

March 22, 1938.

Summary of Mr. Eccles' Article,
"CONTROLLING BOOMS AND DEPRESSIONS",
Fortune, April 1937.

Mr. Eccles' thesis in this article is that booms and depressions can be controlled only by providing the largest possible real income for the nation in terms of goods and services and so distributing this income between current consumption and investment as to provide for a continuous flow of goods. A sustained and well balanced flow of goods and services means a sustained and balanced flow of public and private expenditure. Mr. Eccles does not feel that the price mechanism is itself sufficient to bring about a readjustment. In depression

"when incomes are falling a reduction in prices may fail to stimulate demand. This is particularly likely to happen if a further continued fall in prices is generally expected."

Similarly, Mr. Eccles does not believe that rapid price increases in a period of recovery will make for balance. Our chances of transforming recovery movement into a period of stable prosperity would be greater if

"the continuance of a steady and orderly recovery movement is characterized by a steady increase in employment and production and accomplished by little, if any, advance in prices".

Abruptly rising prices lead to duplication of orders and speculative inventory buying.

1. Monetary policy. Monetary control sets the upper and lower limits of price movements but wide fluctuations are permitted within these limits. The Federal reserve authorities and the Secretary of the Treasury have power to control and limit the expansion of reserves, bank loans and investments, and deposit currency. Federal reserve control of margin requirements limits stock market speculation.

"The significance of this as I see it lies in the upper limit it imposes on the possible extent of business and price advances. So far as I know, there has never been a prolonged inflationary period that has not been accompanied and fed by an expansion of the means of payment. Monetary control is thus an indispensable instrument in controlling booms and depressions. This single instrument, however, has its limitations. Although upper and lower limits to business activity and price movements may be set by effective monetary control, the distance between these limits appears to be wide enough to permit fluctuations of such magnitude as to keep us far from our goal of stable prosperity."

Because the distance between the upper and lower limits is wide enough to permit fluctuations of great magnitude other controls are essential.

2. Fiscal policy should be used to moderate and offset a decline in business and also in checking the rate of expansion.

3. Gold policy. A rigidly automatic gold standard is undesirable in an unbalanced world.

".....One lesson we have learned in recent years is that, at a time when the world is as badly out of balance as it is today, we must not permit ourselves to be tied to a rigidly automatic gold standard that makes us helpless against the impact of forces from abroad. At a time when incomes, prices, exchange rates, or confidence abroad are declining rapidly, raising the price of gold in terms of dollars or other action on the foreign exchange value of the dollar would relieve the situation. Contrariwise, lowering the price of gold, or a relative fall in other currencies, might offer a possible means of checking excessive expansion at home. In any case it appears desirable that we should retain a large measure of executive discretion in the exercise of powers through which we can affect the value of the dollar relative to other currencies."

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An inflow of gold may be a serious difficulty in the future. The sterilization of gold is a partial solution although it still permits an undesirable expansion in bank deposits. In view of continuing political uncertainties abroad there seems to be a clear case for adopting measures designed to deter the growth of foreign capital holdings in our markets.

".....Since such inflows complicate the problem of achieving and maintaining prosperous stability, constitute a source of embarrassment to many countries from which the capital is flowing, and, in the present circumstances, have nothing to do with foreign trade or the international division of labor, there appears to be a clear case for adopting measures designed to deter the growth of foreign capital holdings in our markets."

4. Labor developments. Labor's share in the national income must be increased as rapidly as possible

"either through decreased prices or increased wages as rapidly as earnings of business and industry will permit without increasing the prices of their product."

5. The movement of prices. Mr. Eccles does not believe that monetary policy alone can control the upward tendency of prices when price increases are brought about by monopolistic price practices and speculation.

"Our problem here is with the emergence of harmful developments in particular lines before there is any general need to impose an upper limit... in the case of excessive price rises on particular products in important fields something of a direct nature might be done by effective anti-trust legislation under the flexible tariff powers."

March 22, 1938

Summary of Mr. Eccles' Statement of March 15, 1937 on Credit
and Monetary Policies

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Mr. Eccles stated that in a situation where there are unused man-power, natural resources, and capital the way to control unjustifiable price advances is by increasing production. This could be facilitated by an easy money policy.

"I do not believe that sharp price rises in certain basic commodities should be treated at this stage of recovery by a restrictive money policy, which would tend to freeze and might bring about an actual reduction in the total volume of employment and production. The price rises to which I refer are the result primarily of non-monetary factors, including foreign armament demand, strikes, and monopolistic practices by certain groups in industry and organized labor. These conditions have in turn led to speculative security and commodity buying which serves to accelerate price advances When wage increases are passed along to the public and particularly when industries take advantage of any existing situation to increase prices far beyond labor costs, such action is short-sighted and indefensible policy from every standpoint."

Mr. Eccles stated that, if stable recovery is endangered by unwarranted price increases arising from non-monetary causes, these price rises must be combated by non-monetary means. "Tight money" results in a restriction of the nation's buying power and is indefensible to control unjustifiable and monopoly-created prices.

"To resort to monetary restraint under such conditions would involve the risk of faulty recovery ... Such a remedy, if invoked now in the attempt to control unjustifiable and monopoly-created prices, would result in a reduction of the nation's buying power ... The remedy lies not in a restrictive monetary policy [sic] but in vigorous Government intervention with all the powers at its command to deal directly with the causes that might endanger the progress of a stable and enduring recovery."

March 22, 1938

EMPLOYMENT FIGURES

Week ending March 18 - - - - -	2,356,875
Increase over week ending March 12 - - - - -	113,010

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March 23, 1938

Last night HM, Jr went to the train to see the President off to Warm Springs and was standing talking with Dr. and Mrs. McIntyre. A little distance away the photographer was taking everybody's picture with the President and Mrs. McIntyre turned to HM, Jr and said, 'oh, Mr. Secretary. Don't you want to go over there and have your picture taken?', to which Dr. McIntyre replied, 'Don't be silly, dear. The Secretary does not need that sort of thing.'

GROUP MEETING

March 23, 1938.
9:30 A. M.

Present: Mr. Oliphant
Mr. Gaston
Mr. Haas
Mr. Taylor
Mr. Gibbons
Mr. Bell
Mr. Lochhead
Mr. Upham
Mr. McReynolds
Mrs. Klotz

H.M.Jr: Herman?

Oliphant: Nothing except the ticker from the record of the Federal Trade Commission against this cement company. It's a very interesting letter to the members of the combine. Do you want to read it? I mean, not now, but

H.M.Jr: Yes - Hello, Dan.

Oliphant: You might want to lay it by and read it later.

H.M.Jr: Yes. What else?

Oliphant: That's all. I have here a document on a plan for large-scale buying of equipment for building. To whom shall I give it?

H.M.Jr: Nobody here, unless you give it to Peoples, see? They are trying all the time to get us in on that; I don't want to get in on it. I want to keep it in Prices and Rackets. I definitely don't want in on it. I understand Mr. Ezekiel is interested in it. Seriously. Yes, he's working on it, so Fisher told me.

Oliphant: Ed (Foley) has a copy of the report that was made for Harry Hopkins on that.

H.M.Jr: I'd send it to Steward McDonald - any way you want. I just don't want it.

Oliphant: I'll let Mac. That's all.

H.M.Jr: Herbert?

Gaston: There is a letter came addressed to you from France from an organization named "The Friends of France in the World" - some very distinguished sponsors in the French Government, and they are getting out a book of tributes for what France stands for in the world, and they ask for a letter from you. Probably we'd better ask the State Department whether we should, do you think? General Weygand and Paul Boncour, and President of the Republic, and various others on their Board.

H.M.Jr: Oh, I guess I wouldn't do it.

Gaston: You wouldn't do it?

H.M.Jr: There's nothing in it for me, is there?

Gaston: They don't specify it. I suppose we'd have to negotiate

H.M.Jr: Well, if there's a case of Burgundy in it - but I wouldn't do it.

Anything else.

Gaston: I haven't anything.

H.M.Jr: George?

Haas: I have some new figures.

H.M.Jr: I can't hear you.

Haas: I have some new figures. But this is a wrong - --(inaudible)-- but here is a sales - one twenty - driving in their stocks here.

H.M.Jr: Why don't you stay behind on that and I'll go over it.

Taylor?

Taylor: It seems to me ----

H.M.Jr: What?

Taylor: In investigating the gold, as you said yesterday, without instructions of any kind, that Mr. Bell has made a horrible mistake, going back to December, 1936.

H.M.Jr: Yes.

Taylor: Magill and I have a memorandum as to how to rectify that dreadful error.

Bell: Now you are talking for the record.

H.M.Jr: Put down on the record "loud snorts."

Well, I mean ----

Taylor: It's understandable, but I mean it's the kind of thing he seldom does.

H.M.Jr: Did he deposit too much or too little?

Taylor: Too little.

Bell: As you recall when we issued the September 22 order - September 22, 1936 - sterilizing the gold, we had at that time about a hundred seventy-two million, as I recall, of free gold in the general fund and we were releasing some of the frozen gold day by day as the old gold certificates and the old National Bank notes came in for redemption. At that time I asked you whether or not you wanted to continue to put that gold in the Federal Reserve Banks or should we freeze all of it, and you said you didn't want any of it whatever to go in Federal Reserve Banks, so all the gold has been frozen since then.

When you issued your order on February 15 saying you would unfreeze that gold up to one hundred million I again asked you if you wanted to deposit all the gold that was released through the redemption of these National Bank notes, and you said, "I want to put in all the gold we can get our hands on from the first of January." That is the story surrounding the two orders.

Now the question is whether I shouldn't go back and in a memorandum review the whole history and

make a recommendation that we undo what we did in both cases.

H.M.Jr: You mean from '36 to December 31?

Bell: And free that whole gold - amounts to about two hundred million now.

H.M.Jr: That is a separate issue.

Taylor: There is a relationship there.

H.M.Jr: Well get - well, there is a relationship, but all I said was whatever gold came into the general fund or whatever gold we got from the first of January through March 31 up to a hundred million should be deposited. It's got nothing to do with what happened before. In other words, first we froze everything and then the order was to unfreeze everything.

Bell: See what I have done with respect to the gold in connection with the National Bank and the old gold certificate redemption, you can get no authority for it under either your order of December 22, 1936, or your order of February 11, 1938. What I have done with respect to that gold, there is no authority for, in respect to those two orders, strictly speaking, but what I have done has always been done on verbal instructions at the time.

H.M.Jr: I see.

Lochhead: Really what has happened you have over-sterilized the amount of two hundred million in that two year period.

H.M.Jr: You started with one seventy; it's from one seventy to two hundred.

Bell: The one seventy was frozen at that time, which was gold acquired prior to 1936. We sterilized the one hundred seventy million at that time.

H.M.Jr: Yes, but this order wasn't in effect on the one seventy.

Oliphant: You did it without written authorization. It's only a question of straightening the record.

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H.M.Jr: The most, from what you tell me, you over-sterilized would be a hundred thirty million dollars.

Bell: You recall that the Federal Reserve people always contended that we should never have sterilized that one hundred seventy million.

H.M.Jr: They are bothered about that hundred eighty million. At least that's what they told --(inaudible - Butterworth?)-- That's what he told them in London.

I mean this stuff I've got in my memory - nobody can fool me on this stuff. What you fellows are talking about doesn't make sense, if you don't mind my saying so.

Taylor: I think if Dan would write that historical memorandum -

H.M.Jr: Dan said I gave verbal orders to sterilize everything. That one hundred seventy million dollars grew to two hundred million dollars by January first of this year.

Bell: Well, it's about two hundred twelve million at the present time.

H.M.Jr: All right. So during that period you sterilized two hundred forty million dollars of that kind of gold. You got verbal instructions but no written instructions. Right?

Bell: That's right.

H.M.Jr: What you are saying to me today is you'd like to review that and get a written instruction with respect to that up to December 1, 1937.

Bell: As I understand it, you read an article in yesterday morning's Times which figured out how much gold we could put in and in figuring that out they eliminated the National Bank notes, and it is a question of whether we want to do that in connection with this hundred million. If you do I'll write a memo; if you don't I'll go ahead without any memorandum.

H.M.Jr: To be consistent, I gave you instructions, verbally, to sterilize everything that came in. Now my instructions would be to deposit everything that

came in up to three hundred million - everything during the first quarter of this year. Then I'd be consistent, wouldn't I?

Bell: It's a question of how you interpret "coming in." You see, this gold we are talking about is already in the Treasury and it is being freed.

H.M.Jr: It is being freed as the National Bank notes are redeemed. I'd consider that part of the gold.

Bell: Part of the hundred million?

H.M.Jr: Yes, I consider it part of the one hundred million. Otherwise what we did prior to January first wouldn't make sense. That has nothing to do with what our Department - the Federal Reserve has a hundred and eighty million that they said they didn't know about. That is what the Federal Reserve was bothered about.

Bell: I thought they were bothered about the National Bank notes too.

H.M.Jr: It's a hundred and eighty which they said they didn't know about in the stabilization fund. They are about the same figures but they have nothing to do with it.

Bell: I didn't know that.

H.M.Jr: If you say to me this morning, "Should this gold which is freed by the depositing of National Bank notes be considered part of the hundred million," my answer to that is "Yes."

Bell: That was my memo to the Treasurer of the United States after talking with you.

Oliphant: I would suggest written instructions ratifying what he's done to date.

Taylor: I think he ought to write the historical memo to you in any case.

Bell: My point is clear so far as instructions are concerned, because when I talk to the Secretary I go back and write instructions to the Treasurer of the United States.

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H.M.Jr: Do you want any more?

Bell: If you want it for your records I'll write it.

H.M.Jr: It would be very nice.

Oliphant: (To Mr. Bell) I should think you'd want it for your records.

H.M.Jr: The new Comptroller General might not be as easy to fool as the present Comptroller General.

Bell: If any.

(To Mr. Gaston) I don't think he'd understand the memo, would he?

Gaston: No. Wayne just said this was understandable, which is an exception in your case.

Lochhead: If you didn't want to start sterilizing you might have avoided it.

H.M.Jr: Are you in the Federal Reserve or in the Treasury? Didn't you make this noble speech on Saturday that we never did things in a round-about way; we always come right out in the open?

Lochhead: Yes. But this is out in the open.

Taylor: This is to correct this great wrong.

H.M.Jr: In other words, what you are telling me, if I want to I've got another two hundred million dollars.

Bell: Then we can stop borrowing on Treasury bills this evening.

Taylor: By the end of this fiscal year, because it was ----

H.M.Jr: Rather than say we had made a slight error of about two hundred million dollars, I'd rather come out and announce that we are going to stop sterilization. These fellows are getting very canny - got to get up very early in the morning.

All right.

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Taylor: You will still write the memo. You can describe very accurately what the condition was.

Lochhead: There is nothing new in the exchanges this morning. Apparently there is still some more gold; whether they will get it on the boats and it will arrive during the month is problematical.

H.M.Jr: How much does this particular kind of gold run monthly?

Bell: About five or six million dollars a month.

H.M.Jr: What else?

Lochhead: That's all.

H.M.Jr: It's interesting to note that not a single newspaper carried Mr. Magill's statement.

Upham: Not in full text.

H.M.Jr: Not one. I read it last night. I thought it was very good.

Upham: It was very well received. They were very nice to him.

H.M.Jr: I see in today's paper that Sears Roebuck sold its insurance company.

Upham: To Trans-America, yes.

H.M.Jr: Have you been over there to S. E. C.?

Upham: I have had two appointments with Schenker and had to cancel both of them - one yesterday morning.

H.M.Jr: Mac?

McReynolds: Nothing now.

H.M.Jr: When am I going to get that order?

McReynolds: It's ready.

H.M.Jr: When we go into this question of loans to industry, has somebody made a study of if we wanted to use gold - if we want to use gold over at the Federal Reserve, how we could transfer that to a new group?

Bell: It would take legislation.

H.M.Jr: There is at least a hundred million dollars we can lay our hands on.

Taylor: One twelve - something like that.

H.M.Jr: Well, I wouldn't want to scrape it too clean; I'd leave some.

Bell: Twenty-three million in reserve for the Philippine currency you could pick up at the same time.

H.M.Jr: That I don't think would sound quite so good.

Bell: Well, that Act's been repealed.

H.M.Jr: Has it?

Oliphant: That's what I understand.

Bell: It is just part of that frozen gold.

H.M.Jr: What will happen to it?

Bell: You can't release it. It's part of the balance of the increment resulting from that.

H.M.Jr: You mean the interest or profit of the Philippines? Is that the result of that?

Bell: When we reduced the weight of the gold dollar the peso was likewise reduced.

Oliphant: I think that's a different question.

H.M.Jr: What is this?

Bell: This is giving the Philippines the profit on the reduction in the peso caused by the reduction in the weight of the gold dollar. See, the peso is tied to the dollar.

H.M.Jr: As a result of that, what?

- Bell: They had their balances in this country to secure the peso and they assumed that those balances were payable in gold. Now when we reduced the weight of the gold dollar we reduced their balances by twenty-three million dollars. Congress passed an Act appropriating that twenty-three million dollars to the Philippine Government. When we sent up the appropriation to the Appropriation Committee they turned it down - said they wouldn't appropriate it. And I think the authorization was repealed last year.
- H.M.Jr: I'd rather do all of that - wait until - if we say "no more sterilization" - I don't want to do anything at this time to raise the question - I'd rather do the thing all at one sweep and dump it all in their laps at one time. I'd rather do it that way than to have them say, "Morgenthau will take the twenty-three million and give it to the Philippines - what's he going to do with the other?" This and that - wouldn't you, Wayne?
- Taylor: If you do come to the other I think it's better to do it that way.
- H.M.Jr: Then I'd rather clean up all these tidbits.
- When are you going to be ready to talk taxes?
- Bell: Right after lunch. I thought I'd wait until today's tax receipts are in before I make the estimate.
- H.M.Jr: All right. And Mr. Gaston, may I say officially, as Secretary of the Treasury that after this quarter is over we will not, in the future, release any of Mr. Helvering's figures.
- Gaston: No collection figures at all, huh?
- H.M.Jr: We are relying on Mr. Bell's figures. We'll do it this time, but I am not going to have two sets of figures - I mean all figures should come, I think, out of Deposits and Accounts - at least one central place.
- Gaston: Of course they release every month on a collection basis - they release every month their total collections on a collection basis. And I think

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that their figures that they gave us on the fifteenth were probably pretty near right, as of that day. It is simply that the collections did fall off after the fifteenth.

Bell: Their estimate was terrible.

H.M.Jr: Will you do this then: When I come back - whoever collects that bet, when that is settled, let's take it up once more and if Bell and I are right and their estimates are way off - they have always been way off.

Gaston: Of course, another thing is not to give any estimates, but give the deposits, of course, which must be correct.

Bell: I get my figures in telegraphic wires on actual cash collections. The collectors deposit their collections and it takes them two or three days to collect those checks, and some of them may be returned marked "insufficient funds." My figures tie up with the cash.

Gaston: After the collections are checked. It is a lag of a couple days or a week,

H.M.Jr: It's up to you, when I come back, to prove that we are wrong. The burden of proof is on you, but I don't want two sets of figures coming out after this quarter. I think we will find - Magill said it was particularly embarrassing to him. It is upsetting - it upset Magill a lot on the Hill.

Gaston: We have been doing that right along - it isn't something new.

H.M.Jr: I know - I know, but I say I think one set of figures - it is my instructions to take Bell's.

McReynolds: It's real money.

Bell: We get out a statement the second day after the business day for which it is made, and it seems to me the public can wait and rely on that statement.

H.M.Jr: Take the gold. I tell them now they get all their figures from your statement. I don't release anything in advance.

Gaston: It's on your collections up to the fifteenth - there would be a lag of pretty near a week on the actual collections.

Bell: That is when we get the cash, Herbert.

H.M.Jr: But the subject - will you make a note on that. Let's put it this way: Unless I give my approval next June to any more, we will leave it this way; that they will get their figures from Bell's daily statement.

Gaston: Yes.

Bell: Of course, March is always the danger point.

H.M.Jr: I know.

All right, gentlemen.

Taylor: You want a rehearsal on that one o'clock thing?

H.M.Jr: Yes, I would like one. Eleven o'clock - does that suit you people? Does that suit you? Does that interfere with a hearing?

Bell: That's all right.

Taylor: Ed Foley's going to have that preliminary list right now if you (Bell, et al) would like to come in and look at it now.

H.M.Jr: All right.

March 23, 1938 - 10:45

I spoke to Sumner Welles and he said everything will be out by 1 o'clock and that they decided to include Italy and he (Sumner Welles) will call on the Papal Delegate and explain the whole program to him in order to get the Pope interested.

