liability. This may indicate an initial unwarranted assertion of tax liability on the part of the audit divisions, or, more likely, an inability to sustain the asserted deficiencies after conference with the taxpayer corporations. Of the \$66.8 million of additional tax proposed in the 483 cases handled by the Income Tax Unit, \$13.3 million, or 19.9 percent, was agreed to.

With respect to the 311 cases which reached the Board of Tax Appeals, or the courts, tax liabilities of \$27.2 million were agreed to out of a total asserted of \$104.5 million. This amounts to approximately 26 percent settlement of deficiencies.

The bulk of the docketed cases were disposed of by stipulation before the Board or the courts. Only 32 cases have been tried and decided. For these cases the record shows that 13 were decided favorably to the Government, 7 adversely to the Government, and 12 partly in favor of the Government. The tried cases yielded additional tax of \$3.5 million, out of a total proposed deficiency of \$6.3 million. This indicates a percentage of 55.6 of the asserted deficiencies.

The Bureau analysis of Section 102 cases shows further that as of May 1, 1939, there were 252 cases pending, 84 of which are in the Income Tax Unit and 168 are with the Board of Tax Appeals and the courts. The 84 cases involve deficiencies of \$20,001,678, while the 168 cases involve deficiencies of \$57,557,843, or a total of \$77,559,521 for the 252 cases.

Assistant Deputy Commissioner Sherwood in his memorandum of May 16 indicates that considerable reservation must be made with respect to figures given because "under the present plan of decentralization, the returns are not forwarded to Washington until after closing action; therefore, the information as to the current action with respect to the application of Section 102 cannot be furnished." The probability is that Section 102 action may have been initiated and is today pending on considerably more cases than the figures indicate. Other questions and reservations have arisen with regard to the figures submitted by the Bureau; these will be investigated and any changes found to be necessary will be submitted in a supplementary report.

III.

The prospects of applying Section 102 successfully have improved recently. On May 16, 1938, the United States Supreme Court reversed the Circuit Court of Appeals, Third Circuit, in the case of Helvering v. The National Grocery Co. (58 S.Ct. 932), and sustained the Board of Tax Appeals decision holding the taxpayer liable under Section 104 (the earlier number of what is now Section 102). This decision will

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strengthen the hands of the administrators in prosecuting future cases.

Furthermore, the Revenue Act of 1938 has, as previously mentioned, shifted the burden of proof from the Bureau of Internal Revenue to the taxpayer. While, as previously mentioned, there is as yet no administrative experience under the revised section, the settlement and prosecution by the Bureau will in all probability be substantially assisted.

IV.

The best that can be hoped from a penalty tax such as that imposed by Section 102 is to reach deliberate tax avoidance where no business purpose is served by the accumulation of surplus. Cases where motives for accumulating surplus are mixed will be very difficult to reach under the section and cases where tax avoidance is an incidental result of the accumulation of surplus for business needs will not be reached at all.

Whether a penalty tax of this kind can be considered a substitute for the undistributed profits tax will depend on what is considered the legitimate purpose of an undistributed profits tax. If the purpose is merely to reach cases where accumulated surpluses are not used legitimately in business, Section 102 in its present form or in a revised form can probably be looked on as a solution. If, however, it is desired to prevent the avoidance of personal surtax which results when corporations retain earnings and accumulated surplus for business needs, some method other than Section 102 in its present form or any revised form following the general lines of the present law will be required.

tt to this
should be
Mr Blough's
analysis
of Stam's
estimate

To: Miss Chauncey

From: CE

Mr. Hanes had a conference with the Secretary at 4:45 P. M. on May 17, 1939, and I presume they discussed the following memos:

"Accuracy of estimates prepared by Mr. Stam in a memorandum for Senator Harrison."

"Penalty taxes on corporations accumulating surpluses in excess of the reasonable needs of the business (Section 102 and former Sections 104 and 220)."

Copies of these memoranda will be sent to you today, along with a copy of the "Harrison Proposal," which was discussed at the White House conference on May 16, 1939.

May 17, 1939

To: Mr. Hanes

From: Mr. Blough

Subject: Penalty taxes on corporations accumulating surpluses in excess of the reasonable needs of the business (Section 102 and former Sections 104 and 220).

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Certain revisions have been made in the section since 1921, the most important of which was the provision in the Revenue Act of 1938 placing on the taxpayer the burden of proving that an accumulation of surplus was not excessive.