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WEEKLY VOLUME OF FHA INSURING OPERATIONS

For 1938 and Corresponding Period of 1937

HOME MORTGAGES SELECTED FOR APPRAISAL

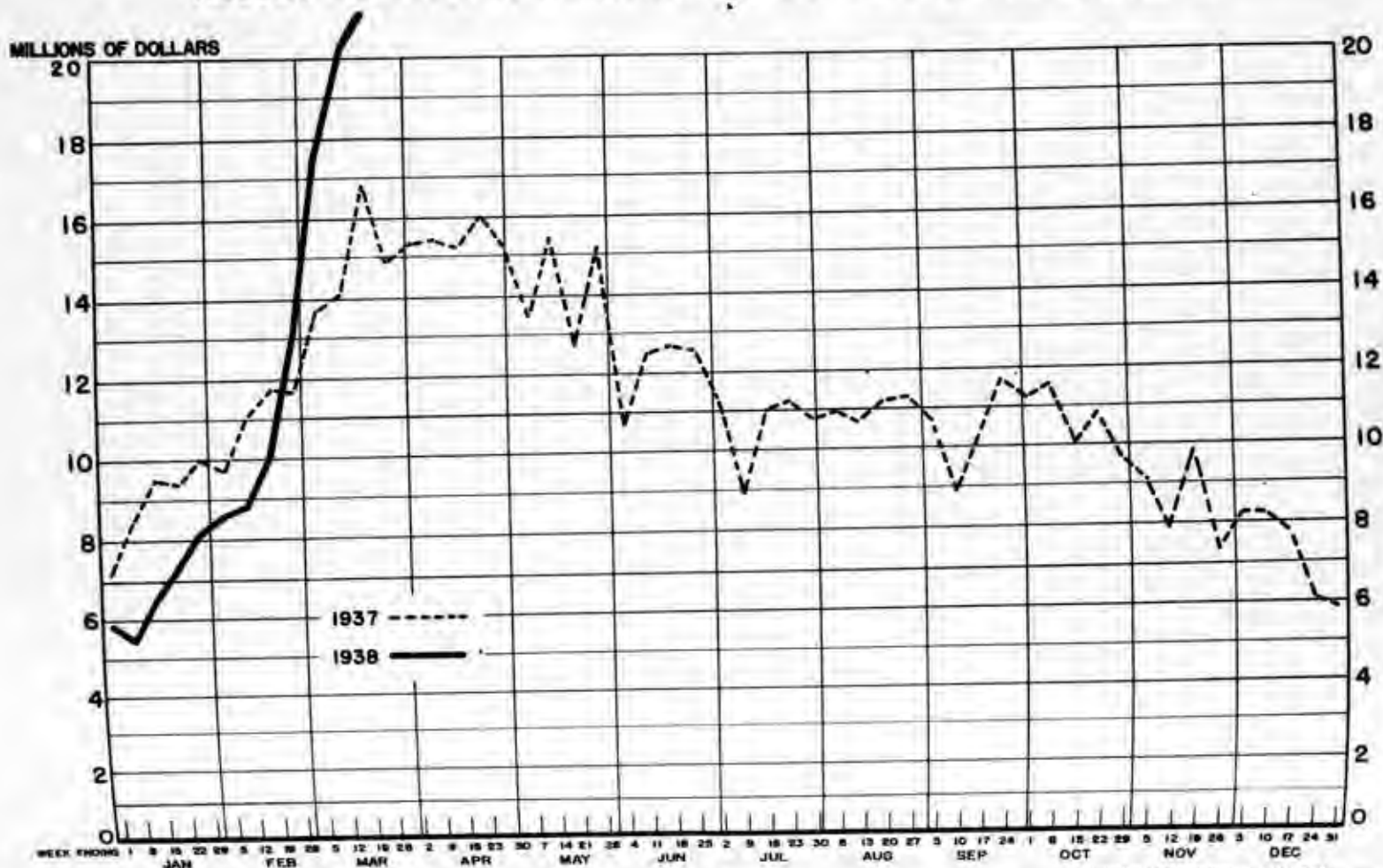
<u>By Weeks</u>	<u>1938</u>		<u>1937</u>	
	<u>No.</u>	<u>Amt.</u>	<u>No.</u>	<u>Amt.</u>
Jan. 8	1,256	\$ 5,483,184	1,967	\$ 8,565,650
" 15	1,504	6,531,200	2,286	9,556,860
" 22	1,711	7,299,975	2,167	9,447,127
" 29	1,888	8,150,840	2,272	10,091,713
Feb. 5	1,982	8,571,895	2,306	9,721,165
" 12	1,988	8,787,105	2,701	11,068,008
" 19	2,219	10,025,800	2,765	11,764,089
" 26	2,775	13,100,250	2,835	11,747,954
Mar. 5	3,899	17,613,402	3,244	13,683,500
" 12	4,470	20,386,711	3,405	14,176,560
" 19	4,697	21,293,061*	4,085	16,879,710

*Of this week's volume 55% covers homes to be constructed. It is estimated that at least an additional 20 to 25% covers homes recently completed or being completed -- the balance covering construction more than 1 year old.

RENTAL HOUSING PROJECTS - COMMITMENTS ISSUED

	<u>No.</u>	<u>Amt.</u>
1938 - through March 19th	24	\$ 13,999,300
Corresponding Period 1937	4	4,165,000

WEEKLY VOLUME OF HOME MORTGAGES SELECTED FOR APPRAISAL
AMOUNT REPORTED BY INSURING OFFICES AT END OF EACH WEEK



March 23, 1938

4 p. m.

Present:

Mr. Taylor
Mr. Bell
Dr. Haas
Mrs. Klotz

HM, Jr: This is financing. Bell wants to send out some telegrams.

Mr. Bell: In our February estimates, our balances going out, we said that we would have \$1,079,000,000 going out of March on the basis of borrowing \$200,000,000 in March in bills, and our estimate now shows that we will have \$1,055,000,000, or a loss of \$24,000,000 with a loss in income taxes, but picked it up some in Savings Bonds, \$15,000,000 in silver certificates. Then, going out of April we said we would have \$817,000,000 and we will have \$793,000,000; May, we said \$932,000,000 and we will have about \$894,000,000; June, \$910,000,000 and we will have \$863,000,000, which means a loss of about \$47,000,000. That also contemplates borrowing on Treasury bills in May for September. There is one thing that is not in there and that is gold. We have about \$80,000,000 credit balance under the Stabilization Fund, so that we could pick up \$50,000,000 of gold without turning it over and then you would have \$100,000,000 limit on your February 15th order so you would have to import \$150,000,000 in gold in April, May and June, but it wouldn't cost the Treasury any cash.

Now, we really don't need to borrow any money there at all except the \$200,000,000 in May. You can stop now borrowing on the extra bills and then if you get short in here, take up the first week in April and put \$250,000,000 or \$300,000,000 in September or you could put \$250,000,000.

HM, Jr: Instead of \$200,000,000 in each month. If we took another \$50,000,000, they would say we are not satisfied with the tax returns.

Mr. Bell: No. I don't think so. You said you

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could borrow between \$200,000,000 and \$300,000,000.

Mr. Taylor: You never have said the amount you would do. \$250,000,000 is less than you have been doing in the past on the tax dates.

HM, Jr: I am going to let each of you write out what you think.

Mrs. Klotz: (reading slips) Taylor and Haas agree on \$300,000,000; you two disagree. You say \$250,000,000 and Bell says \$200,000,000.

HM, Jr: Who is in favor of voting with Mr. Morgenthau after that? \$250,000,000?

Mr. Bell: \$250,000,000 is all right with me. I don't think we need \$300,000,000.

Mr. Haas: You have to keep in mind the course of business. It is not going the way we expected.

Mr. Bell: I would rather see your \$300,000,000 go into September rather than June, because I don't think there is any doubt of your excess reserves in June.

HM, Jr: I would too. Anybody unhappy on the \$250,000,000. (All nodded assent.)

Mr. Bell: O.K. with me.

oOo-oOo

250
1 km

300

all

200. A

swb

300 m.

HA.

ESTIMATE OF CASH POSITIONMARCH - JUNE 1938

(In millions of dollars)

	March	April	May	June	Total
Balances at beginning of periods:	955	1,055	793	894	955
Receipts:					
General revenue	937	315	375	790	2,417
Unemployment Trust Fund	30	28	71	44	173
U. S. Savings Bonds	45	30	25	25	125
Silver certificates	25	--	--	--	25
Treasury Bills	200 (June)	--	200 (Sept)	--	400
Total available	2,192	1,428	1,464	1,753	4,095
Expenditures:					
General	335	365	330	300	1,330
Emergency	200	190	190	190	770
Interest on public debt	155	70	10	175	410
Special transactions	- 10	- 10	25	- 5	--
Investments	22	--	--	--	22
Debt redemptions	435	20	15	230	700
Total	1,137	635	570	890	3,232
Balances at end of period:	1,055	793	894	863	863
	<u>1,079</u>	<u>817</u>	<u>932</u>	<u>910</u>	
Refunding Operations:					
Treasury Bills:					
Regular	350	400	400	600	1,750
Special	400	--	--	200	600
Treasury Notes	455	--	--	618	1,073
	1,205	400	400	1,418	3,423

ACCOUNTS AND DEPOSITS

March 23, 1938.

March 23, 1933

My dear Mr. President:

In view of the fact that twice last week you raised the question with me as to the advisability of the United States Treasury refusing to buy any more gold, I am taking the liberty of sending you herewith, for your confidential consideration, a memorandum giving the important reasons why the Treasury feels that we should not change our gold buying program at this time.

Faithfully yours,

The President,
The White House.

March 18, 1938

The effect of a refusal by the Treasury to buy foreign gold would be:

1. The Tripartite Accord would automatically be terminated and its objectives of international economic stability be destroyed.

(a) A period of wild and chaotic fluctuations in foreign exchange rates throughout the world would be ushered in.

(b) World trade would become more speculative in character and lower in volume.

(c) Exchange controls and clearing agreements would spread to even more countries in their effort to restore some stability in international currency relationships.

(d) The objectives of our Trade Agreements Program would be violated and our existing trade agreements hampered.

2. The value of the world gold holdings -- of which we have one-half -- will be seriously threatened.

(a) World confidence in gold as a monetary metal and as a medium of international payments would be severely shaken. Huge quantities of gold will be dumped on the London free gold market. It will come from private hoards, from the holdings of small central banks and from speeded up gold production throughout the world.

(b) The world would be encouraged to attempt to do without gold, leaving us [and England] holding the bag.

(c) Gold mining stocks would tumble, with adverse repercussions on leading stock exchanges; a serious crisis would be precipitated in South Africa and minor crises in other large gold producing areas.

3. Stocks of silver, particularly from India, would likely be dumped on the market.

(a) Confidence in the value of silver as well as in the value of gold will be shaken. People will reason that if we refuse to buy gold now, will not silver be next? We therefore would have to buy large quantities of silver or see its price break.

Confidential

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4. Our price level will fall.

(a) To refuse to buy foreign gold would be a deflationary move which, in one stroke, would undo all the efforts of the Administration to restore recovery and raise the price level.

5. Germany, Italy and Japan would be made stronger by our refusal to buy foreign gold.

(a) No monetary step that we could take would be more calculated to assist those countries. They are the very countries which have the small gold reserves, compared with their possible opponents, and hence are at a serious disadvantage in the event of war. To deprive the democratic countries of much of the value of their "war-chest" is to weaken them.

6. The press the world over -- except in Germany -- would be awful!

(a) There is not a single important interest in the United States or in the world -- outside of fascist countries -- who would approve such a step.

(b) The absurd sequence of raising the price of gold to high levels, acquiring half the world's gold supply, and then throwing the price overboard would be too much even for Administration supporters to swallow quietly.

7. The United States has taken the lead in establishing order in international monetary affairs.

(a) By this step it would be taking the lead in introducing monetary chaos.

Confidential

TELEGRAPH ROOM?
THE WHITE HOUSE.

Please send the following telegram to Miss
Le Hand at 8 a.m., Thursday morning, March 24th:

*MISS MARGUERITE LE HAND
SECRETARY TO THE PRESIDENT
WARM SPRINGS
GEORGIA

THIS TELEGRAM WILL SERVE AS A REMINDER FOR THE PRESIDENT
THAT HE WISHES TO SPEAK TO GASON CALLAWAY IN REGARD TO
THE TREASURY STOP I AM PARTICULARLY ANXIOUS TO GET
THE RESULT OF THIS CONVERSATION IF POSSIBLE BY THURSDAY
NIGHT STOP WOULD GREATLY APPRECIATE YOUR COOPERATION

(SIGNED) HENRY MORGENTHAU JR

THE UNDER SECRETARY OF STATE
WASHINGTON

March 23, 1938.

Personal and
Confidential

Dear Henry:

I am enclosing herewith copies of the two memoranda which we took up with the President yesterday. The main memorandum is slightly modified to meet the President's wishes as expressed to us.

I also enclose confidential copies of the circular telegrams which have gone out to certain of our missions in Europe and to our missions in the other American republics in pursuance of the President's instructions.

Believe me

Yours very sincerely,



Enclosures.

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

1. Confidential consultation between the Government of the United States and the Governments of Great Britain, France, Belgium, the Netherlands, Denmark, Sweden and Norway and the Governments of all of the other American Republics with a view to ascertaining whether those Governments would be willing to cooperate with the Government of the United States in appointing a special committee composed of representatives from each of the Governments named to meet as soon as possible in some European city which might possibly be Geneva or Genoa. The functions and duties of such committee would be the facilitation and the financing of the emigration from Germany and Austria of political refugees from those two countries.

2. It would be understood in our communications to the Governments above named that while the representatives to be appointed to the proposed committee would be designated by the Governments concerned, the financing of the proposed emergency emigration would be undertaken by private organizations within the respective countries and that the number of immigrants which each country would receive would be the number

-2-

fixed by existing legislation in each of the recipient countries.

3. Should the replies received by this Government and the other Governments mentioned be favorable or even in the event that only one or two replies were favorable, the President would discuss with representatives of appropriate private organizations in the United States the plan which he has in mind and would ascertain whether such organizations would be willing to contribute the funds necessary in order to make the plan a success and whether these organizations would further be willing to have Mr. Hamilton Fish Armstrong or any other appointee whom the President might select act for them as the American member of this committee in coordinating their several activities in Europe in the manner proposed.

4. When this stage is reached the President might consider the issuance of a public appeal to the people of the United States reminding them that the United States has traditionally been a home for refugees from other countries who have suffered persecution because of their political or religious beliefs and that while it is not proposed to modify in any way existing restrictions upon immigration into the United States, a committee has been formed with the approval of the President to assist the emigration from Germany and Austria of refugees of this

-3-

character and that the work involved requires the contribution of funds of organizations and individuals in the United States who desire to further the purposes for which the committee is created.

5. I am advised by the Legal Adviser of the Department of State that under existing statutes there is a specific provision which permits the amalgamation of the German and Austrian immigration quotas inasmuch as this provision states that in the event that a country granted an immigration quota to the United States becomes a part of some other country, the former's recognized quota becomes a part of the quota of the latter country. The German quota is approximately 25,000 and the Austrian quota approximately 1,300. This amalgamation would consequently make it possible for the United States to receive during the next fiscal year a total of some 26,300 individuals from Germany and Austria.

6. It has been suggested that the work envisaged might be undertaken by the Unemployment and Migration Section of the International Labor Office. While it would seem desirable that this Government should make it clear that the special committee which it proposes should be set up should in no sense interfere with or supersede the Unemployment and Migration Section of the International Labor Office or similar organizations

-4-

undertaking to handle refugee cases, it is believed that the emergency warrants the creation of this special committee. It would be well to express the hope of this Government in some appropriate manner that the organizations in Europe already existing, such as this Section of the International Labor Office, will cooperate and collaborate whenever they find it appropriate and convenient to do in the work to be undertaken by this special committee.

March 22, 1936.

GERMAN-AUSTRIAN IMMIGRATION QUOTA

Mr. Welles:

Section 12 of the Immigration Act of May 26, 1924 (43 Stat. 160; U.S. Code Title 8, section 212(c)), provides that "in case of changes in political boundaries in foreign countries occurring subsequent to 1890 and resulting in the . . . transfer of territory from one country to another, such transfer being recognized by the United States," the Secretaries of State, Commerce and Labor shall revise the quotas among the countries involved in "such change of political boundaries." The same section provides that for the purposes of the revision and for the purpose of determining the nationality of an immigrant aliens born in the territory so transferred shall be considered "as having been born in the country to which such territory was transferred".

The Austrian quota at the present time is 1413 and that of Germany is 25,957, making a total of 27,370. Of the Austrian quota 413 quota visas have been issued up to February 28. Of the German quota 9,004 quota

visas

-2-

visas have been issued up to January 31, 1938.

Under section 11(f) of the act of 1924 (Title 8, section 211, U.S. Code) the number of immigration visas which may be issued in any one month would be limited to 10 percent of the combined annual quota, which would allow a monthly issue of 2737.

The method of procedure in combining the Austrian and German quotas would be for the three Secretaries to join in a recommendation to the President for the issuance by him of a proclamation declaring the change of quota resulting from the annexation of Austria.

Changes of quotas in circumstances somewhat analogous to the present situation were made (1) in 1931 in connection with the recognition of the Kingdom of the Hejaz and Nejd and its dependencies, and by the decision to establish a separate quota for Bessarabia; (2) in 1933 by the decision of the Department to discontinue the separate quota for Armenia and merge it with that of Russia, and (3) the decision in 1933 to discontinue the separate quota for Bessarabia and merge it with that of Rumania.

Green H. Hackworth.

CONFIDENTIAL

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March 23, 1938.

AMEMBASSY

LONDON (ENGLAND)

URGENT

1. Please call on the Minister of Foreign Affairs and inquire whether the British Government (on its own behalf or on behalf of the self-governing Dominions) would be willing to cooperate with the Government of the United States in setting up a special committee composed of representatives of a number of governments for the purpose of facilitating the emigration from Austria and presumably from Germany of political refugees.

2. Our idea is that whereas such representatives would be designated by the governments concerned, any financing of the emergency emigration referred to would be undertaken by private organizations within the respective countries. Furthermore, it should be understood that no country would be expected or asked to receive a greater number of emigrants than is permitted by its existing legislation.

3. As soon as enough replies have been received to warrant going ahead, the President contemplates appointing a representative, who would proceed abroad

-2-

without delay, to meet with the rest of the Committee. It is suggested, purely as a matter of convenience, that the first meeting be held in some Swiss city as being centrally located.

4. Please make it perfectly clear that in making this proposal the Government of the United States in no sense intends to discourage or interfere with such work as is already being done on the refugee problem by the Migration Bureau of the International Labor Office, or by any other existing agencies. It has been prompted to make the present proposal because of the urgency of the problem with which the world is faced and the necessity of speedy, cooperative effort, under governmental supervision, if widespread human suffering is to be averted.

5. Similar approaches are being made to the governments of France, Belgium, Netherlands, Denmark, Sweden, Norway, Switzerland and Italy and the governments of all the other American Republics.

6. Please telegraph reply as soon as received.

(Mutatis mutandis to the missions indicated in Paragraph 5)

HULL

March 23, 1938

AMEMBASSY

BUENOS AIRES (ARGENTINA)

RUSH

1. This Government, in the light of its tradition of welcoming refugees from other countries who have suffered because of their political beliefs, is giving thought to how it may assist individuals in Germany and Austria who today find themselves faced by a tragic situation.

2. Please call on the Minister for Foreign Affairs and inquire if the Argentine Government would be willing to cooperate with the Government of the United States in setting up a special committee composed of representatives of a number of governments for the purpose of facilitating the emigration from Germany and Austria of political refugees.

3. It is contemplated that the members of the committee would be designated by the governments concerned, but that any financing of the emergency emigration referred to would be undertaken by private organizations within the respective countries. Furthermore, it should be understood that no country would be expected or asked to receive a greater number of immigrants than is permitted by its existing legislation.

-2-

4. As soon as enough replies have been received to warrant going ahead, the President contemplates appointing a representative, who would proceed abroad without delay, to meet with the rest of the committee. It is suggested, purely as a matter of convenience, that the first meeting be held in some Swiss city as being centrally located.

5. Please make it perfectly clear that in making this proposal the Government of the United States in no sense intends to discourage or interfere with such work as is already being done on the refugee problem by the Migration Bureau of the International Labor Office, or by any other existing agencies. It has been prompted to make the present proposal because of the urgency of the problem with which the world is faced and the necessity of speedy, cooperative effort, under governmental supervision, if widespread human suffering is to be averted.

6. You may point out that the proposed action is one which may well appeal to the humanitarian feelings of all of the American peoples, and is in keeping with the spirit of justice and freedom by which the nations of this hemisphere seek to be guided.

7. Similar messages are being sent to our missions in the other American republics and to the missions in

-3-

Great Britian, France, Belgium, the Netherlands, Denmark, Sweden, Norway, Switzerland, and Italy.

8. Please telegraph the reply of the Foreign Minister as soon as received.

HULL

Mutatis Mutandi to the missions in the other nineteen American Republics.

RE INDUSTRIAL FINANCING

March 23, 1938.
11:00 a.m.

Present: Mr. Taylor
Mr. Oliphant
Mr. Bell
Mr. Haas
Mr. Upham
Mr. Foley
Mr. Asrons

H.M.Jr: (Reading from "Agenda for Meeting to be Held Wednesday, March 23") "The field under discussion may conceivably comprise any or all of the following types of financing:

"(a) Long-term investment credit (reads rest of Agenda silently)

Now, there are a couple things here I think - we got time - I think we ought to say something about. In this place - "What experience has the R.F.C. had?"

Oliphant: "And the Federal Reserve."

H.M.Jr: Well, I was going to say "And the Federal Reserve." "What kind of loans have they been able to make and where in their experience have they found that they couldn't - why haven't they been able to meet the demands which have been put upon them?" In other words, what have they accomplished and what is their reason for not being able to take care of the people who have called on them? I don't think that's covered in here, is it?

Taylor: It is implied, but not specifically covered.

H.M.Jr: Well, I want specifically to say what has the experience of R.F.C. and the Federal Reserve Board been. Is that covered in here, gentlemen?

Foley: Well, it's

H.M.Jr: Not by name.

Foley: It's (b) on the second page: "Should a new Federal agency be established or are existing Federal agencies qualified to extend credit in this field?"

Bell: Also in (1): "What are the needs of industry in the

-2-

foregoing categories not met by existing Federal and non-Federal machinery?"

H.M.Jr: Well, what I'd like, you see, if you don't mind, unless you don't think we'll have it - to do it my way, because that gives Jones and Ransom a chance to sound off. See, Foley?

Foley: Yes.

Taylor: I think you can add that as a separate question in either one of those two places there.

H.M.Jr: See? And then I've got another one - I don't know just how to put it. I'll put it my way, then somebody else can put it. What I want to bring out is what industry's criticism is of the existing machinery which makes it difficult for them to borrow money. For example, when I worked with the investment bankers, three out of four say it's the cost of registration. Now, that isn't in here.

In other words, it's very nice for Bill Douglas to think of some new way, but let's at least be honest with each other. And that's the criticism I hear all the time - is the high cost of registration. And I would not single him out, but, as I say And give them a chance if they want to say that it's on account of the taxes, if they want to. In other words, what are the criticisms that industry has of the rules and regulations of the Federal Government which make it difficult for them to borrow?

Bell: Federal restrictions now imposed.

Upham: Registration, and banks can't buy, and the

H.M.Jr: Taxation.

Upham: Yes.

H.M.Jr: Let's give them a chance to sound off on that. That's not in here, but if we don't include it, they will. So let's beat the gun. In other words - how did you state it, Dan?

Bell: "What Federal restrictions are now imposed upon institutions that prevent loaning or carrying out this"

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Taylor: You can word that, "Are there any Federal "

Bell: That's right.

H.A.Jr: You say the banks can't buy and say you can't get a rating on your bonds.

Opponent: Cost of registration.

H.A.Jr: Cost of registration. Taxation. The various things.

Opponent: Then there's another

Taylor: I'd just word it that way: "Are there any Federal restrictions, or so and so, which handicap "

Opponent: There is another one that goes right alongside of Upham's, and that is, if we sent out a field force, they might come back and say, "Well, the trouble has been the glass eye of Jesse Jones and glass eye of the Federal Reserve Banks." That is, how does the thing look not merely from the experience of R.F.C. and the Federal Reserve, but now does it look from the other side? I think one of the trouble - the thing I keep hearing is that we set up those funds in R.F.C. and in the Federal Reserve Banks to make these emergency loans, and in some districts, for instance the Kansas City district, why, when you went to them for a loan, when the business man went to them for a loan, they just got turned down unless it was an old-fashioned commercial loan

H.A.Jr: Well, now would you state that? Wouldn't that be in there when you say, "What experience has the Federal Reserve and R.F.C. had?"

Opponent: I guess you'd get it in under that. Is Jake going to be there?

H.A.Jr: No, Jake's not here.

Opponent: He had some data on that.

Bell: That might come out under (2): "Should Federal financial assistance be extended to venturesome as well as seasoned enterprises?"

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- Oliphant: Of course, this thing is very much in the picture, because Bill's disinclination to see it in S.E.C. is
- H.M.Jr: Well, strictly in the Treasury family, I have yet to hear Douglas in any way recognize the fact - the difficulty and cost of registration with S.E.C. And certainly my contact four times with investment banks - every single time they had this question; it's one of the things - in fact, one of the first things they say is the cost of registration.
- Taylor: Certainly applies to a small industry.
- H.M.Jr: What?
- Taylor: Certainly applies to small corporations; runs the cost up very materially, because you can't avoid certain costs.
- H.M.Jr: No. Now ...
- Oliphant: Of course, I agree with that. I discount it, say, about ten percent, remembering our experience in '34, when they used that sort of thing as a lever to get certain amendments.
- H.M.Jr: I discount it 50 percent; I mean if the fellow wants the money. And of course, the other thing - the study I've been making - is that under the present conditions people don't want to borrow because they haven't got any business. Now, I don't know which comes first, the chicken or the egg; but the people have to want to borrow the money first.
- Bill: That's right.
- Oliphant: I think that's the hen and the egg, not the chicken.
- H.M.Jr: Which? Well, isn't the chicken a hen?
- Oliphant: No.
- H.M.Jr: All right, the hen and the egg. But that's the thing, isn't it? I mean once the pressure begins on a fellow who's got the business, he wants to borrow; but I can't find there is any such pressure on the part of business.

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Oliphant: Griswold didn't have any.

H.M.Jr: He hasn't yet been able to produce a business which is liquid and wants to borrow, and he's been at it six weeks now. Can't produce one yet.

Upnam: That whole heap of letters says there is no demand for money. People just don't want it.

H.M.Jr: Griswold got this thing, and he couldn't produce in the whole group of investment bankers - 1700 members - has yet to produce somebody who wants to borrow.

Oliphant: Has he

H.M.Jr: Got a whole questionnaire. It's all over the country.

Oliphant: I didn't know that.

H.M.Jr: Oh yes. They've sent this telegram out to their members. What have I got here? I'm right, am I?

Upnam: Yes, you're right.

H.M.Jr: They sent it out all over the United States.

Upnam: They're expecting another report on the first of the month, on a second questionnaire.

H.M.Jr: But it went all over the country.

Upnam: That's right, to investment bankers.

H.M.Jr: At least a month or six weeks.

Upnam: And we have many letters and telegrams in reply too.

Oliphant: I agree that the orders on the books or the orders in prospect is the hen that comes before the egg.

H.M.Jr: Now, I've never had time to sit down with Cy and go into this question of just what a bank could do to make a - well, I mean ...

Upnam: Purchasing securities, you mean.

H.M.Jr: Yes. Now you've had a month's time to study that. Are they pretty well restricted, Cy?

Upson: Of course, the Congress insists that the things they can buy must be marketable, must have marketability. Now, that cuts out, you see, a lot of the small local issues. They just don't have a market. They are not marketable. Now, something might be done in the way of pulling down the strict interpretation of what "marketability" is. The Comptroller has construed that pretty strictly. But whether that would be in the interest of good banking or not is another question.

A.A.Jr: Well, it's just like when we were in Farm Credit, the question came up of making distress loans. We felt that wasn't Farm Credit's business. I think if these are going to be distress loans, better recognize them as such; if we lose half a billion dollars, wipe it off like a flood loan or any other distress loan. I mean that's the way I'm going to face this thing. This is going to be a distress loan - don't kid ourselves. It's going to be a bankable - that the word?

Upson: That's a good word.

A.A.Jr: Right?

Taylor: (Nods yes)

A.B.Jr: Now, it's just a question whether the President wants to say, "Well, we'll do this, make bankable loans, or good business loans." Now, these small business men that came in to see me - I said to this fellow, "Well, whom do you represent?" "Well, I represent 1100 stores - men's furnishings." "Well, what's your trouble?" "Well, on the first of January we found that we had a lot of inventory on hand, lot of high cost inventory, and we have so many obligations ..." "Well, what would you like?" "Well, we'd like the Government to underwrite us our loss on our inventories as of the first of January." Huh?

Bell: We do it on cotton.

A.A.Jr: Well, that's different.

Bell: Not far removed.

A.A.Jr: No, no. There's all the difference in the world. After all, there are votes in "them cotton fields."

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Well, I think if this thing could be brought up a little bit differently - I still don't just know if we - I suppose about the best way is to let Douglas sound off, or what do you think?

Taylor: We thought - go ahead, Herman.

Wilmington: I think we're all in agreement with what you just said about if it's an emergency loan it ought to be set up like one, and we decide if we're going to take a loss, just take a loss and write it off and forget it.

Now, I had a further idea. That would be Number Two. I think it would be unfortunate if our position is as negative as that. I'd like to go a little further.

A.C. Jr: Well, that isn't a negative position.

Wilmington: Well, I think maybe

A.C. Jr: I say if we want to do it, let's recognize it. This is an emergency matter; let's set it up as an emergency agency. Let's say, "All right, we may lose half a billion or a billion dollars. Go ahead." - if that's what the President wants. Nothing negative about that. Just recognizing what kind of business we're getting into.

Wilmington: From my standpoint, which I'm going to explain in a moment, it is negative. That is, I have this feeling very strongly, that if you adopt that a hundred percent but have two parts to our program, the other part to our program is to try to begin to build some sort of a system that could begin to operate in this field so that in time we do deal with the situation you had in Farm Credit. You're talking here about investment credit field. You had a situation over in Farm Credit where the farmer needed loans and the commercial banks wouldn't make him loans, and he was having to go to the local loan sharks to get his loans. And Bill Myers set up a system of credit associations and on top of that operated the Intermediate Credit Banks, through which farmers did get access to the low cost money market. And I think this group might very well think in terms of some sort of a system that would start with the beginnings of investment bankers and finance

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companies, and erect some sort of a system on top of it, with the Government out of it, or out of it as rapidly as it could be.

H.M.Jr: Well, of course, I think

Oliphant: Very sketchy presentation of the idea.

H.M.Jr: No, I know what you mean. But the thing I think we ought to realize is, after all, the kind of banking system we've got at the present - I mean they're taking the depositors' money and then they use that as a credit base with which to loan money to people on - well, I mean at least on - over a certain length of time, maybe a year, while the depositors' money is on a 24-hour basis. And when we recognize that fact, that the depositors' money is on a 24-hour basis and these other loans are on a longer basis - well, the fellow who sits there at the head of that bank is always on the uneasy seat, because he doesn't know when the depositor is going to call on him. They are on a 24-hour basis, but his loans are on a monthly basis or longer.

Now, if they're going to be really intelligent about this thing - I mean have to call a spade a spade and get into this whole question of hundred percent reserves, and do we want to separate checking accounts from commercial banking, and - I mean really go at this thing, not just in a superficial way, and say, "All right, now, checking accounts is one kind of banking, and supplying industry with their needs for credit is an entirely different kind of thing." And then always bearing in mind that here we've got the banks with how many Governments in their portfolio?

Opnam: About 16 billion.

H.M.Jr: 16 billion. And I don't think that people can just kind of toy with this thing. I mean it's - the whole set-up, right or wrong, is built on that present thing with the banks holding a little over - not quite half of the public debt. And I am perfectly willing to go in on either basis; that is, to set up a relief agency, knowing that this thing is going to cost us X hundreds of millions of dollars, and take care of it on a relief basis like Commodity Credit, or go at it like Farm

Credit and set up a permanent thing.

Wilmington: Well, I said

H. H. Jr.: I think it's "either ... or."

Wilmington: Huh?

H. H. Jr.: I think it's "either ... or." But I'm not going to kid myself.

Wilmington: Well, Bill agreed with me that the thing the country needed most of all was rehabilitation of investment banking and investment bankers, and that's strictly separated now from commercial banking. Your commercial loan, although longer than the deposit liability, is after all repayable out of gross receipts as opposed to being repayable out of accumulated profits.

Wilmington: Of course, the so-called commercial banks - one of their difficulties is that that type of commercial loan has rapidly shrunk, so they're going into this investment idea.

Wilmington: Which is very bad.

Wilmington: And I think the Secretary's point that he raised is very fundamental to this whole thing: that to consider this adequately you've got to consider the present structure, which includes the whole so-called commercial banking set-up.

Wilmington: Well, I agree with that. In back of my mind is the idea of getting commercial banks out of investment credit.

Wilmington: That's right. Then they'd go broke unless they have the Governments, which they live on now, see?

H. H. Jr.: Well, I don't - I think a man like Jones is conscious of this thing. I think Ransom knows what it's all about. I don't know whether the other boys do or not. But I think this kind of - I don't think we can apply a "hit or miss" or "trial of"

Wilmington: "Trial and error."

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- H.M.Jr: ".... trial and error" method to this thing at this time. But no one has ever had the courage - I mean just to sit down and do the hard work that is necessary to study this thing, and I just - Herman, if you don't mind, I don't just - saying that the answer is the private investment banker - I don't know whether that's the answer or not; when you get into it, the way they are fixed today, I don't know whether they have enough capital.
- Oliphant: Well, they haven't. They and the finance companies together haven't enough capital. That's one of the problems. That's one of the problems.
- H.M.Jr: And then, not having enough capital, one loss wipes them out.
- Oliphant: That's one of the problems.
- H.M.Jr: And if they're going to do this thing, this is a big study which can't even be turned out in a week or ten days.
- Oliphant: Six months' job.
- H.M.Jr: It's a six months' job.
- Taylor: At least.
- H.M.Jr: And then in this thing would come this whole question of the final disposition of Federal Deposit and the Comptroller's office, and this whole thing - I mean bank examinations - I mean everything that people have been afraid to tackle, and all that.
- Oliphant: Well, this bill that they sent over here - who drafted it?
- Taylor: Abe Ginsberg.
- Oliphant: Ginsberg. Pretty obviously looks in two directions. Looks in the direction you first mentioned: the emergency - treating it as an emergency; and also looks in the direction of trying to begin to build some sort of permanent system.
- H.M.Jr: Wayne, am I talking your language?

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Taylor: (Nods yes)

H.M.Jr: Huh? But I still am trying to think how to approach this thing, on account of the individuals that are coming over. They have given up the idea of building - how many houses were they going to build over there, Ed?

Taylor: 750,000.

H.M.Jr: 750,000 houses.

Foley: That's right.

Bell: Over where?

H.M.Jr: Over at Jimmy Roosevelt's. Going to build 750,000 houses, weren't they?

Foley: Something like that.

H.M.Jr: Well, this is a thing now - this is a drive opposite this.

Bell: Seems to me, Mr. Secretary, that you've got to let somebody outline this program, because I understand that Mr. Jones has not seen this bill. He's only heard about it.

Foley: I think that's right. I don't think that - this hasn't been sent to anybody except the Treasury. It hasn't been sent to Federal Reserve or R.F.C. unless it's been done within the last 24 hours, because Ginsberg told me we were the only people that had it.

H.M.Jr: All right. That may be an honor.

Taylor: I think the question method is about as well as you can approach it. In other words, let's define the field that we're talking about. And that's why we prepared those six divisions, because that does take in everything that they have in - I think, in their bill. And you can - after you've gotten the field narrowed down, why, then you can talk to the particular thing, the side that you want to talk to.

H.M.Jr: But I'm perfectly satisfied, and everybody since the banking crisis of '33, that the credit machinery of this country could take care of industry, but needed a thorough overhauling.

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Taylor: Absolutely.

H.M.Jr: But I'm not satisfied at all that the present situation needs the setting up of an emergency agency to take care of the needs, which I don't think exist at present.

Now, that's the whole question, huh?

Upham: Dead right.

H.A.Jr: I'm not convinced that the present situation needs a hurry-up bill, slap-dash, which would go in and try to meet a need which doesn't exist. You see, the situation as it is today - you pin people down and really - people who have the money for rent, and you ask them what they're afraid about, and they've got to talk in general terms. "They haven't got anything so they can say, "Well, the government has done this, done that." I mean they've just got to sit back and talk about this philosophy - what's that "30-day" philosophy that Kent - what's he call it? Something about "sink." What is that?

Taylor: "Citizens, we are sunk."

H.W.Jr: And the formula is "30 days or a billion dollars," isn't that it? What? "30 days or a billion dollars. Citizens, we are sunk."

Oliphant: I haven't heard of it.

H.M.Jr: Frank Kent.

Oliphant: Oh, Frank Kent.

H.E.Jr: This is what he says over the dinner table, but not in the column.

Oliphant: I see.

H.M.Jr: But frankly, if I was an investment banker or commercial banker and the Government started doing things like this at this time, then I really would have something to be frightened about.

Oliphant: Would you do the emergency loaning thing?

H.M.Jr: Emergency loaning?

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Mr. [unclear]: Have Jesse Jones begin to make large emergency loans.

Mr. [unclear]: Well, who will he make them to?

Mr. [unclear]: I don't know. I agree with you on that.

Mr. [unclear]: Who will he make them to? I'm for the thorough, careful, hard job of studying the credit system for industry of this country. I'm for that.

Mr. [unclear]: Don't you also agree that ever since the bank holiday it's been in this mess and one of our difficulties is that we thought in terms of J. P. Morgan being an investment banker instead of thinking in terms of the little investment bankers in Indianapolis.

Mr. [unclear]: Well, the whole business - I'm for the careful job, but I just haven't been able to get anybody to tell me - and I've been asking for it now - that business ... The hen isn't ready to lay an egg.

Mr. [unclear]: That's right. The hen needs some special diet.

Mr. [unclear]: The rooster hasn't been around there for a long time.

Mr. [unclear]: Could be a non-fertile one.

Mr. [unclear]: Well, I do think that is one of the questions that ought to be asked. "This thing looks in two directions. Are you thinking in terms of building for the future, or just an emergency thing to take care of a one-year emergency?"

Mr. [unclear]: Well, I think about three fellows are thinking just in terms of emergency.

Mr. [unclear]: If it is building for the future, in addition to that this is a grand chance to do six months' or a year's work.

Mr. [unclear]: Who's in disagreement with that approach? Anybody in disagreement with that approach? Well, this has helped me. This has helped a lot.

Mr. [unclear]: Only one question, Mr. Secretary. It might be said that this bill if it was enacted would certainly work and they'd get business, and I think they would, because there would be a lot of people who would sell their

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equities and get favorable rates, because your rates are much lower than the risk would warrant. So in that way you could get business.

H.M.Jr: But wait a minute.

Haas: I agree with everything, but somebody might ask

H.M.Jr: But wait a minute. Suppose the X.Y.Z. Manufacturing Company sells five hundred million dollars worth of common stock to the new Government bank. That doesn't mean it gives them any orders.

Haas: . No, no.

H.M.Jr: That doesn't mean it would give them any orders.

Taylor: Give an order to somebody else for machinery, or whatever it might be.

H.M.Jr: You see, I'm convinced - now, the President has been kind enough to have me sit in - I'm convinced for the first time that this is all very much - that he is really grappling with this railroad thing, for the first time he is really grappling with the public utilities, and I think we've got the housing thing licked. Now, those are the three things that people have been talking about. And if they're going to come along, I'm not convinced that the 30 days are up or that we're sunk. That's the whole thing. But I think that - and I don't think we want to have some fellow on the inside open up the locks ...

Taylor: Flood-gates.

H.M.Jr: ... the locks and let the water in, huh? - I mean sink the ship ourselves.

We haven't got anybody in the shop that knows anything about railroads, have we?

Haas: There's a few.

Oliphant: Those with the lowest money.

Haas: There's a few of the people around know something about railroad securities, in that they had to get down into studying some railroad earnings.

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H.H.Jr: Again very much in the room, at the present I don't think - here's what he asked me to do; when he gets this report from Splawn Thursday, we're supposed to take it and digest it for him and send it down to him at once.

Bell: Huh-huh.

H.H.Jr: That's Jones, Douglas, and the Treasury.

Bell: Really?

H.H.Jr: We're to take it and digest it for him in a form so that ~~he~~ he can use a summary of it - so he can use it for a message to Congress. And perfectly frankly, when I listened to Splawn - and I just wondered if you - somebody couldn't be inquiring whether they have a research staff, if they've got a Blaisdell, for instance, see?

Bell: Splawn is that fellow. I mean he's quite a research man.

H.H.Jr: But you can't take Splawn's report and say to Splawn, "I want to pull it to pieces for the President." Know what I mean?

Haas: There is a staff over there. I know the fellow. What's his name, Lorenz?

H.H.Jr: Who?

Haas: Guy named Lorenz. I'm not sure he's still there.

H.H.Jr: Lorentz?

Haas: Lorenz. I'm not sure.

H.H.Jr: Director and producer of "The River"? The man that "broke the prairie"?

Well, if anybody - might be thinking about that, because

Bell: They have a fine section over there.

Haas: Got a Chief Statistician there.

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H.M.Jr: Does all the financing of railroads? Make a few inquiries, Dan - I mean it's a little ticklish, but

Bell: All right.

Agenda for Meeting to be Held
Wednesday, March 23.

Re: Government Assistance in Industrial Financing.

The field under discussion may conceivably comprise any or all of the following types of financing:

- (a) Long-term investment credit for relatively small industrial enterprises;
- (b) Long-term investment credit for relatively large industrial enterprises;
- (c) Equity capital for relatively small industrial enterprises;
- (d) Equity capital for relatively large industrial enterprises;
- (e) Underwriting capital for relatively small communities;
- (f) Underwriting capital for relatively large communities.