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Total cases pending	252	77,490,921.00	-

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- 2a -

As of May 1, 1939, as shown in table on page 2, 794 cases have been closed. The tax proposed in these cases was approximately \$171.3 million, of which \$40.4 million, or 23.6 percent, was agreed to. These 794 closed cases are made up of 463 settled in the Income Tax Unit and 331 settled after petition to the Board of Tax Appeals or the courts.

It is significant to note that of the 463 cases handled by the Income Tax Unit, 307 were closed with no tax liability. This may indicate an initial unwarranted assertion of tax liability on the part of the audit division, or, more likely, an liability to such a part of the delinquent after conference with the taxpayer corporations. The asserted delinquency after conference with the taxpayer corporations of the \$66.8 million of additional tax proposed in the 463 cases handled by the Income Tax Unit, \$13.3 million, or 19.9 percent, was agreed to.

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The Bureau analysis of Section 102 cases shows further that as of May 1, 1939, there were 252 cases pending, 64 of which are in the Income Tax Unit and 168 are with the Board of Tax Appeals and the courts. The 64 cases involve delinquencies of \$20,001,676, while the 168 cases involve delinquencies of \$57,557,843, or a total of \$77,559,521 for the 252 cases.

Assistant Deputy Commissioner Maxwell in his memorandum of May 15 indicates that considerable reservation must be made with respect to figures given because "under the present plan of decontrolization, the returns are not forwarded to Washington until after closing action; therefore, the information as to the current action with respect to the application of Section 102 cannot be furnished." The probability is that Section 102 action may have been indicated and is today pending on considerably more cases than the figures indicate. Other questions and reservations have arisen with regard to the figures submitted by the Bureau; these will be investigated and any changes found to be necessary will be submitted in a supplementary report.

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(Harrison proposal
discussed at W.H. 5/16/39) #1

198

MEMORANDUM PREPARED BY MR. STAM OF JOINT COMMITTEE FOR SENATOR HARRISON

No. 1. Substitute for the corporation income tax applicable to corporations with net incomes of over \$25,000. a flat rate of 15%.

Leave corporations with net incomes of under \$25,000. subject to the rates provided for in existing law.

No. 2. Allow corporations a three year carry-over of net losses, excluding capital losses.

No. 3. Repeal the \$2,000. limitation on the deduction by corporations of capital net losses from other income, insofar as such losses result from assets held over 18 months.

No. 4. Allow a corporation to increase its declared value for capital stock tax purposes for the fiscal years ending June 30, 1939, and June 30, 1940, but do not permit them to decrease such value for such years.

Estimates of revenue for the calendar year 1939 under such a plan.

Gains from (1)	\$59,000,000.
Losses from (2) and (3)	53,000,000.
Losses from (4)	<u>3,500,000.</u>
Net gain	2,500,000.

1. Under the first suggestion the little corporations will be left alone and the larger corporations will be subject to the flat rate of 15%. This will result in a slight increase for banks and insurance companies which now pay a flat rate of 16%.

2. The second suggestion will allow corporations to carry over operating net losses to be applied against their net income for the succeeding year. And if in excess of the net income of the succeeding year to be applied against the net income for the second year. And if in excess of the net income for the second year to be applied against the net income for the third year.

3. This suggestion permits corporations which have capital net losses from assets held over 18 months to apply such losses against their other income for the same year. In this respect these corporations will be treated like individuals who are permitted to offset their capital net losses to a certain extent against their other income.

orig. J. M. H. 5/16/39

- 2 -

The \$2,000. limitation will still apply as to capital net losses from the sale or exchange of capital assets held 18 months or less. This will prevent corporations from using these speculative losses to reduce their ordinary income. Unless this safeguard should be put in, the limitation on short-term capital losses applied to individuals might be evaded by the formation of personal holding companies and the elimination of investment income by speculative losses.

4. If we allowed a corporation to declare a value for capital stock tax purposes each year, it might be that less in revenue would result, especially with those corporations having fiscal years ending shortly after the close of the capital stock tax year, which ends June 30 of each year. Therefore, to avoid any loss of revenue from this source, it is suggested that for the fiscal years ending June 30, 1939, and June 30, 1940, the corporations be permitted to increase their capital stock value but not to decrease such value. This will only result in a slight loss of revenue from the excess profits tax, and because of the additional capital stock tax to be paid, it is not believed that it will exceed two and a half million dollars.

-2-

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