The following questions may be asked with regard to each of the foregoing types of financing:

- (1) What are the needs of industry in the foregoing categories not met by existing Federal and non-Federal machinery? Is private capital available on reasonable terms at present? Is it available under any conditions?
- (2) Is Federal assistance necessary in one or more of the foregoing fields, and if so, in which field or fields should it operate? Should Federal financial assistance be extended to venturesome as well as seasoned enterprises?
- (3) If Federal assistance is furnished, to what extent and in what manner should private investment banking institutions be safeguarded and bolstered?
- (4) What is the most feasible method of supplying Federal credit?

-2-

- (a) Should Federal credit be available only on an emergency basis? If not, what should be the standards which govern the extension of such credit? For example, should the credit be extended upon terms similar to long-term farm and home financing? Should the cost of industrial financing be comparable to the cost of long-term farm and home financing?
- (b) Should a new Federal agency be established or are existing Federal agencies qualified to extend credit in this field?
- (c) Should private capital participate in the stock ownership of any existing Federal agency or any new one which may be created to function in this field? If so, should the Federal Government guarantee the resultant senior securities? Should the Government stand ready to purchase such securities? What device should be employed for supplying the Federal Government's contribution to capital of the new Federal agencies?

message
on loans to
industry.

(b). Industrial Bks
or a substitute (credit)

(h). Food control (2% Plan)
to benefit wealthy
Reforestation

credit for ^{net} receipts as
from electricity. Benefits
of receipts credited to
States.

AGENDA FOR MEETING TO BE HELD
WEDNESDAY, MARCH 25.

Re: Government Assistance in Industrial Financing.

The field under discussion may conceivably comprise any or all of the following types of financing:

- (a) Long-term investment credit for relatively small industrial enterprises;
- (b) Long-term investment credit for relatively large industrial enterprises;
- (c) Equity capital for relatively small industrial enterprises;
- (d) Equity capital for relatively large industrial enterprises;
- (e) Underwriting capital for relatively small communities;
- (f) Underwriting capital for relatively large communities.

The following questions may be asked with regard to each of the foregoing types of financing:

- (1) What has been the experience of the RFC, the Federal Reserve Banks and any other Federal agencies authorized to furnish financial assistance to industrial enterprises?
 - (a) What needs of industry have not been met by these agencies?
 - (b) What have been the restrictions or impediments which have prevented these agencies from meeting such needs?
 - (c) What have been the criticisms levied by industry against the policies of these agencies?
- (2) Are the industrial needs, if any, emergency or permanent in character?
 - (a) If of an emergency character, can such needs be met by existing agencies (possibly through a change in their policies and possibly through an expansion of their powers)?

-2-

- (b) If of a permanent character, are we prepared without further study of the entire banking machinery to recommend legislation at this time?

Agenda for Meeting in Office of Secretary
of the Treasury, Wednesday, March 23, at
1:00 P.M.

Re: Industrial Finance Act of 1938, (Fourth Draft,
March 15, 1938) - Proposed by Mr. Douglas.

I. Summary of Proposed Bill. The bill would establish an independent agency called the Industrial Finance Board which in turn would have authority to establish not to exceed 15 Industrial Finance Banks. The Banks would have a two-year life, subject to being extended by the Board if there are no private institutions in their respective districts furnishing credit and financing facilities similar to those furnished by the Banks. RFC would have authority to assist private institutions to replace the public banks by subscribing to a fraction of their capital. The capital of the Industrial Finance Banks would be furnished by RFC allocation. The Banks would be authorized to issue guaranteed debentures up to 15 times their subscribed capital. The Banks would be authorized to finance industrial or commercial business or enterprises, seasoned or promotional in character, by (1) direct loans, (2) acquisition of securities, (3) underwriting, and (4) rediscounting for other credit institutions. The loans would be for a period of five years, extendable up to 10 years. The terms and conditions are left largely to the discretion of the Board. The Banks would be authorized to rediscount their paper with Federal Reserve banks.

II. Fundamental Questions Which Must Be Answered Before Details of Bill Can Be Considered. (1) What has been the experience of the RFC, the Federal Reserve banks and any other federal agencies authorized to furnish financial assistance to industrial enterprises?

- (a) What needs of industry have not been met by these agencies?
 - (b) What have been the criticisms levied by industry against the policies of these agencies?
 - (c) What have been the restrictions or impediments which have prevented these agencies from meeting such needs?
- (2) Are the industrial needs, if any, emergency or permanent in character?
- (a) If of an emergency character, can such needs be met by existing agencies (possibly through a change in their policies and possibly through an expansion of their powers)?

- 2 -

- (b) If of a permanent character, are we prepared without further study of the entire banking machinery to recommend legislation at this time?

RECONSTRUCTION FINANCE CORPORATION
WASHINGTON

EMIL SCHRAM
MEMBER OF THE BOARD

February 26, 1938

*This has
been
acknowledged
me*

Dear Mr. Secretary:

I inclose a copy of a letter which the
Chairman is sending to all banks and bankers, and
insurance companies in the country.

Sincerely yours,

Emil Schram

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

1

RECEIVED FEB 28 1938

RECONSTRUCTION FINANCE CORPORATION
WASHINGTON

THOMAS H. JONES
CHIEF OF THE BOARD

February 26, 1938

Dear Sirs:

In a desire to get the Government out of the lending business, the President, October 18, 1937, instructed the Reconstruction Finance Corporation to take no more new applications. Since that time it has been necessary to modify those instructions in certain emergency situations.

Due to the sharp decline in business and employment, the President has now requested that we resume lending to deserving borrowers where the law permits, and where credit is not otherwise available.

Accordingly, we have instructed our thirty-two offices to accept applications for loans, and that they be considered by our advisory committees as heretofore, but we would greatly prefer that banks cooperate with us by originating the loans and taking a participation in them.

The Reconstruction Finance Corporation will have no hard and fast rule as to what part of a loan it will take in participation with banks. The purpose and circumstances in each instance will govern. Agreements can be reached at the time the loan is authorized, and if the lending bank wishes to carry the entire loan, the Reconstruction Finance Corporation will contract with the bank to take over such portion of it as may be agreed upon. The take-out can be on demand or at stated periods, whichever the bank prefers. The Reconstruction Finance Corporation will require some part of the interest for this underwriting.

Many industrial loans are good that are not necessarily desirable for a bank, because payment of the loan will depend too much on the profitable operation of the borrower. This is the type of loan we would like the cooperation of banks in making, where employment will be provided, and the security will reasonably assure ultimate liquidation of the loan.

Our banking laws permit such loans, and bank examiners need not and should not criticize or call special attention to them.

-2-

Borrowers need to have definite maturities that they can hope to meet, very much longer than has been the custom in commercial banking.

The small units in business and industry comprise the major part of it, and loans that will give employment even for a few people will stimulate business and relieve the government relief rolls to that extent.

I am aware that some want to borrow who have no reasonable assurance of being able to repay the loans, but many of these can be helped if we take the pains to examine into and work out a program for them.

I am also aware that all banks want to lend and are looking for good loans. My suggestion is that we try a little harder, and avail ourselves of the more liberal banking laws in granting credit, particularly as to maturities and the character of security required.

It is the responsibility, and I am sure the wish, of all of us, to do everything we can to assist in getting back to normal conditions.

In that spirit and belief, we ask the wholehearted cooperation of banks in meeting every legitimate demand for credit that induces employment and produces wealth.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Jesse H. Jones", with a stylized, sweeping underline.

Jesse H. Jones
Chairman

To Banks and Bankers

MAR 18 1938

Hon. William O. Douglas,
~~Chairman,~~
Securities & Exchange Commission,
Washington, D. C.

My dear Mr. Douglas:

This will acknowledge receipt of your memorandum of March 17, transmitting a copy of some proposed legislation. I will have it examined and give you my comments shortly.

Sincerely yours,

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

FM:lll
Typed 3/18/38

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MAR 18 1938

Fourth Draft : D.G.

March 15, 1938

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CONFIDENTIAL

Industrial Finance Act of 1938

INDUSTRIAL FINANCE ACT OF 1938

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A BILL

To provide for the financing of commercial and industrial establishments and to maintain and increase the employment of labor by the creation of Industrial Finance Banks with limited powers to lend, acquire securities, underwrite, discount and rediscount; to perform functions not presently performed by private investment banks, to cooperate with such investment banks in the restoration and maintenance of sound capital markets, and to further the development of local private investment banking facilities; to release idle funds from State and National banks and direct such funds into the channels of industrial and commercial enterprise; to enable such enterprise to increase production, extend operations, and modernize plant and equipment; and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled.

Short Title

Section 1. This Act may be cited as the "Industrial Finance Act of 1938".

Definitions

Section 2. As used in this Act -

(a) The term "Board" means the Industrial Finance Board.

(b) The term "bank" or "Industrial Finance Bank" means a bank established by the Board under the authority of this Act.

(c) The term "State" means any State of the United States, the District of Columbia, Puerto Rico, the Virgin Islands, and the Territories of Alaska and Hawaii.

(d) The term "person" means an individual, a corporation, a partnership, an association, a joint-stock company, a business trust, or an unincorporated organization.

(e) The terms "security" or "securities" mean any note, stock, treasury stock, bond, debenture, evidence of indebtedness, or collateral-trust certificate.

(f) The term "equity security" means any stock or similar security, or any security convertible without consideration into such a security.

(g) The term "financial or credit organization" means any member institution of the Federal Reserve System, State bank, trust company, industrial or commercial credit corporation, incorporated loan and finance company, savings institution, cooperative bank, building and loan association, cooperative credit or marketing association, or other similar organization.

(h) The term "underwrite", when used with reference to any bank, includes (1) any purchase, or agreement to purchase, from an issuer of all or any part of an issue which is not subscribed for or sold through underwriters, or otherwise; or (2) any purchase, or agreement to purchase, from any underwriter of all or any part of an issue which is not otherwise disposed of.

(i) The term "underwriter" means any person who purchases or agrees to purchase, from an issuer with a view to the distribution of any security, or participates or has a direct or indirect participation in any such undertaking, or participates or has a participation in the direct or indirect underwriting of any such undertaking.

(j) The term "principal stockholder" means any person who directly or indirectly owns, controls, or holds with power to vote, 10 per centum or more of any class of voting securities.

Industrial Finance Board

Section 3. (a) There is hereby established an Industrial Finance Board to be composed of five members appointed by the President of the United States by and with the advice and consent of the Senate. Not more than three members of the Board shall be members of the same political party, and in making appointments members of different political parties shall be appointed alternately as nearly as may be practicable. In selecting the members of the Board, not more than one of whom shall be selected from any one Industrial Finance district, the President shall have due regard to the desirability of the appointment of men qualified by experience or training in the field of intermediate or long-term commercial and industrial credit, and to the geographical divisions of the country. No member shall engage in any other business, vocation or employment than that of serving as a member of the Board. Each member shall receive a salary at the rate of \$20,000 a year, payable monthly, together with actual necessary traveling expenses, and shall hold office for a term of five years, except that (1) any member appointed to fill a vacancy occurring prior to the expiration of the term for which his predecessor was appointed, shall be appointed for the remainder of such term, and (2) the terms of office of the members first taking office after the date of the enactment of this Act shall expire, as designated by the President at the time of nomination, one at the

end of one year, one at the end of two years, one at the end of three years, one at the end of four years, and one at the end of five years after the date of enactment of this Act. Before entering upon his duties, each member shall take an oath faithfully to discharge the duties of his office. The President shall designate one of the members as chairman of the Board, who shall be the chief executive officer of the Board; in his absence or disability the duties of his office shall be performed by some one of the other members to be designated as acting chairman by the chairman in such order as he may determine. The Board shall supervise the Industrial Finance Banks authorized by this Act, shall perform the other duties specifically prescribed by this Act, and shall have power to adopt, amend, and require the observance of such rules, regulations, and orders as shall be necessary from time to time for carrying out the purposes of the provisions of this Act.

(b) The Board is authorized to appoint and fix the compensation of such officers, attorneys, examiners, and other experts as may be necessary for carrying out its functions under this Act, without regard to the provisions of other laws applicable to the employment and compensation of officers and employees of the United States, and the Board may, subject to the civil-service laws, appoint such other officers and employees as are necessary in the execution of its functions and fix their salaries in accordance with the Classification Act of 1923, as amended.

(c) The Board is authorized to suspend or remove any director, officer, attorney, examiner, or other expert or employee of any

Industrial Finance Bank, the cause of such suspension or removal to be communicated in writing forthwith to such director, officer, attorney, examiner, or other expert or employee, and to such Industrial Finance Bank.

(d) The Board shall determine and prescribe the manner in which its obligations shall be incurred and its expenses allowed and paid.

Industrial Finance Bank Districts

Section 4. (a) As soon as practicable the Board shall divide the continental United States, Puerto Rico, the Virgin Islands, and the territories of Alaska and Hawaii into no more than fifteen districts. Such districts shall be apportioned with due regard to the purposes of this Act and the convenience and customary course of business, and shall not necessarily be coterminous with any State or States. The districts thus created may be readjusted and new districts may from time to time be created by the Board, not to exceed fifteen in all. Such districts shall be known as Industrial Finance Bank districts and may be designated by number. As soon as practicable the Board shall establish, in each district, an Industrial Finance Bank at such city as may be designated by the Board. Its title shall include the name of the city at which it is established.

(b) The principal office of the Board shall be in the District of Columbia. The Board may establish branch offices in each Industrial Finance city, and such additional branch offices as it deems necessary.

Management of Industrial Finance Banks

Section 5. (a) The management of each Industrial Finance Bank shall be vested in a board of nine directors, all of whom shall be citizens of the United States and bona fide residents of the district in which such bank is located.

(b) Five of such directors, who shall be known as Class A directors, shall be appointed by the Board and shall hold office for terms of four years.

(c) Four of such directors, who shall be known as Class B directors, shall be selected as provided in subsection (d) and shall hold office for terms of two years.

(d) The Board shall classify persons who are entitled to vote for three of the Class B directors of each bank into groups to be designated as Groups A, B, and C, which groups shall represent, respectively, and as fairly as may be: Group A, issuers of securities held by such bank; Group B, investment bankers resident, doing business, and whose principal place of business is established in the district within which such bank is located; and Group C, debenture holders of such bank. Each such person shall be entitled to nominate suitably qualified persons for election as directors of the class corresponding to the group to which such person belongs, and shall be entitled to cast one vote. The directors of each class shall be nominated and elected in accordance with such rules and regula-

tions or orders as may be prescribed by the Board. The Board shall appoint the fourth Class B director who shall be a representative of labor of the district within which such bank is located.

(e) Any director appointed or elected as provided in this section to fill a vacancy shall hold office only until the expiration of the term of his predecessor.

(f) The Board shall designate one of the directors of each bank to be chairman, and one to be vice chairman, of the board of directors of such bank.

(g) Each bank may pay its directors reasonable compensation for the time required of them, and their necessary expenses, in the performance of their duties, in accordance with the resolutions adopted by such directors, subject to the approval of the Board.

(h) No director, officer, attorney, examiner, or other expert or employee of any bank shall in any manner, directly or indirectly, participate in the deliberation upon or the determination of any question affecting his personal interests, or the interests of any corporation, partnership, or association in which he is directly or indirectly interested.

Incorporation of Industrial Finance Banks

Section 6. (a) The directors of each Industrial Finance Bank shall, in accordance with such rules and regulations as the Board may prescribe, make and file with the Board at the earliest practicable date after the establishment of such bank, an organization certificate which shall contain such information as the Board may require. Upon the making and filing of such certificate with the Board, such bank shall become, as of the date of the execution of its organization certificate, a body corporate and an instrumentality of the United States, and as such, and in its name as designated by the Board, it shall have the power to adopt, alter, and use a corporate seal; to make contracts; to purchase or lease and hold or dispose of such real estate as may be necessary or convenient for the transaction of its business; to sue and be sued, to complain, and to defend, in any court of competent jurisdiction, state or federal; to appoint and fix the compensation in like manner as the Board of such officers, attorneys, examiners, or other experts or employees as may be necessary for the transaction of its business; to define their duties, require bonds of them, and fix the penalties thereof, and, subject to the applicable civil-service laws, dismiss at pleasure such officers, attorneys, examiners, or other experts or employees; and, by its Board of Directors to

prescribe, amend, and repeal by-laws, rules, regulations and orders governing the manner in which its affairs may be administered; and to exercise by its board of directors or duly authorized officers or agents all powers specifically granted by the provisions of this Act and all such incidental powers, not inconsistent with the provisions of this Act, as are customary and usual in corporations generally. Each bank shall have succession until it is dissolved by an Act of Congress. The President of an Industrial Finance Bank may also be a member of the Board of Directors thereof, but no other officer, attorney, examiner, or other expert or employee of such bank, who receives compensation may be a member of the Board of Directors.

(b) When designated for that purpose by the Secretary of the Treasury, each Industrial Finance Bank shall be a depository of public money, except receipts from customs, under such regulations as may be prescribed by said Secretary; and it may also be employed as a financial agent of the Government; and it shall perform all such reasonable duties as depository of public money and financial agent of the Government as may be required of it.

(c) Each bank shall have free use of the United States mails in like manner as the executive department of the Government.

(d) Subject to the approval of the Board each bank shall have power to establish such branches as may be necessary in the district within which such bank is located.

Liquidation of Industrial Finance Banks

Section 7. (a) Upon the expiration of a period of two years from the date of incorporation, or of any extension thereof by the Board, each bank shall, except as otherwise herein specifically provided, proceed to liquidate its assets and wind up its affairs. All of the directors of such bank shall serve as liquidating trustees, subject to the supervision of the Board and under the terms and conditions applicable to Class A directors of Industrial Finance Banks. Each bank may with the approval of the Secretary of the Treasury deposit with the Treasurer of the United States as a special fund any money belonging to the bank or from time to time received by it in the course of liquidation or otherwise, for the payment of principal and interest of its outstanding debentures or for the purpose of redemption of such debentures in accordance with the terms thereof, which fund may be drawn upon or paid out for no other purpose. The bank may also at any time pay to the Treasurer of the United States as miscellaneous receipts ¹ any money belonging to the bank or from time to time received by it in the course of liquidation or otherwise in excess of reasonable amounts reserved to meet its requirements during liquidation. Upon such deposit being made, and after the retirement or making provision for the retirement of all outstanding debentures, such amount of the capital stock of the bank as may be specified by the bank with the approval of the Board, but not exceeding in par

value the amount so paid in, may be cancelled and retired. Any balance remaining after the liquidation of all the assets of the bank and after provision has been made for payment of all regular obligations of any kind and character shall be paid into the Treasury of the United States as miscellaneous receipts. Thereupon the bank shall be dissolved and the residue, if any, of its capital stock shall be cancelled and retired.

(b) No bank shall proceed to liquidate its assets and wind up its affairs until the Board is reasonably satisfied that substantially those credit and financing facilities provided by the bank under authority of this Act are available on similar terms and conditions through one or more persons resident in the district within which such bank is located, and whose principal place of business is therein established. Each such person shall be designated by the Board for purposes of this section, as a "Private Industrial Finance Bank". If, after liquidation of any bank, the Board determines that the credit and financing facilities of a Private Industrial Finance Bank are no longer available in the district within which such bank had been located, the Board is authorized and empowered to reestablish an Industrial Finance Bank within such district.

(c) Subject to the approval of the Board and to such rules and regulations or orders as may be prescribed by the Board, one-third of the capital stock, which may be common or preferred stock, or such smaller fraction as may be specified by the Board, of any

person designated as a Private Industrial Finance Bank shall be subscribed for by the Reconstruction Finance Corporation. Payment for such subscriptions shall be subject to call in whole or in part by such bank upon order of the Board and shall be made at such time or times as the Reconstruction Finance Corporation deems advisable. The Reconstruction Finance Corporation is authorized and directed to allocate and make available to the bank upon order of the Board such sum as may be necessary, and for such purpose the amount of the notes, bonds, debentures, or other such obligations which the Reconstruction Finance Corporation is authorized and empowered under section 3 of the Reconstruction Finance Corporation Act, as amended, to have outstanding at any one time is hereby increased by such amounts as may be necessary. The Reconstruction Finance Corporation may, with the approval of the Board, and under such rules, regulations, or orders as the Board may prescribe, assign, sell, transfer, or otherwise dispose of in the open market or otherwise the whole or any part of the capital stock of any Private Industrial Finance Bank acquired by the corporation pursuant to this section.

(d) The Board shall appoint, as nearly as may be, such number of the board of directors of any Private Industrial Finance Bank as the stock ownership of the Reconstruction Finance Corporation bears to the total amount of capital stock of such person issued and outstanding. Directors appointed under this subsection shall

serve under the terms and conditions applicable to Class A directors of Industrial Finance Banks.

(e) In the case of the liquidation of any bank, any other bank may, with the approval of the Board, acquire the assets of such liquidated bank and assume the liabilities thereof, in whole or in part.

Capital of Industrial Finance Banks

Section 8. The Board shall determine the minimum amount of capital stock of each Industrial Finance Bank and is authorized to increase such capital stock from time to time in such amounts as may be necessary, but not to exceed in the aggregate \$ _____. Such stock shall be subscribed for by the Reconstruction Finance Corporation and payment for such subscriptions shall be subject to call in whole or in part by the Board and shall be made at such time or times as the Reconstruction Finance Corporation deems advisable. The Reconstruction Finance Corporation is authorized and directed to allocate and make available to the Board such sum as may be necessary, and for such purpose the amount of the notes, bonds, debentures, or other such obligations which the Reconstruction Finance Corporation is authorized and empowered under section 9 of the Reconstruction Finance Corporation Act, as amended, to have outstanding at any one time, is hereby increased by such amounts as may be necessary. Each Industrial Finance Bank receiving such payments shall issue receipts therefor to the Reconstruction Finance Corporation and such receipts shall be evidence of the stock ownership of that Corporation.

Debentures of Industrial Finance Banks

Section 9. (a) Each bank is authorized and empowered to issue and to have outstanding at any one time debentures in the amount aggregating not more than fifteen times its subscribed capital; such debentures to mature not more than twenty years from their respective dates of issue, to be redeemable at the option of the bank, before maturity, in such manner as may be stipulated in such debentures, and to bear such rate or rates of interest as may be determined by the bank. Such debentures may be secured by assets of the bank in such manner as shall be prescribed by its board of directors, and shall be offered for sale at such price or prices as the bank may determine.

(b) The said debentures shall be fully and unconditionally guaranteed both as to interest and principal by the United States and such guaranty shall be expressed on the face thereof. In the event that a bank shall be unable to pay upon demand, when due, the principal of, or interest on, such debentures, the Secretary of the Treasury shall pay to the holder the amount thereof which is hereby authorized to be appropriated out of any moneys in the Treasury not otherwise appropriated, and thereupon to the extent of the amount so paid the Secretary of the Treasury shall succeed to all the rights of the holders of such debentures.

(c) Debentures of Industrial Finance Banks issued under this

Act shall be lawful investments, and may be accepted as security, for all fiduciary, trust, and public funds, the investment or deposit of which shall be under the authority or control of the United States or any officer or officers thereof. The Federal Reserve banks are authorized to act as depositaries, custodians, and/or fiscal agents for Industrial Finance Banks in the general performance of their powers under this Act.

(d) The Secretary of the Treasury, at the request of the Board, is authorized to market the debentures for the bank, using therefor all facilities of the Treasury Department now authorized by law for the marketing of obligations of the United States. The proceeds of the debentures of the bank so marketed shall be deposited in the same manner as proceeds derived from the sale of obligations of the United States, and the amount thereof shall be credited to the bank on the books of the Treasury and shall be made available to the bank upon order of the Board. The Secretary of the Treasury, in his discretion, is further authorized to purchase any debentures of a bank issued under this section which are guaranteed as to interest and principal, and for such purpose is authorized to use as a public-debt transaction the proceeds from the sale of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under such Act, as amended, are extended to include any purchases of the debentures of any bank hereunder. The Secretary of the Treasury may, at any time, sell any of the debentures of any bank

acquired by him under this subsection. All redemptions, purchases, and sales by the Secretary of the Treasury of the debentures of any bank shall be treated as public-debt transactions of the United States.

(c) The bank shall have power to purchase in the open market at any time and at any price not to exceed par any of the debentures issued by it. Debentures so purchased may be sold or resold at any time at any price.

(f) All action taken by any bank under this section shall be subject to the approval of the Board and to such rules and regulations or orders as may be promulgated by the Board.

Taxation of Industrial Finance Banks

Section 10. Industrial Finance Banks shall be subject to taxation to the same extent as State-chartered corporations, except that no State or political subdivision thereof shall impose any tax on any such bank or its franchise, capital, reserves, surplus, loans, income, purchases, sales, or stock, or its securities or the income therefrom, at a greater rate than that imposed by such State on corporations, domestic or foreign, engaged in similar business within the State. Nothing herein shall be construed to exempt the real property of such banks from taxation by any State or political subdivision thereof, to the same extent, according to its value, as other real property is taxed. Taxation by a State of the debentures of any bank shall not be at a higher rate than the rate applicable to other moneyed capital in the hands of individual citizens thereof.

Loans by Industrial Finance Banks

Section 11. (a) To aid in financing commerce and industry and to maintain and increase the employment of labor, each Industrial Finance Bank is authorized and empowered to make loans upon such terms and conditions not inconsistent with this Act as it may determine to any person doing business in the district within which such bank is located and who is therein engaged in producing or marketing goods or services, or in some other industrial or commercial business or enterprise, seasoned or promotional in character. Each such loan may be made for a period not exceeding five years, and the bank may from time to time extend the time for payment of any such loan, through renewal, substitution of new obligations, or otherwise, but the time for payment of all or any part of such loan shall not be extended beyond ten years from the date upon which such loan was made originally.

(b) All loans made under the foregoing provisions shall, in the opinion of the bank, be so secured as reasonably to assure repayment of the loan. The bank, under such terms and conditions as it shall prescribe, may take over or provide for the administration, liquidation, and substitution of any collateral accepted by it as security for such loans. Such loans may be made directly upon promissory notes or by way of discount or rediscount of obligations tendered for the purpose, or otherwise in such form and in such amount and at such interest or discount rates as the bank may approve.

(c) In no case shall the aggregate amount loaned under this section to any one person and its subsidiary or affiliated organizations exceed at any one time 2 per centum of the issued and outstanding capital stock of the bank plus 2 per centum of the aggregate amount of debentures of such bank issued and outstanding.

(d) No loan shall be made, renewed, or extended under this section if at the time of making, renewing, or extending such loan any executive officer or director of the borrower is receiving compensation at the rate in excess of what appears reasonable to the bank, and unless the borrower agrees to the satisfaction of the bank that so long as such loan remains outstanding and unpaid the borrower will not, except with the consent of the bank, (1) increase the compensation received by any of its executive officers or directors of such borrower and any of its affiliates, or (2) retire any of its stock, notes, bonds, debentures, or other forms of indebtedness issued for capital purposes. For the purposes of this subsection the term "compensation" includes any salary, fee, bonus, commission, or payment, direct or indirect, in money or otherwise, for personal services.

(e) No loan shall be approved by any bank under this section, directly or indirectly, to any person, any officer, director or principal stockholder of which is a member of the board of directors of such bank or has been such a member within the twelve months preceding the approval of the loan.

(f) Upon the endorsement of any bank, which shall be deemed a waiver of demand, notice, and protest by such bank as to its own endorsement exclusively, and subject to regulations to be prescribed by the Federal Reserve Board, any note or other obligation evidencing a loan under this section shall be eligible for discount or rediscount by the Federal Reserve bank for the Federal Reserve district in which such bank is located. The rate of interest charged by the Federal Reserve bank shall be the same as that charged by it for the discount, or rediscount of ninety-day notes drawn for commercial purposes. Any bank holding any note or other obligation evidencing a loan under this section may sell such note or other obligation to, or discount or rediscount it with, any other bank.

(g) No fee or commission shall be paid by any applicant for a loan under the provisions of this section in connection with any such application or any loan made or to be made under this section, and the agreement to pay or payment of any such fee or commission shall be unlawful.

(h) Each bank is authorized and empowered to charge costs incident to making any loan under this section: Provided, That such costs shall not exceed 2 per centum on loans up to \$25,000, and shall not exceed 1-1/2 per centum on loans from \$25,001 to \$50,000, and shall not exceed 1 per centum on loans from \$50,001 to \$100,000, and shall not exceed one-half of 1 per centum on loans over \$100,000.

(i) In all cases where the bank shall hold any bonds or other evidences of indebtedness of any person, and such person shall be able and willing to substitute or cause to be substituted therefor any other bonds or any other evidences of indebtedness, whether of the same or longer maturities, or otherwise differing, which, in the judgment of the bank are more desirable than those so held, the bank is authorized and empowered to accept such bonds or other evidences of indebtedness in exchange and substitution for the bonds or other evidences of indebtedness so held by it, upon such terms and conditions as may be agreed upon with such person at the time of, or in contemplation, the exchange and substitution.

(j) Any person indebted to any bank under this section may discharge such obligation in part or in full at any time before maturity of the loan.

(k) Any person indebted to any bank under this section may make payment in part or in full by delivery to it of debentures of such bank which shall be accepted for such purpose at face value.

(l) All action taken by any bank under this section shall be subject to the approval of the Board, and to such rules and regulations or orders as may be promulgated by the Board.

Acquisition of Securities by Industrial Finance Banks

Section 12. (a) To aid in financing commerce and industry and to maintain and increase the employment of labor, each Industrial Finance Bank is authorized and empowered to acquire by purchase from the issuer, by subscription, in the open market, or otherwise, the securities of any person who is doing business in the district within which such bank is located and who is therein engaged in producing or marketing goods or services, or in some other industrial or commercial business or enterprise, seasoned or promotional in character.

(b) No bank shall acquire the securities of any person by purchase from the issuer or by subscription, until such person shows to the satisfaction of the bank that it has unimpaired capital equal in amount and subordinate to the securities proposed to be acquired, or that such securities, if evidences of indebtedness, are so secured as reasonably to assure discharge on maturity.

(c) No bank shall acquire the securities of any person, by purchase from the issuer or by subscription, if at the time of the proposed acquisition any executive officer or director of such person is receiving compensation from such person and any of its affiliates at a rate in excess of what appears reasonable to the bank, and unless at that time the issuer agrees to the satisfaction of the bank that so long as any portion of its securities is held by the bank the issuer will not, except with the consent of

the bank, (1) increase the compensation received by any of the executive officers or directors of such issuer and any of its affiliates, or (2) retire any of its stock, notes, bonds, debentures, or other forms of indebtedness issued for capital purposes. For purposes of this subsection, the term "compensation" includes any salary, fee, bonus, commission, or other payment direct or indirect, in money or otherwise for personal services.

(d) In no case shall the aggregate amount expended under this section in the acquisition of the securities of any one person and its subsidiary or affiliated organizations exceed at any one time 2 per centum of the issued and outstanding capital stock of the bank plus 2 per centum of the aggregate amount of the debentures of such bank issued and outstanding.

(e) Each bank may assign, sell, transfer, or otherwise dispose of, with or without recourse, in the open market or otherwise, the whole or any part of any securities acquired pursuant to this section.

(f) Each bank is authorized and empowered to subscribe for, acquire, and own, buy, sell, and deal in securities issued by the United States or any instrumentality thereof.

(g) All action taken by any bank under this section shall be subject to the approval of the Board and to such rules and regulations or orders as may be promulgated by the Board.

Underwriting by Industrial Finance Banks

Section 13. (a) To aid in financing commerce and industry and to maintain and increase the employment of labor, each Industrial Finance Bank is authorized and empowered to underwrite the sale of any securities by any person who is doing business in the district within which such bank is located and who is therein engaged in producing or marketing goods or services, or in some other industrial or commercial business or enterprise, seasoned or promotional in character, or participate in underwriting the securities of such person, upon such terms and conditions not inconsistent with this Act as it may determine.

(b) No bank shall underwrite the securities of any person unless the bank is reasonably satisfied that such person is unable to obtain funds, upon terms which appear reasonable to the bank, through private investment banking channels, or otherwise, in the district within which such bank is located.

(c) No bank shall participate in underwriting the securities of any person with any underwriter who is not resident, doing business, and whose principal place of business is not established in the district within which such bank is located, unless the bank is reasonably satisfied that such person is unable to obtain all of its funds, upon terms which appear reasonable to the bank, through private investment banking channels, or otherwise, in the district within which such bank is located.

(d) No bank shall underwrite, or participate in underwriting the securities of any person until such person shows to the satisfaction of the bank that it has unimpaired capital equal in amount and subordinate to the securities proposed to be underwritten, or that such securities, if evidences of indebtedness, are so secured as reasonably to assure discharge on maturity.

(e) No bank shall underwrite, or participate in underwriting the securities of any person if any executive officer or director of such person is receiving compensation from such person and any of its affiliates at a rate in excess of what appears reasonable to the bank, and unless the issuer agrees to the satisfaction of the bank that so long as any portion of the securities underwritten is held by the bank the issuer will not, except with the consent of the bank, (1) increase the compensation received by any of its executive officers or directors of such issuer and any of its affiliates, or (2) retire any of its stock, notes, bonds, debentures, or other forms of indebtedness issued for capital purposes. For purposes of this subsection the term "compensation" includes any salary, fee, bonus, commission, or other payment direct or indirect, in money or otherwise for personal services.

(f) In no case shall the bank underwrite or participate in underwriting the securities of any one person to an amount in excess of 2 per centum of the issued and outstanding capital stock of

the bank plus 2 per centum of the aggregate amount of the debentures of such bank issued and outstanding.

(g) Each bank may assign, sell, transfer, or otherwise dispose of, with or without recourse, in the open market or otherwise, the whole or any part of any securities acquired pursuant to any underwriting under this section.

(h) No bank shall sell for an issuer in connection with the distribution of any security, or participate as a member of any selling syndicate or selling group, or have a direct or indirect participation with any underwriter in any such undertaking.

(i) All action taken by any bank under this section shall be subject to the approval of the Board and to such rules and regulations or orders as may be promulgated by the Board.

Rediscounting by Industrial Finance Banks

Section 14. (a) To aid in financing commerce and industry and to maintain and increase the employment of labor, each Industrial Finance Bank is authorized and empowered to discount or rediscount for any financial or credit organization resident and doing business in the district within which such bank is located any note, draft, bill of exchange, debenture, or other similar obligation, upon such terms and conditions not inconsistent with this Act as it may determine, the proceeds of which have been advanced or made available to any person doing business in such district and who is therein engaged in producing, or marketing goods or services, or in some other industrial or commercial business or enterprise, seasoned or promotional in character.

(b) No bank shall discount or rediscount the obligations of any person if the amount of such obligations added to the aggregate liabilities of such person, whether direct or contingent (other than bona fide deposit liabilities) exceeds the amount of such liabilities permitted under the laws of the State in which such person is organized, or exceeds twice the paid-in and unimpaired capital and surplus of such person. It shall be unlawful for any person which is indebted to any bank upon paper which with the knowledge of such person was discounted or rediscounted under this section at the time of issuance to incur

any additional indebtedness, if by virtue of such additional indebtedness its aggregate liabilities, direct or contingent, will exceed the limitations herein contained.

(c) Paper discounted or rediscounted under this section shall have a maturity at the time it is made of not more than five years: Provided, That the bank may from time to time extend the time of payment of such paper through renewal, substitution of new obligations, or otherwise, but the time for payment of all or any part of such obligation shall not be extended beyond ten years from the original date of discount or rediscount.

(d) In no case shall the aggregate amount of paper discounted or rediscounted under this section of any one issuer and its subsidiaries or affiliated organizations exceed at any one time 2 per centum of the issued and outstanding capital stock of the bank plus 2 per centum of the aggregate amount of debentures of such bank issued and outstanding.

(e) No financial or credit organization entitled to the privileges of this section shall be allowed to discount or rediscount with any bank any note or other obligation upon which the original borrower has been charged a rate of interest exceeding by more than 2 per centum per annum the discount or rediscount rate of such bank at the time such loan was made.

(f) Each bank may assign, sell, transfer, or otherwise dispose of, with or without recourse, in the open market, or otherwise, the whole or any part of any paper discounted or rediscounted under this

section. Upon the endorsement of any bank, which shall be deemed a waiver of demand, notice, and protest by such bank as to its own endorsement exclusively, and subject to regulations to be prescribed by the Federal Reserve Board, any such paper held by a bank shall be eligible for discount or rediscount by the Federal Reserve bank for the Federal Reserve district in which such bank is located. The rate of interest charged by the Federal Reserve bank shall be the same as that charged by it for the discount or rediscount of ninety-day notes drawn for commercial purposes. Any bank holding paper discounted or rediscounted under this section may sell such paper to, or discount or rediscount it with, any other bank.

(g) Any person indebted to any bank on paper discounted or rediscounted under this section may discharge such obligation in part or in full at any time before maturity.

(h) Any person indebted to any bank on paper discounted or rediscounted under this section may make payment in part or in full by delivery to it of debentures of such bank which shall be accepted for such purpose at face value.

(i) Each bank is authorized and empowered to charge costs incident to any discounting or rediscounting under this section: Provided, That such costs shall not exceed 2 per centum on discounting or rediscounting up to \$25,000, and shall not exceed 1-1/2 per centum on discounting or rediscounting from \$25,001 to \$50,000, and shall not exceed 1 per centum on discounting or rediscounting from \$50,001

to \$100,000, and shall not exceed one-half of 1 per centum on discounting or rediscounting over \$100,000.

(j) All action taken by any bank under this section shall be subject to the approval of the Board and to such rules and regulations or orders as may be promulgated by the Board.

Voting Control by Industrial Finance Banks

Section 15. (a) No bank shall control, or exercise any controlling influence over the management or affairs of any person for any period longer than five years. At the end of such period, or at such earlier time as may be determined by the bank with the approval of the Board, the bank is authorized and empowered to transfer the equity securities of any such person to three independent management trustees, who shall be persons resident in the district within which such bank is located, one of whom shall be selected by the Board, one of whom shall be selected by the Class A directors of the Board of Directors of such bank, and one of whom shall be selected by the Class B directors of the Board of Directors of such bank. Management trustees shall serve for a period of six years and shall administer the trust estate in such manner as, in their opinion, will best serve the interests of the bank, and shall account for and pay over to the bank all money or other property, other than equity securities, received by them as a distribution upon the trust estate. Such estate may include the equity securities of as many persons as may be determined by the bank.

(b) Each bank may pay its management trustees reasonable

compensation for the time required of them, and their necessary expenses, in the performance of their duties, in accordance with the resolutions adopted by the board of directors of such bank.

(c) All action taken by any bank under this section shall be subject to the approval of the Board, and to such rules and regulations or orders as may be promulgated by the Board.

Examinations and Reports

Section 18. (a) The Board shall from time to time, at least twice annually, require examinations and reports of conditions of all Industrial Finance Banks in such form as the Board shall prescribe, and shall furnish periodical statements based upon the reports of the banks to the Board. For the purposes of this Act, examiners appointed by the Board shall be subject to the same requirements, responsibilities, and penalties as are applicable to examiners under the National Bank Act and the Federal Reserve Act and shall have, in the exercise of functions under this Act, the same powers and privileges as are vested in such examiners by law.

(b) The Board shall submit annually a report to the Congress covering the work of the Board for the preceding year and including such information, data, and recommendations for further legislation in connection with the matters covered by this Act as it may find advisable.

Forms of Debentures

Section 17. In order that each Industrial Finance Bank may be supplied with such forms of debentures or other securities as may be necessary under the Act, the Secretary of the Treasury is authorized to prepare such forms thereof as shall be suitable and approved by the Board which shall be held in the Treasury subject to delivery, upon order of the Board. The engraved plates, dies, and bed pieces executed in connection therewith shall remain in the custody of the Secretary of the Treasury. The Board shall reimburse the Secretary of the Treasury for any expense incurred in the preparation, custody, and delivery of such forms.

Information from Other Departments

Section 18. (a) In order to facilitate the administration of this Act the Treasury Department, the Department of Commerce, the Comptroller of the Currency, the Federal Reserve Board, Federal Reserve Banks, the Federal Trade Commission, the Securities and Exchange Commission, and other departments, divisions, commissions, and instrumentalities of the Government of the United States, are hereby authorized upon the request of the Board or of any bank, to furnish, except where prohibited by existing Federal laws, for the confidential use of the Board or of such bank, such reports, records, and other information, as each may have available, relating to the condition of persons with respect to whom the Board or such bank has had or contemplates having transactions under any of the provisions of this Act, or relating to persons whose securities are offered to, or held by, any bank, and to make examinations of such persons, through their examiners or other employees, for the confidential use of the Board or of such bank.

Effect on Existing Law

Section 19. Nothing in this Act shall affect (1) the jurisdiction of the Securities and Exchange Commission under any of the statutes administered by that Commission over any person, security, or contract, or (2) the rights, obligations, duties, or liabilities of any person under such statutes; nor shall anything in this Act affect the jurisdiction of any other ~~commission~~ ^{commission}, board, agency, or officer of the United States or of any State or political subdivision of any State, over any person, security, or contract, in so far as such jurisdiction does not conflict with any provision of this Act or any rule, regulation, or order thereunder.

Unlawful Representations

Section 20. It shall be unlawful to represent or imply in any manner whatsoever that because the securities of any person are held, underwritten, acquired, discounted, rediscounted, offered, or sold by any bank that such bank has in any way passed upon the merits of, or given approval to, such securities, or that such securities have been guaranteed, sponsored, or recommended for investment by the United States or any agency or officer thereof.

Penalties

Section 21. (a) Whoever makes any statement knowing it to be false, or whoever willfully overvalues any property or security, for the purpose of obtaining for himself or for any applicant any loan or extension thereof by renewal, deferment of action, or otherwise, or the acceptance, release, or substitution of security therefor, or for the purpose of influencing in any way the action of any bank or the Board or for the purpose of obtaining money, property, or anything of value, under this Act shall be punished by a fine of not more than \$10,000, or by imprisonment for not more than two years, or both.

(b) Whoever (1) falsely makes, forges, or counterfeits any debenture or other security in imitation of or purporting to be a debenture or other security issued by any bank, or (2) passes, utters, or publishes, or attempts to pass, utter, or publish, any false, forged, or counterfeited debenture or other security purporting to have been issued by any bank, knowing the same to be false, forged, or counterfeited, or (3) falsely utters any debenture or other security issued or purporting to have been issued by any bank, or (4) passes, utters, or publishes, or attempts to pass, utter, or publish, as true, any falsely altered or spurious debenture or other security issued or purporting to have been issued by any bank, knowing the same to be falsely altered or spurious, or any person who willfully violates any

other provision of this Act, shall be punished by a fine of not more than \$10,000 or by imprisonment for not more than five years, or both.

(c) Whoever, being connected in any capacity with any bank, or the Board, (1) embezzles, abstracts, purloins, or willfully misapplies any moneys, funds, securities, or other things of value, whether belonging to it or pledged or otherwise entrusted to it, or (2) with intent to defraud any bank, the Board, or any other body politic or corporate, or any individual, or to deceive any officer, auditor, or examiner of any bank, or the Board, makes any false entry in any book, report, or statement of or to any bank, or the Board, or, without being duly authorized draws any order, or issues, puts forth, or assigns any note, debenture, bond, or other application, or draft, bill of exchange, mortgage, judgment, or decree, or any security, or (3) with intent to defraud, participates, shares, or receives, directly or indirectly, any money, profit, property, or benefit through any transaction, loan, commission, contract, or any other act of any bank or the Board, or (4) willfully and with intent gives any unauthorized information concerning any future action or plan of any bank, or the Board, which might affect the value of securities, or having such knowledge, invests, or speculates, directly or indirectly, in the securities or property of any company, bank corporation, or other person receiving loans

or other assistance from any bank or the Board, or engage in any other transaction with any bank or the Board, shall be punished by a fine of not more than \$10,000 or by imprisonment for not more than five years, or both.

(d) No person shall use the words "Industrial Finance Bank", or "Industrial Finance Board", or a combination of these words, as the name or a part thereof under which such person is doing or proposes to do business. Every person violating this prohibition shall be guilty of a misdemeanor and shall be punished by a fine of not exceeding \$1,000 or imprisonment not exceeding one year, or both.

(e) The provisions of sections 112, 113, 114, 115, 116, and 117 of the Criminal Code of the United States (U. S. C., title 18, ch. 5, secs. 202 to 207, inclusive), insofar as applicable, are extended to apply to contracts or agreements with any bank or the Board under this Act, which for the purposes hereof shall be held to include acquisitions of securities, underwriting agreements, loans, advances, discounts and rediscounts, extensions and renewals thereof, and acceptances, releases, and substitutions of security therefor.

Separability of Provisions

Section 22. If any provision of this Act, or the application of such provision to any person or circumstances, shall be held invalid, the remainder of the Act, and the application of such provision to persons or circumstances other than those as to which it is held invalid, shall not be affected thereby.

9/15/38.

NEW DRAFT OF
DOUGLAS BILL 3/22

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J Douglas'
Bill

306

D.G.
March 22, 1938

CONFIDENTIAL

Industrial Finance Act of 1938

INDUSTRIAL FINANCE ACT OF 1938

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A BILL

To provide for the financing of commercial and industrial establishments and to maintain and increase the employment of labor by the creation of Industrial Finance Banks with limited powers to lend, acquire securities, underwrite, discount and rediscount; to perform functions not presently performed by private investment banks, to cooperate with such investment banks in the restoration and maintenance of sound capital markets, and to further the development of local private investment banking facilities; to release idle funds from State and National banks and direct such funds into the channels of industrial and commercial enterprise; to enable such enterprise to increase production, extend operations, and modernize plant and equipment; and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled.

Short Title

Section 1. This Act may be cited as the "Industrial Finance Act of 1938".

Definitions

Section 2. As used in this Act -

- (a) The term "Board" means the Industrial Finance Board.
- (b) The term "bank" or "Industrial Finance bank" means a bank established by the Board under the authority of this Act.
- (c) The term "State" means any State of the United States, the District of Columbia, Puerto Rico, the Virgin Islands, and the Territories of Alaska and Hawaii.
- (d) The term "person" means an individual, a corporation, a partnership, an association, a joint-stock company, a business trust, or an unincorporated organization.
- (e) The terms "security" or "securities" mean any note, stock, treasury stock, bond, debenture, evidence of indebtedness, or collateral-trust certificate.
- (f) The term "equity security" means any stock or similar security, or any security convertible into such a security.
- (g) The term "financial or credit organization" means any member institution of the Federal Reserve System, State bank, trust company, industrial or commercial credit corporation, incorporated loan and finance company, savings institution, cooperative bank, cooperative credit or marketing association, or other similar organization.

(h) The term "underwrite", when used with reference to any bank, includes (1) any purchase, or agreement to purchase, from an issuer of all or any part of an issue which is not subscribed for or sold through underwriters, or otherwise; or (2) any purchase, or agreement to purchase, from any underwriter of all or any part of an issue which is not otherwise disposed of.

(i) The term "underwriter" means any person who purchases or ~~agrees to purchase~~, from an issuer with a view to the distribution of any security, or participates or has a direct or indirect participation in any such undertaking, or participates or has a participation in the direct or indirect underwriting of any such undertaking.

Industrial Finance Board

Section 3. (a) There is hereby established an Industrial Finance Board to be composed of five members appointed by the President of the United States by and with the advice and consent of the Senate. Not more than three members of the Board shall be members of the same political party, and in making appointments members of different political parties shall be appointed alternately as nearly as may be practicable. In selecting the members of the Board, not more than one of whom shall be selected from any one Industrial Finance district, the President shall have due regard to the desirability of the appointment of men qualified by experience or training in the field of intermediate or long-term commercial and industrial credit, and to the geographical divisions of the country. No member shall engage in any other business, vocation or employment than that of serving as a member of the Board. Each member shall receive a salary at the rate of \$15,000 a year together with actual necessary traveling expenses, and shall hold office for a term of five years, unless sooner removed for cause by the President, except that (1) any member appointed to fill a vacancy occurring prior to the expiration of the term for which his predecessor was appointed, shall be appointed for the remainder of such term, and (2) the terms of office of the members first taking office after the date of the enactment of this Act shall expire, as designated by the President at the time of nomination, one at the end of one year, one at the end of two years, one at the end

of three years, one at the end of four years, and one at the end of five years after the date of enactment of this Act. Before entering upon his duties, each member shall take an oath faithfully to discharge the duties of his office. The President shall designate one of the members as chairman of the Board, and one of the members as vice chairman of the Board. In the absence of the chairman and the vice chairman, the Board shall elect a member to act as chairman pro tempore. A majority of the Board shall constitute a quorum for the transaction of business. The Board shall supervise the Industrial Finance banks authorized by this Act, shall perform the other duties specifically prescribed by this Act, and shall have power to adopt, amend, and require the observance of such rules, regulations, and orders as shall be necessary from time to time for carrying out the purposes of the provisions of this Act.

(b) The Board is authorized to appoint and fix the compensation of such officers, attorneys, examiners, and other experts as may be necessary for carrying out its functions under this Act, without regard to the provisions of other laws applicable to the employment and compensation of officers and employees of the United States; and the Board may, subject to the civil service laws, appoint such other employees as are necessary in the execution of its functions and fix

their salaries in accordance with the Classification Act of 1923, as amended.

(c) The Board is authorized to suspend or remove any director, officer, attorney, examiner, or other expert or employee of any Industrial Finance bank, the cause of such suspension or removal to be communicated in writing forthwith to such director, officer, attorney, examiner, or other expert or employee, and to such Industrial Finance bank.

(d) The President shall have power to fill all vacancies that may happen on the Board during the recess of the Senate by granting commissions which shall expire with the next session of the Senate.

(e) Nothing in this Act shall be construed as taking away any powers heretofore vested by law in the Secretary of the Treasury which relate to the supervision, management, and control of the Treasury Department and bureaus under such department, and wherever any power vested by this Act in the Board or in any bank appears to conflict with the powers of the Secretary of the Treasury, such powers shall be exercised subject to the supervision and control of the Secretary.

Industrial Finance Bank Districts

Section 4. (a) As soon as practicable the Board shall divide the continental United States, Puerto Rico, the Virgin Islands, and the territories of Alaska and Hawaii into no more than fifteen districts. Such districts shall be apportioned with due regard to the desirability of establishing districts coterminous with the Federal Reserve districts, to the purposes of this Act, and to the convenience and customary course of business, and shall not necessarily be coterminous with any State or States. The districts thus created may be readjusted and new districts may from time to time be created by the Board, not to exceed fifteen in all. Such districts shall be known as Industrial Finance bank districts and may be designated by number. As soon as practicable the Board shall establish, in each district, an Industrial Finance bank at such city as may be designated by the Board. Its title shall include the name of the city at which it is established.

(b) The principal office of the Board shall be in the District of Columbia. The Board may establish branch offices in each Industrial Finance city, and such additional branch offices as it deems necessary.

Management of Industrial Finance Banks.

Section 5. (a) The management of each Industrial Finance bank shall be vested in a board of nine directors, all of whom shall be citizens of the United States and bona fide residents of the district in which such bank is located.

(b) Five of such directors, who shall be known as Class A directors, shall be elected by the holders of the capital stock and shall hold office for terms of four years.

(c) Four of such directors, who shall be known as Class B directors, shall be selected as provided in subsection (d) and shall hold office for terms of two years.

(d) The Board shall classify persons who are entitled to vote for three of the Class B directors of each bank into groups to be designated as Groups A, B, and C, which groups shall represent, respectively, and as fairly as may be: Group A, issuers of securities held by such bank; Group B, investment bankers resident in the district within which such bank is located and whose principal place of business is therein established; and Group C, debenture holders of such bank. Each such person shall be entitled to nominate suitably qualified persons for election as directors of the class corresponding to the group to which such person belongs; members of Group A and Group B shall be entitled to cast one vote, and members of Group C shall be entitled to cast one vote for each debenture held. The directors of each class shall be nominated and elected in accordance with such rules and regulations or orders as may be

prescribed by the Board. The Board shall appoint the fourth Class B director who shall be a representative of labor of the district within which such bank is located.

(e) Any director appointed or elected as provided in this section to fill a vacancy shall hold office only until the expiration of the term of his predecessor.

(f) The Board shall designate one of the directors of each ~~bank~~ bank to be chairman, and one to be vice chairman, of the board of directors of such bank. A majority of the board of directors shall constitute a quorum for the transaction of business.

(g) Each bank may pay its directors reasonable compensation for the time required of them, and their necessary expenses, in the performance of their duties, in accordance with the resolutions adopted by such directors, subject to the approval of the Board.

(h) No director, officer, attorney, examiner, or other expert or employee of any bank shall in any manner, directly or indirectly, participate in the deliberation upon or the determination of any question affecting his personal interests, or the interests of any corporation, partnership, or association in which he is directly or indirectly interested.

Incorporation of Industrial Finance Banks

Section 6. (a) The Class A directors of each Industrial Finance bank shall, in accordance with such rules and regulations as the Board may prescribe, make and file with the Board at the earliest practicable date after the establishment of such bank, an organization certificate which shall contain such information as the Board may require. Upon the making and filing of such certificate with the Board, such bank shall become, as of the date of the execution of its organization certificate, a body corporate and an instrumentality of the United States, and as such, and in its name as designated by the Board, it shall have power --

- (1) To adopt, alter, and use a corporate seal.
- (2) To have succession until it is dissolved by Act of Congress or under the provisions of this Act.
- (3) To make contracts.
- (4) To sue and be sued, to complain, interplead, and defend, in any court of law or equity, State or Federal.
- (5) To purchase or lease and hold or dispose of such real estate as may be necessary or convenient for the transaction of its business.
- (6) To elect or appoint, fix the compensation of, and dismiss, in like manner as the Board, such officers, attorneys, examiners, or other experts or employees as may be necessary for the transaction of its business; to define their duties, require bonds of them, and fix the penalties thereof.

(7) To prescribe, amend, and repeal by its board of directors, by-laws, rules, regulations, or orders governing the manner in which its affairs may be administered.

(8) To exercise by its board of directors or duly authorized officers, employees, or agents all powers specifically granted by the provisions of this Act and all such incidental powers as may be necessary to carry on the business herein described or are customary and usual in corporations generally.

The President of an Industrial Finance bank may also be a member of the board of directors thereof, but no other officer, attorney, examiner, or other expert or employee of such bank who receives compensation may be a member of its board of directors.

(b) When designated for that purpose by the Secretary of the Treasury, each Industrial Finance bank shall be a depository of public money, under such regulations as may be prescribed by said Secretary; and it may also be employed as a financial agent of the Government; and it shall perform all such reasonable duties as depository of public money and financial agent of the Government as may be required of it.

(c) Each bank shall have free use of the United States mails in like manner as the executive department of the Government.

(d) Subject to the approval of the Board each bank shall have power to establish such branches as may be necessary in the district within which such bank is located.

Liquidation of Industrial Finance Banks

Section 7. (a) Whenever the Board shall find that substantially those credit and financing facilities provided by any bank under authority of this Act are available on similar terms and conditions through one or more persons resident in the district within which such bank is located, and whose principal place of business is therein established, the bank located in that district, pursuant to an order of the Board, shall liquidate its assets and wind up its affairs. Each such person shall be designated by the Board, for purposes of this section, as a "Private Industrial Finance bank".

(b) All of the directors of any bank ordered by the Board to liquidate its assets and wind up its affairs shall serve as liquidating trustees under the terms and conditions applicable to Class A directors of Industrial Finance banks. Each bank may with the approval of the Secretary of the Treasury deposit with the Treasurer of the United States as a special fund any money belonging to the bank or from time to time received by it in the course of liquidation or otherwise, for the payment of principal and interest of its outstanding debentures or for the purpose of redemption of such debentures in accordance with the terms thereof, which fund may be drawn upon or paid out for no other purpose. The bank may also at any time pay to the Treasurer of the United States as miscellaneous receipts any money belonging to the bank or from time to time received by it in the course of liquidation or otherwise in excess of reasonable amounts reserved to meet its requirements

during liquidation. Upon such deposit being made, and after the retirement or making provision for the retirement of all outstanding debentures, such amount of the capital stock of the bank as may be specified by the bank with the approval of the Board, but not exceeding in par value the amount so paid in, may be cancelled and retired. Any balance remaining after the liquidation of all the assets of the bank, and after provision has been made for the cancellation and retirement of all stock and the payment of all regular obligations of any kind and character, shall be paid into the Treasury of the United States as miscellaneous receipts, and the bank shall thereupon be dissolved.

(c) If, after liquidation of any bank the Board determines that the credit and financing facilities of a Private Industrial Finance bank are no longer available in the district within which such bank has been located, the Board is authorized and empowered to reestablish an Industrial Finance bank within such district.

(d) Subject to the approval of the Board and to such rules and regulations or orders as may be prescribed by the Board, one-third of the capital stock, which may be common or preferred stock, or such smaller fraction as may be specified by the Board, of any person designated as a Private Industrial Finance bank shall be subscribed for by the Reconstruction Finance Corporation. Payment for such subscriptions shall be subject to call in whole or in part by such bank upon order of the Board and shall be made at such time or times as the Reconstruction Finance Corporation deems advisable.

The Reconstruction Finance Corporation is authorized and directed to allocate and make available to the bank upon order of the Board such sum as may be necessary, and for such purpose the amount of the notes, bonds, debentures, or other such obligations which the Reconstruction Finance Corporation is authorized and empowered under section 9 of the Reconstruction Finance Corporation Act, as amended, to have outstanding at any one time is hereby increased by such amounts as may be necessary. The Reconstruction Finance Corporation may, with the approval of the Board, and under such rules, regulations, or orders as the Board may prescribe, assign, sell, transfer, or otherwise dispose of in the open market or otherwise the whole or any part of the capital stock of any Private Industrial Finance bank acquired by the corporation pursuant to this section.

(e) The Board shall appoint, as nearly as may be, such number of the board of directors of any Private Industrial Finance bank as the stock ownership of the Reconstruction Finance Corporation bears to the total amount of capital stock of such person issued and outstanding. Directors appointed under this subsection shall serve under the terms and conditions applicable to Class A directors of Industrial Finance banks.

(f) In the case of the liquidation of any bank, any other bank may, with the approval of the Board, acquire the assets of such liquidated bank and assume the liabilities thereof, in whole or in part.

Capital of Industrial Finance Banks

Section B. (a) As soon as practicable after the enactment of this Act, the Board shall determine the minimum capital of each Industrial Finance bank which shall not be less than \$_____. The Board is authorized and empowered to increase such capital from time to time in such amounts as may be necessary, but not to exceed in the aggregate

(b) The capital stock of each bank shall be divided into shares of a par value of \$100 each, and may be subscribed for and held by any person, or by the Government of any State or of the United States, or by any instrumentality of either.

(c) As soon as practicable after the enactment of this Act, the Board shall open books of subscription for the capital stock of each Industrial Finance bank in each district established under Section 4. No person, other than the Reconstruction Finance Corporation, shall be permitted to subscribe for or to hold at any time more than \$25,000 par value of stock in any Industrial Finance bank. The Reconstruction Finance Corporation shall subscribe for such part of the minimum capital of each bank as is not subscribed for within thirty days after books have been opened for stock subscriptions as herein provided. Payments for stock subscriptions by the Reconstruction Finance Corporation shall be subject to call in whole or in part by the Board, with the approval of the Reconstruction Finance Corporation, at such time or times as may be deemed advisable. The Reconstruction Finance Corporation is authorized and directed to allocate and make available to the

Board such sum as may be necessary, and for such purpose the amount of the notes, bonds, debentures, or other such obligations which the Reconstruction Finance Corporation is authorized and empowered under section 9 of the Reconstruction Finance Corporation Act, as amended, to have outstanding at any one time, is hereby increased by such amounts as may be necessary. Each Industrial Finance bank receiving such payments shall issue receipts therefor to the Reconstruction Finance Corporation and such receipts shall be evidence of the stock ownership of that Corporation. Stock held by the Reconstruction Finance Corporation may at any time, in the discretion of the bank, and with the approval of the Board, be paid off at par and retired in whole or in part; and the Board may at any time require such stock to be paid off at par and retired in whole or in part if in the opinion of the Board the bank has resources available therefor.

(d) Upon request of the Board the Reconstruction Finance Corporation shall subscribe for such additional shares of capital stock of any bank as may be determined by the Board. Such subscriptions shall be subject to call in whole or in part by the Board upon thirty days' notice to the Reconstruction Finance Corporation. The Reconstruction Finance Corporation is authorized and directed to allocate and make available to the Board such sum as may be necessary, and for such purpose the amount of the notes, bonds, debentures, or other such obligations which the Reconstruction Finance Corporation is authorized and empowered under section 9 of the Reconstruction Finance Corporation Act, as amended, to have outstanding at any one time, is hereby increased by

such amounts as may be necessary. Each Industrial Finance bank receiving such payments shall issue receipts therefor to the Reconstruction Finance Corporation and such receipts shall be evidence of the stock ownership of that Corporation. Stock held by the Reconstruction Finance Corporation pursuant to this subsection shall be paid off at par and retired in the same manner as the original capital stock of such bank after the original stock outstanding, if any, has been paid off and retired: Provided, That stock issued pursuant to this subsection may at any time in the discretion of the bank and with the approval of the Board, be paid off at par and retired in whole or in part; and that the Board may at any time require such stock to be paid off at par and retired in whole or in part if in the opinion of the Board the bank has resources available therefor.

(e) Each share of stock shall be entitled to one vote, and stock owned by the Reconstruction Finance Corporation shall be voted by the Board in such manner as the Board shall determine.

(f) All stock of any Industrial Finance bank shall share in dividend distributions without preference.

(g) In the event that there shall be an impairment of the paid-in capital of any bank, the Board at such time or times as it deems advisable, may determine and assess the amount thereof against the other Industrial Finance banks on such equitable basis of apportionment as it shall prescribe. Each bank against which such an assessment is made shall, out of its surplus and to an extent up to 50 per centum of its net earnings, in accordance with the terms of such assessment, pay the amount thereof as soon as possible to the bank having the impairment.

Debentures of Industrial Finance Banks

Section 9. (a) The Board is authorized and empowered to issue consolidated Industrial Finance bank debentures which shall be the joint and several obligations of all Industrial Finance banks organized and existing under this Act, in order to provide funds for any such bank or banks. Such debentures shall be issued upon such terms and conditions as the Board, subject to the approval of the Secretary of the Treasury, shall determine. The debentures issued and outstanding under this section shall at no time exceed fifteen times the total paid-in capital of all the Industrial Finance banks as of the time of the issue of such debentures.

(b) No such debentures shall be issued at any time if any of the assets of any bank are pledged to secure any debts or subject to any lien, and neither the Board nor any bank shall have power to pledge any of the assets of any bank, or voluntarily to permit any lien to attach to the same while any of such debentures so issued are outstanding. The Board shall have full power to require any bank to deposit additional collateral or to make substitutions of collateral or to adjust equities between banks.

(c) The said debentures shall be fully and unconditionally guaranteed both as to interest and principal by the United States and such guaranty shall be expressed on the face thereof. In the event that the principal of, or interest on, such debentures, shall not be paid upon demand, when due, the Secretary

of the Treasury shall pay to the holder the amount thereof which is hereby authorized to be appropriated out of any moneys in the Treasury not otherwise appropriated, and thereupon to the extent of the amount so paid the Secretary of the Treasury shall succeed to all the rights of the holders of such debentures.

(d) Debentures issued under this Act shall be lawful investments, and may be accepted as security, for all fiduciary, trust, and public funds, the investment or deposit of which shall be under the authority or control of the United States or any officer or officers thereof.

(e) The Secretary of the Treasury, at the request of the Board, is authorized to market the debentures on behalf of the Board, using therefor all facilities of the Treasury Department now authorized by law for the marketing of obligations of the United States. The proceeds of the debentures shall be credited to the Board on the books of the Treasury and shall be made available upon request of the Board. The Secretary of the Treasury, in his discretion, is further authorized to purchase any debentures issued under this section which are guaranteed as to interest and principal and for such purpose is authorized to use as a public-debt transaction the proceeds from the sale of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under such Act, as amended, are extended to include any purchases of the debentures hereunder.

The Secretary of the Treasury may, at any time, sell any of the debentures acquired by him under this subsection. All redemptions, purchases, and sales by the Secretary of the Treasury of such debentures shall be treated as public-debt transactions of the United States.

(f) Each bank shall have power to purchase in the open market at any time and at any price any of the debentures issued by the Board. Debentures so purchased may be sold or resold at any time at any price.

Taxation of Industrial Finance Banks

Section 10. Industrial Finance banks shall be subject to taxation to the same extent as State-chartered corporations, except that no State or political subdivision thereof shall impose any tax on any such bank or its franchise, capital, reserves, surplus, loans, income, purchases, sales, or stock, or its securities or the ~~income therefrom~~, at a greater rate than that imposed by such State on corporations, domestic or foreign, engaged in similar business within the State. Nothing herein shall be construed to exempt the real property of such banks from taxation by any State or political subdivision thereof, to the same extent, according to its value, as other real property is taxed. Taxation by a State of the privately owned stock, or debentures of the Board shall not be at a higher rate than the rate applicable to other moneyed capital in the hands of individual citizens thereof.

Loans by Industrial Finance Banks

Section 11. (a) To aid in financing commerce and industry and to maintain and increase the employment of labor, each Industrial Finance bank is authorized and empowered to make loans upon such terms and conditions not inconsistent with this Act as it may determine to any person doing business in the district within which such bank is located and who is therein engaged in producing or marketing goods or services, or in some other industrial or commercial business or enterprise, seasoned or promotional in character. Each such loan may be made for a period not exceeding five years, and the bank may from time to time extend the time for payment of any such loan, through renewal, substitution of new obligations, or otherwise, but the time for payment of all or any part of such loan shall not be extended beyond ten years from the date upon which such loan was made originally.

(b) No loan shall be made to any person under this section unless the bank is reasonably satisfied that such person is unable to obtain funds, upon terms which appear reasonable to the bank, through private lending agencies, or otherwise, in the district within which such bank is located.

(c) All loans made under the foregoing provisions shall, in the opinion of the bank, be so secured as reasonably to assure repayment of the loan. The bank, under such terms and conditions as it shall prescribe, may take over or provide for the administration, liquidation,

and substitution of any collateral accepted by it as security for such loans. Such loans may be made directly upon promissory notes or by way of discount of obligations tendered for the purpose, or otherwise in such form and in such amount and at such interest or discount rates as the bank may approve.

(d) No loan shall be made, renewed, or extended under this section if at the time of making, renewing, or extending such loan any executive officer or director of the borrower is receiving compensation at the rate in excess of what appears reasonable to the bank, and unless the borrower agrees to the satisfaction of the bank that so long as such loan remains outstanding and unpaid the borrower will not, except with the consent of the bank, (1) increase the compensation received by any of its executive officers or directors of such borrower and any of its affiliates, or (2) retire any of its stock, notes, bonds, debentures, or other forms of indebtedness issued for capital purposes. For the purposes of this subsection the term "compensation" includes any salary, fee, bonus, commission, or payment, direct or indirect, in money or otherwise, for personal services.

(e) No loan shall be approved by any bank under this section, directly or indirectly, to any person, any officer, or director of which is a member of the board of directors of such bank or has been such a member within the twelve months preceding the approval of the loan.

(f) Upon the endorsement of any bank, which shall be deemed a waiver of demand, notice, and protest by such bank as to its own endorsement exclusively, and subject to regulations to be prescribed by the Federal Reserve Board, any note or other obligation evidencing a loan under this section shall be eligible for rediscount by the Federal Reserve bank for the Federal Reserve district in which such bank is located. The rate of interest charged by the Federal Reserve bank shall be the same as that charged by it for the rediscount of ninety-day notes drawn for commercial purposes. Any bank holding any note or other obligation evidencing a loan under this section may sell such note or other obligation to, or rediscount it with, any other bank.

(g) No fee or commission shall be paid by any applicant for a loan under the provisions of this section in connection with any such application or any loan made or to be made under this section, and the agreement to pay or payment of any such fee or commission shall be unlawful.

(h) Each bank is authorized and empowered to charge costs incident to making any loan under this section: Provided, That such costs shall not exceed 2 per centum on loans up to \$25,000, and shall not exceed 1-1/2 per centum on loans from \$25,001 to \$50,000, and shall not exceed 1 per centum on loans from \$50,001 to \$100,000, and shall not exceed one-half of 1 per centum on loans over \$100,000.

(i) In all cases where the bank shall hold any bonds or other evidences of indebtedness of any person, and such person shall be able and willing to substitute or cause to be substituted therefor any other bonds or any other evidences of indebtedness, whether of the same or longer maturities, or otherwise differing, which, in the judgment of the bank are more desirable than those so held, the bank is authorized and empowered to accept such bonds or other evidences of indebtedness in exchange and substitution for the bonds or other evidences of indebtedness so held by it, upon such terms and conditions as may be agreed upon with such person at the time, or in contemplation, of the exchange and substitution.

(j) Any person indebted to any bank under this section may discharge such obligation in part or in full at any time before maturity of the loan.

(k) Any person indebted to any bank under this section may make payment in part or in full by delivery to it of debentures of the Board which shall be accepted for such purpose at face value.

(l) All action taken by any bank under this section shall be subject to the approval of the Board, and to such rules and regulations or orders as may be promulgated by the Board.

Acquisition of Securities by Industrial Finance Banks

Section 12. (a) To aid in financing commerce and industry and to maintain and increase the employment of labor, each Industrial Finance bank is authorized and empowered to acquire by purchase from the issuer, by subscription, in the open market, or otherwise, the securities of any person who is doing business in the district within which such bank is located and who is therein engaged in producing or marketing goods or services, or in some other industrial or commercial business or enterprise, seasoned or promotional in character.

(b) No bank shall acquire the securities of any person by purchase from the issuer or by subscription, until such person shows to the satisfaction of the bank that the capital of such person is unimpaired, or that such securities, if evidences of indebtedness, are so secured as reasonably to assure discharge on maturity.

(c) No bank shall acquire the securities of any person, by purchase from the issuer or by subscription, if at the time of the proposed acquisition any executive officer or director of such person is receiving compensation from such person and any of its affiliates at a rate in excess of what appears reasonable to the bank, and unless at that time the issuer agrees to the satisfaction of the bank that so long as any portion of its securities is held by the bank the issuer will not, except with the consent of

the bank, (1) increase the compensation received by any of the executive officers or directors of such issuer and any of its affiliates, or (2) retire any of its stock, notes, bonds, debentures, or other forms of indebtedness issued for capital purposes. For purposes of this subsection, the term "compensation" includes any salary, fee, bonus, commission, or other payment direct or indirect, in money or otherwise for personal services.

(d) Each bank may ~~assign~~^{sell}, sell, transfer, or otherwise dispose of, with or without recourse, in the open market or otherwise, the whole or any part of any securities acquired pursuant to this section.

(e) Each bank is authorized and empowered to subscribe for, acquire, and own, buy, sell, and deal in securities issued by the United States or any instrumentality thereof. *

(f) All action taken by any bank under this section shall be subject to the approval of the Board and to such rules and regulations or orders as may be promulgated by the Board.

Underwriting by Industrial Finance Banks

Section 13. (a) To aid in financing commerce and industry and to maintain and increase the employment of labor, each Industrial Finance bank is authorized and empowered to underwrite the sale of any securities by any person who is doing business in the district within which such bank is located and who is therein engaged in producing or marketing goods or services, or in some other industrial or commercial business or enterprise, seasoned or promotional in character, or participate in underwriting the securities of such person, upon such terms and conditions not inconsistent with this Act as it may determine.

(b) No bank shall underwrite the securities of any person unless the bank is reasonably satisfied that such person is unable to obtain funds, upon terms which appear reasonable to the bank, through private investment banking channels, or otherwise, in the district within which such bank is located.

(c) No bank shall participate in underwriting the securities of any person with any underwriter who is not resident in the district within which such bank is located and whose principal place of business is not therein established, unless the bank is reasonably satisfied that such person is unable to obtain all of its funds, upon terms which appear reasonable to the bank, through private investment banking channels, or otherwise, in the district within which such bank is located.

(d) No bank shall underwrite, or participate in underwriting the securities of any person until such person shows to the satisfaction of the bank that the capital of such person is unimpaired, or that such securities, if evidences of indebtedness, are so secured as reasonably to assure discharge on maturity.

(e) No bank shall underwrite, or participate in underwriting the securities of any person if any executive officer or director of such person is receiving compensation from such person and any of its affiliates at a rate in excess of what appears reasonable to the bank, and unless the issuer agrees to the satisfaction of the bank that so long as any portion of the securities underwritten is held by the bank the issuer will not, except with the consent of the bank, (1) increase the compensation received by any of its executive officers or directors of such issuer and any of its affiliates, or (2) retire any of its stock, notes, bonds, debentures, or other forms of indebtedness issued for capital purposes. For purposes of this subsection the term "compensation" includes any salary, fee, bonus, commission, or other payment direct or indirect, in money or otherwise for personal services.

(f) Each bank may assign, sell, transfer, or otherwise dispose of, with or without recourse, in the open market or otherwise, the whole or any part of any securities acquired pursuant to any underwriting under this section.

(g) No bank shall sell for an issuer in connection with the distribution of any security, or participate as a member of any selling syndicate or selling group, or have a direct or indirect participation with any underwriter in any such undertaking.

(h) All action taken by any bank under this section shall be subject to the approval of the Board and to such rules and regulations or orders as may be promulgated by the Board.

Rediscounting by Industrial Finance Banks.

Section 14. (a) To aid in financing commerce and industry and to maintain and increase the employment of labor, each Industrial Finance bank is authorized and empowered to rediscount for any financial or credit organization resident and doing business in the district within which such bank is located any note, draft, bill of exchange, debenture, or other similar obligation, with or without recourse, and upon such other terms and conditions not inconsistent with this Act as it may determine, the proceeds of which have been advanced or made available to any person doing business in such district and who is therein engaged in producing, or marketing goods or services, or in some other industrial or commercial business or enterprise, seasoned or promotional in character.

(b) No bank shall rediscount the obligations of any person unless the bank is reasonably satisfied that such person is unable to rediscount such obligations, upon terms which appear reasonable to the bank, through private agencies, or otherwise, in the district within which such bank is located.

(c) No bank shall rediscount the obligations of any person if the amount of such obligations added to the aggregate liabilities of such person, whether direct or contingent (other than bona fide deposit liabilities) exceeds the amount of such liabilities permitted under the laws of the State in which such person is organized, or

exceeds twice the paid-in and unimpaired capital and surplus of such person. It shall be unlawful for any person which is indebted to any bank upon paper which with the knowledge of such person rediscounted under this section at the time of issuance to incur any additional indebtedness, if by virtue of such additional indebtedness its aggregate liabilities, direct or contingent, will exceed the limitations herein contained.

(d) Paper rediscounted under this section shall have a maturity at the time it is made of not more than five years: Provided, That the bank may from time to time extend the time of payment of such paper through renewal, substitution of new obligations, or otherwise, but the time for payment of all or any part of such obligation shall not be extended beyond ten years from the original date of rediscount.

(e) No financial or credit organization entitled to the privileges of this section shall be allowed to rediscount with any bank any note or other obligation upon which the original borrower has been charged a rate of interest exceeding by more than 2 per centum per annum the rediscount rate of such bank at the time such loan was made.

(f) Each bank may assign, sell, transfer, or otherwise dispose of, with or without recourse, in the open market, or otherwise, the whole or any part of any paper rediscounted under this

section. Upon the endorsement of any bank, which shall be deemed a waiver of demand, notice, and protest by such bank as to its own endorsement exclusively, and subject to regulations to be prescribed by the Federal Reserve Board, any such paper held by a bank shall be eligible for rediscount by the Federal Reserve bank for the Federal Reserve district in which such bank is located. The rate of interest charged by the Federal Reserve bank shall be the same as that charged by it for the rediscount of ninety-day notes drawn for commercial purposes. Any bank holding paper rediscounted under this section may sell such paper to, or rediscount it with, any other bank.

(g) Any person indebted to any bank on paper rediscounted under this section may discharge such obligation in part or in full at any time before maturity.

(h) Any person indebted to any bank on paper rediscounted under this section may make payment in part or in full by delivery to it of debentures of the Board which shall be accepted for such purpose at face value.

(i) Each bank is authorized and empowered to charge costs incident to any rediscounting under this section: Provided, That such costs shall not exceed 2 per centum on rediscounting up to \$25,000, and shall not exceed 1-1/2 per centum on rediscounting from \$25,001 to \$50,000, and shall not exceed 1 per centum on rediscounting

from \$50,001 to \$100,000, and shall not exceed one-half of 1 per centum on rediscounting over \$100,000.

(j) All action taken by any bank under this section shall be subject to the approval of the Board and to such rules and regulations or orders as may be promulgated by the Board.

Limitation on Expenditures of Industrial Finance Banks

Section 15. In no case shall the aggregate amount directly or indirectly loaned to, or expended by any bank in the acquisition of the securities of, or in the underwriting or participation in the underwriting of, or in rediscounting the paper of, any one person and its subsidiary or affiliated organizations, exceed at any one time two per centum of the issued and outstanding capital stock of such bank, plus two per centum of the aggregate amount of debentures issued by the Board on behalf of such bank.

Voting Control by Industrial Finance Banks

Section 16. (a) No bank shall control, or exercise any controlling influence over the management or affairs of any person for any period longer than five years. At the end of such period, or at such earlier time as may be determined by the bank with the approval of the Board, the bank is authorized and empowered to transfer the equity securities of any such person to three independent management trustees, who shall be persons resident in the district within which such bank is located, one of whom shall be selected by the Board, one of whom shall be selected by the Class A directors of the board of directors of such bank, and one of whom shall be selected by the Class B directors of the board of directors of such bank. Management trustees shall serve for a period of six years and shall administer the trust estate in such manner as, in their opinion, will best serve the interests of the bank, and shall account for and pay over to the bank all money or other property, other than equity securities, received by them as a distribution upon the trust estate. Such estate may include the equity securities of as many persons as may be determined by the bank.

(b) Each bank may pay its management trustees reasonable

compensation for the time required of them, and their necessary expenses, in the performance of their duties, in accordance with the resolutions adopted by the board of directors of such bank.

(c) All action taken by any bank under this section shall be subject to the approval of the Board, and to such rules and regulations or orders as may be promulgated by the Board.

Examinations and Reports

Section 17. (a) The Board shall from time to time, at least twice annually, require examinations and reports of conditions of all Industrial Finance banks in such form as the Board shall prescribe, and shall furnish periodical statements based upon the reports of the banks to the Board. For the purposes of this Act, examiners appointed by the Board shall be subject to the same requirements, responsibilities, and penalties as are applicable to examiners under the National Bank Act and the Federal Reserve Act and shall have, in the exercise of functions under this Act, the same powers and privileges as are vested in such examiners by law.

(b) The Board shall submit annually a report to the Congress covering the work of the Board for the preceding year and including such information, data, and recommendations for further legislation in connection with the matters covered by this Act as it may find advisable.

Forms of Stock and Debentures

Section 18. In order that each Industrial Finance bank may be supplied with such forms of stock and debentures or other securities as may be necessary under the Act, the Secretary of the Treasury is authorized to prepare such forms thereof as shall be suitable and approved by the Board which shall be held in the Treasury subject to delivery, upon order of the Board. The engraved plates, dies, and bed pieces executed in ~~connection~~ therewith shall remain in the custody of the Secretary of the Treasury. The Board shall reimburse the Secretary of the Treasury for any expense incurred in the preparation, custody, and delivery of such forms.

Information from Other Departments

Section 19. (a) In order to facilitate the administration of this Act the Treasury Department, the Department of Commerce, the Comptroller of the Currency, the Federal Reserve Board, Federal Reserve Banks, the Federal Trade Commission, the Securities and Exchange Commission, and other departments, divisions, commissions, and instrumentalities of the Government of the United States, are hereby authorized upon the request of the Board or of any bank, to furnish, except where prohibited by existing Federal laws, for the confidential use of the Board or of such bank, such reports, records, and other information, as each may have available, relating to the condition of persons with respect to whom the Board or such bank has had or contemplates having transactions under any of the provisions of this Act, or relating to persons whose securities are offered to, or held by, any bank, and to make examinations of such persons, through their examiners or other employees, for the confidential use of the Board or of such bank.

Effect on Existing Law

Section 20. Nothing in this Act shall affect (1) the jurisdiction of the Securities and Exchange Commission under any of the statutes administered by that Commission over any person, security, or contract, or (2) the rights, obligations, duties, or liabilities of any person under such statutes; nor shall anything in this Act affect the jurisdiction of any other commission, board, agency, or officer of the United States or of any State or political subdivision of any State, over any person, security, or contract, in so far as such jurisdiction does not conflict with any provision of this Act or any rule, regulation, or order thereunder.

Unlawful Representations

Section 21. It shall be unlawful to represent or imply in any manner whatsoever that because the securities of any person are held, underwritten, acquired, discounted, rediscounted, offered, or sold by any bank that such bank has in any way passed upon the merits of, or given approval to, such securities, or that such securities have been guaranteed, sponsored, or recommended for investment by the United States or any agency or officer thereof.

Penalties

Section 22. (a) Whoever makes any statement knowing it to be false, or whoever willfully overvalues any property or security, for the purpose of obtaining for himself or for any applicant any loan or extension thereof by renewal, deferment of action, or otherwise, or the acceptance, release, or substitution of security therefor, or for the purpose of influencing in any way the action of any bank or the Board or for the purpose of obtaining money, property, or anything of value, under this Act shall be punished by a fine of not more than \$10,000, or by imprisonment for not more than two years, or both.

(b) Whoever (1) falsely makes, forges, or counterfeits any debenture or other security in imitation of or purporting to be a debenture or other security issued by any bank, or (2) passes, utters, or publishes, or attempts to pass, utter, or publish, any false, forged, or counterfeited debenture or other security purporting to have been issued by any bank, knowing the same to be false, forged, or counterfeited, or (3) falsely utters any debenture or other security issued or purporting to have been issued by any bank, or (4) passes, utters, or publishes, or attempts to pass, utter, or publish, as true, any falsely altered or spurious debenture or other security issued or purporting to have been issued by any bank, knowing the same to be falsely altered or spurious, or any person who willfully violates any

other provision of this Act, shall be punished by a fine of not more than \$10,000 or by imprisonment for not more than five years, or both.

(c) Whoever, being connected in any capacity with any bank, or the Board, (1) embezzles, abstracts, purloins, or willfully misapplies any moneys, funds, securities, or other things of value, whether belonging to it or pledged or otherwise entrusted to it, or (2) with intent to defraud any bank, the Board, or any other body politic or corporate, or any individual, or to deceive any officer, auditor, or examiner of any bank, or the Board, makes any false entry in any book, report, or statement of or to any bank, or the Board, or, without being duly authorized draws any order, or issues, puts forth, or assigns any note, debenture, bond, or other application, or draft, bill of exchange, mortgage, judgment, or decree, or any security, or (3) with intent to defraud, participates, shares, or receives, directly or indirectly, any money, profit, property, or benefit through any transaction, loan, commission, contract, or any other act of any bank or the Board, or (4) willfully and with intent gives any unauthorized information concerning any future action or plan of any bank, or the Board, which might affect the value of securities, or having such knowledge, invests, or speculates, directly or indirectly, in the securities or property of any company, bank corporation, or other person receiving loans

or other assistance from any bank or the Board, or engage in any other transaction with any bank or the Board, shall be punished by a fine of not more than \$10,000 or by imprisonment for not more than five years, or both.

(d) No person shall use the words "Industrial Finance bank", or "Industrial Finance Board", or a combination of these words, as the name or a part ~~thereof~~ under which such person is doing or proposes to do business. Every person violating this prohibition shall be guilty of a misdemeanor and shall be punished by a fine of not exceeding \$1,000 or imprisonment not exceeding one year, or both.

(e) The provisions of sections 112, 113, 114, 115, 116, and 117 of the Criminal Code of the United States (U. S. C., title 18, ch. 5, secs. 202 to 207, inclusive), insofar as applicable, are extended to apply to contracts or agreements with any bank or the Board under this Act, which for the purposes hereof shall be held to include acquisitions of securities, underwriting agreements, loans, advances, discounts and rediscounts, extensions and renewals thereof, and acceptances, releases, and substitutions of security therefor.

Separability of Provisions

Section 23. If any provision of this Act, or the application of such provision to any person or circumstances, shall be held invalid, the remainder of the Act, and the application of such provision to persons or circumstances other than those as to which it is held invalid, shall not be affected thereby.

3/22/38

March 23, 1938

The Secretary had as guests for lunch James Roosevelt, Jesse Jones, William O. Douglas, Ronald Ransom, Wayne Taylor, Dan Bell, Herman Oliphant, George Haas and Upham.

The matter under discussion had to do with Government assistance in industrial financing and was occasioned by the President's having referred to Secretary Morgenthau a number of proposals, including a plan presented by Mr. Douglas for regional industrial finance banks.

Mr. Morgenthau asked Mr. Douglas to start the discussion and he made much the same statement to the group that he had made to the Secretary in his office on March 16th to the effect that an industrial banking system should be established to take the place which the investment banking business should occupy in providing machinery for the financing of American industry but is at present failing to do.

An agenda prepared by the Treasury staff was distributed and a general discussion of the problem involved followed.

Mr. Morgenthau stated that to his mind the problem divided itself into whether there was an emergency need and what should be done to meet it; and whether there was a long-time problem to be met and what could be done about it.

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Speaking first on the long-time problem, he expressed the view that the banking machinery of the country was defective in many ways, as everyone knew, but that to overhaul it in a comprehensive fashion so that the various banking functions, such as providing a depository for the funds of the public, checking facilities, commercial loans and investment facilities, is a job that would require at least six months to get anywhere on. It is a job which should be done and must be done as soon as we can get to it. To attempt to set up another banking system such as has been proposed by Mr. Douglas in speedy fashion would in his opinion be a mistake. He pointed out that even if we were agreed that such a thing should be done, it would be some time before the legislation could be passed and the institutions established.

Speaking of the emergency program, Mr. Morgenthau said that it had not been demonstrated to his satisfaction that there was any sufficient emergency or that there was any great volume of demand for capital financing. He related his experiences with the committee of the investment bankers' conference who have been combing the country for small solvent concerns that need and want new capital. They have failed so far to find any such concerns.

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Mr. Morgenthau expressed the view that in the present situation if the public were to find out that we are considering buying stocks in industrial concerns, it would be the one thing which would land us in the ash can. He disagreed with Mr. Douglas' statement that we are almost in the ash can already. Mr. Jones also disagreed and took the position that there is very little demand on the part of solvent concerns for money.

Mr. Morgenthau and Mr. Jones were agreed that it would be much more profitable for the agencies now in existence to examine themselves closely to see what can be done to improve their service to borrowers and persons in need of capital financing than to superimpose a new agency. Mr. Jones pointed out that as a matter of fact the RFC has the authority to do the equivalent of purchasing equities in industrial concerns since they can buy subordinated notes.

Mr. Douglas said it is not only small business that needs to be taken care of but big business as well, and Mr. Roosevelt commented that 10 per cent of the firms employ 90 per cent of the people.

Mr. Jones said that so far as the RFC is concerned, they will do everything possible and give all they have in an effort to solve the problem but he opposed the establishment

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of new industrial banks and he opposed the purchasing of equities. That, he said, is the Government in business and we should avoid that if at all possible.

Mr. Ransom read some statistics of industrial loans made by the Federal Reserve banks and mentioned the restrictions upon that kind of loan stipulated in the statutes. He thought it might be possible to loosen up some of those restrictions.

Mr. Jones asked Mr. Douglas what SEC could do in the way of loosening up to help out and Mr. Douglas was of the opinion that they couldn't do anything of any value. He said that even if the Securities Act were repealed altogether, we would still have the problem which confronts us. Mr. Jones said a good many people are of the opinion that the 20-day period of waiting after a registration statement is filed with the SEC holds up a good deal of financing and that investment banks are unwilling to hold commitments open for that period. Mr. Morgenthau referred to the fact that most of the complaints that come to him through the investment bankers conference are to the effect that so far as small industrial concerns are concerned, the cost of registration with the SEC is excessive. He also referred to the complaints about the severity of bank examination with respect to securities that can be purchased.

- 5 -

Mr. Ransom added that he agreed the bank examiners were in many cases too severe and that they should not criticise loans which banks can legally make and which the Federal Reserve banks can rediscount. He expressed the view that that raised the whole question of bank examination and bank supervision and that we should move speedily in the direction of concentrating bank supervision and bank examination in the Federal Reserve System which cannot, without it, as a matter of fact, properly regulate and control the credit of the country.

Mr. James Roosevelt held to the view that the public has the impression, largely by reason of publicity in the newspapers emanating from "the outside", that there is something the Government could and should do to end the log jam of industrial finance and is not doing. He expressed the view that the public still thinks that the Government can do what it did in 1933 and that it should do it. He wanted something to be suggested in the way of a statement that could be made which would disabuse the public mind of any idea that it is the Government which is at fault.

Mr. Roosevelt told Mr. Jones that he was sure that there were a great many businesses that could not borrow from the

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banks and could not float securities on the market. Mr. Jones was of the opinion that the great majority of these are concerns which do not concern bank credit or investment funds. Mr. Morgenthau asked Mr. Douglas for a list of the concerns he speaks of as having registered their securities but found them unable to be disposed of. He suggested that the RFC take a look at all of such and see if they could not be upheld. Mr. Jones was of the opinion that even if you established the regional industrial banks, you would have to come to the Treasury for 99 per cent of the capital and that the banks wouldn't find any business to do after being created. Mr. Douglas spoke of the necessity of rebuilding industrial New England to provide employment for the people now on relief. Mr. Morgenthau said that if someone would provide a plan for employment of people on relief, he and Mr. Jones and the other agencies represented could find a method of financing it in twenty-four hours. Mr. Douglas spoke of the necessity of providing purchasing power for the people and Mr. Morgenthau expressed the view that if that was possible to be done and industrial concerns believed that there would be a market for their products, they would be willing to borrow money and that they could borrow it.

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Mr. Morgenthau explained that President Roosevelt would like to have a memorandum from this group sent to him at Warm Springs which he can use in a speech or a message suggesting what Government agencies can do to assist in the problem of financing industry. It was left that when Mr. Jones and Mr. Douglas are ready with their suggestions, another meeting of the group will take place.

MB

GRAY

Bern

Dated March 23, 1938

Rec'd 11:33 a.m.

Secretary of State,
Washington.

24, March 23, 4 p.m.

Legation's 22, March 23, 5 p.m.

One. Contrary to earlier expectations National Bank's gold loss during past week (March 15 - 22) amounted to only ten and a half million Swiss francs. High bank authority estimates total capital leaving Switzerland during this period at about thirty million.

Two. It appears that proceeds of frightened selling of foreign-owned Swiss securities during past ten days are mainly for the present being kept in cash balances here awaiting further developments, especially in France.

Three. My same informant now expects new strong government in France within a month, influenced and supported by individual army leaders. Such a development, he believes, would lead to repatriation of French flight capital in Switzerland in an amount perhaps exceeding five hundred million Swiss francs and might after all make unnecessary establishment of foreign exchange control.

KLP:CSB

HARRISON

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 23, 1938, noon

NO.: 447

RUSH

FROM COCHRAN.

Yesterday evening in late trading the French control gained sufficient foreign exchange to bring to 220,000 pounds its favorable balance for the day's operations. This morning at half-past eleven when I visited the Bank of France the control had sold 40,000 pounds on a market which was quiet.

I make reference to my telegram No. 443 of March 22. This afternoon the Finance Committee of the Senate will consider the two financial measures which last night were passed by the Chamber. I have been given to understand in strictest confidence that the Chairman of this Committee, Caillaux, has intimated to Governor Fournier that he is willing to see the present government go on for another month but not after that. Therefore Caillaux will this afternoon try to have the Finance Committee reduce by one or perhaps two billion francs the amount of five billion francs which the Treasury is authorized to draw on its credit

- 2 -

credit with the Bank under the bill as passed by the Chamber of Deputies. They do not expect that Blum will be sufficiently affronted by such a move to tender his resignation from office.

END SECTION ONE.

WILSON.

EA: LWW

RECEIVED
MAR 23 1938
TREASURY DEPARTMENT
OFFICE OF THE SECRETARY
WASHINGTON, D. C.

Yesterday morning a meeting of the Board of Governors of the Bank of France was held. The purpose was to consider the terms of the two proposed conventions between the Minister of the Treasury and the Governor of the Bank. The Board decided unanimously (with the exception of one vote by an Extreme Right member who was not willing to give anything to the Government) on the terms of the letter which should be addressed to Blum by the Governor of the Bank. I understand that this letter will contain the first criticism of the financial policy of the Government since the Board of Governors was created under the first Popular Front Government in 1936. The Bank Governor, in giving approval to the two conventions, made the specific oral stipulation that this letter should be read to the Financial Committees and Senate by Blum. Yesterday the letter was read before the Chamber Committee, but neither the Chamber nor the public was apprised of the contents.

The franc's continuing strength is due^{mainly} to the fact that the market believes that France will yet have a National Union Government. In the second place, there is an inclination on the part of French sterling holders to become more nervous regarding sterling because (1) economic improvement in Great Britain has been arrested; (2) the British budget is endangered by^{heavy} expenditures for armaments; (3) Germany has

- 2 -

has replaced Great Britain in dominating affairs on the continent. It is the firm belief of my friend that if a confidence-inspiring Government could now or soon be established in France, a genuine move toward repatriation of capital would be seen.

END MESSAGE.

WILSON.

EA:LWW

RECEIVED
JAN 28 1919
TREASURY DEPARTMENT
OFFICE OF THE
RECORDS AND COMMUNICATIONS

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 23, 1938, 5 p.m.

NO.: 450

I refer to my telegram No. 442 of March twenty-second.

The Government's bill to increase advances of the Bank of France to the state by five billions was passed by the Chamber last night by 343 votes to 243. A number of Radical Socialists voted against the Government. Blum will appear before the Senate Finance Committee this afternoon concerning the bill and it will be voted on by the Senate tomorrow.

The Senate I understand will want to avoid the responsibility of forcing Blum to resign just now on an issue of providing funds which are urgently needed to meet obligations of the Government, particularly since there is no immediate hope for a Government of National Union. It is possible that the Senate may as a mark of its disapproval reduce the additional advances which have been asked for from five billions to four billions; however, for three or four weeks the Senate will doubtless permit the Government to continue its precarious hand to mouth existence. Consequently for a short period another financial crisis with its resultant political difficulties may be postponed.

WILSON.

EA:LWW

REB

GRAY

Paris

Dated March 23, 1938

Rec'd 8:20 p. m.

Secretary of State,
Washington.

RUSH

452, March 23, 9 p. m.

FROM COCHRAN.

Reference my 447, March 23, noon.

Senate Finance Committee tonight witnessed strong opposition to the two financial measures described in my 443, March 22, 5 p. m.

A motion to throw out both bills was defeated. As a compromise Rueff informed me at 8:30 p. m. that Committee had suppressed the second measure which envisaged transferring over 3,000,000,000 francs of profit from the stabilization fund to the national defense fund, and had approved solely the measure permitting direct credit of 5,000,000,000 francs from Bank of France to Treasury. Presumably this modified program will come before the Senate tomorrow. Rueff was not yet aware of the attitude Blum will take in the circumstances.

WILSON

NPL-EMB

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 24, 1938, 2 p.m.

NO.: 454

Reference my 450, March 23, 5 p.m.

The Senate Finance Committee while approving the bill for five billion additional advances from the Bank of France to the Treasury unexpectedly threw out the Government's other bill which had been approved by the Chamber transferring to the National Defense Fund the "profits" from the operation of the stabilization fund in the amount of some three and one-half billion francs. The argument of the Committee is that the stabilization fund has made no "profits" but has in fact suffered losses since its gold value when originally constituted was higher than today.

A contact of mine at the Presidency of the Council has told me that it is impossible to forecast the outcome. Early this afternoon Blum goes before the Senate Finance Committee again. Later in the afternoon there will be a debate in the Senate. As yet Blum has not made a decision as to exactly what course will be pursued. There will be a (?) between the two houses. At some stage in the deliberations Blum will probably put the question of confidence in the Senate.

WILSON.

EA:LWW

JR

PLAIN

London

Dated March 24, 1938

Rec'd 3:20 p.m.

Secretary of State,
Washington.

245, March 24, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

A debate in the House of Commons on unemployment and trade produced noteworthy official statements (for previous remarks of the Prime Minister see my 813 of December 30, 5 p.m., and paragraph two of my 100 of February 5, 1 p.m.) It is also worth noting the difference between the Government's publicly expressed attitude and the views Philips, Leith-Ross and Clay have stated privately as reported in previous telegrams.*

The Minister of Labor accounted for the rise by 471,000 in the number of unemployed in the last five months by stating: "I draw the conclusion that the higher proportionate increase in the number temporarily stopped suggests that the increased totals are the result of a temporary slackening in industry rather than any permanent setback, and affords grounds for hoping that the improvement found in last month's figure will continue".

The

-2- #245, March 24, 6 p.m., from London.

The Parliamentary Secretary of the Board of Trade, after mentioning the decline in the luxury trades, in woolen and cotton manufacturing, in housing, et cetera, stated: "I must, however, emphasize again that the falling off, to put the picture in proper perspective, has been slight. I do not think it is in any way unfair to refer to it rather as a slowing up in the rate of trade recovery than as a decline or even a standstill.... taking all factors into account I think it would be unwise to prophesy that 1938 will show the same upward progress as 1937. But let it be clearly understood that a reduction in the rate of progress is a very different thing indeed from an actual economic recession, to use Mr. Roosevelt's word, or to use the more popular and descriptive expression, a slump. While it may be that the curve of trade activity in this country is beginning to flatten out there are no definite signs that it has taken a downward trend. If it does prove that the position we reached in 1937 cannot be fully maintained in 1938 -- I hope and believe that will not be so -- we have at any rate sound reasons for believing that an actual decline, if there were one, would be slow and orderly. Let me remind the House that conditions today are very different in five respects

-3- #245, March 24, 6 p.m., from London.

respects from those which obtained in 1929: there is no over-speculative position in the stock market. No overaccumulation of commodity stocks, no great disparity between agricultural and industrial prices, no tightening of credit, and a very much smaller burden of international debt".

As predicted in my No. 750 of December 3, 7 p.m., the burden of responsibility is now being firmly placed on the United States for the recession as indicated by his statement that: "It is not possible to exaggerate the effect which conditions in the United States have upon the conditions in this country. Although I do not wish for a moment to minimize the detrimental effect which the recent loss of business confidence in America has had in many directions on our own national economy, it does appear that the amount of goods going into consumption in America is being fairly well maintained and that the present troubles in America are rather more political than economic".

With reference to the Keynesian Public Works Program, the Minister of Labor came out strongly against it by saying: "My answer is that I do not think a policy of capital works is any solution of the problem of more than a hundred thousand temporarily stopped workers in the textile

-4- #245, March 24, 6 p.m., from London.

textile industry in Yorkshire and Lancashire". At the same time the Parliamentary Secretary of the Board of Trade reinforced this argument by emphasizing that the armament program is the most gigantic public works policy which has ever been undertaken by a British Government.

These pronouncements on the trend of British economic activity are in my opinion over optimistic but they should be evaluated in the light of the following statement made today by the Prime Minister: "We had hoped that a further acceleration of the rearmament program with its consequent interference with normal commercial work might have been avoided but we have now come to the conclusion that in the present circumstances acceleration of existing plans has become essential and moreover that there must be an increase in some parts of this program especially in that of the Royal Air Force and the anti-aircraft defenses. Men and materials will be required and rearmament work must have first priority in the nation's effort. The full and rapid equipment of the nation for self defense must be its primary aim".

KENNEDY

KLP

JR

GRAY

Paris

Dated March 24, 1938

Rec'd 3:50 p.m.

Secretary of State,
Washington.

458, March 24, 5 p.m.

FROM COCHRAN.

There was no official exchange market today and banks closed at noon. In unofficial inter-bank trading this morning nervousness was evident but franc was fairly strong and French control apparently gained some sterling through Credit Lyonnais. Just before noon forward franc became more offered. Bank of France statement as of March 17 showed further drawing of one billion six hundred fifty million francs by Treasury. Treasury cash account with Bank contained only twenty-eight million francs.

Senate Finance Committee made it plain last night that they looked upon Blum's two financial bills as purely inflationary measures and the only means which offered him any possibility of raising funds to meet end of month and quarter demands. Further, they insisted that a comprehensive financial program be submitted

-2- #458, March 24, 5 p.m., from Paris.

submitted and recommended that this come shortly from a National Union Government.

Recognizing the serious state of the Treasury's finances and observing the parallels of the Senate Committee to the expedients of the present Blum Government, market operators continue to believe that circumstances will soon be sufficiently bad to make a Government of National Union imperative and feasible. Outbreak today of new labor difficulties in Paris aggravates this situation. On the foregoing theory operators hesitate to increase their commitments and there has even been some technical covering and liquidation of positions in foreign currencies this morning.

WILSON

LMS

GRAY

Paris

Dated March 24, 1938

Rec'd 7:17 p. m.

Secretary of State,
Washington.

RUSH.

459, March 24, 9 p. m.

FROM COCHRAN.

Senate this evening rejected the two financial bills as originally voted by the Chamber (See my 443, March 22, 5 p. m.). Senate then accepted by comparatively narrow vote of 156 to 137 the single amalgamated measure as approved by the Senate Finance Committee last night (See my 452, March 23, 9 p. m.) which would give Blum Government only 5,000,000,000 francs, this to come from the Bank of France. This measure now requires Chamber's approval. The position that Government and Chamber may tomorrow take in the premises, considering the Senate's antagonistic attitude, remains to be seen.

Meeting of the Cabinet is called for 10:00 o'clock tomorrow morning.

WILSON

NPL:EMB

March 24, 1938

Excerpt from Mr. Oliphant's weekly report to the Secretary
of March 24, 1938.

Reorganization - Genesee Valley Gas Company. We conferred with officials of SEC in regard to their proposed plan, which we are to see as soon as it has been approved by the Commission.

WORKS PROGRESS ADMINISTRATION

330

WALKER-JOHNSON BUILDING
1734 NEW YORK AVENUE NW.
WASHINGTON, D. C.

HARRY L. HOPKINS
ADMINISTRATOR

March 24, -1938

MEMORANDUM

TO: Mr. Morgenthau, Secretary of the Treasury

FROM: Emerson Ross, Director
Division of Research, *u*
Statistics and Records

WPA employment has continued to increase and by March 19, totaled 2,357,000, an increase of 113,000 for the week. The largest increases continued to occur in the midwest industrial states.

Direct relief during March is estimated to have remained about the same as in February, at a level of 2,000,000 cases.

The final BLS figures showed an increase of .4 percent in factory employment during February as compared to January. Total non-agricultural employment, however, declined 100,000 during February; decreases in other industries offsetting the slight increase in factory employment.

The following paragraph was included in telegram No. 72 of March 24, 1938, 7 p.m., from the American Embassy, Mexico City:

CONFIDENTIAL.

"Dollars closed at buying rate 4.20 and selling 4.40. Banks continue to lose deposits, are refusing credit, and have withdrawn credit lines wherever possible. Demand for exchange paper money for silver pesos still continues but at rate one third of Monday's demand. The Government appears exceedingly anxious to obtain newly mined silver for coinage purposes and to have dollars available for such purposes possibly as the result of sales of (*) on deposit with the Federal Reserve Bank. From the Commercial Attaché."

EA:HF:LWW

RECEIVED
MAR 25 1938
TREASURY DEPARTMENT
U.S. DEPT. OF THE TREASURY
WASHINGTON, D.C.

MEMORANDUM

March 24, 1938.

A conference was held in the office of the Secretary at 9:45 this morning, with Governor George H. Earle of Pennsylvania, and Mr. A. S. Harzenstein. There were present at the conference the Secretary, Mrs. Klotz, Mr. Oliphant, Mr. Wanchel and Mr. Irey.

The Governor explained that an investigation is being made of alleged corruption in the City of Philadelphia among county and city officials, particularly referring to the case of Judge Harry S. McDevitt. He stated that the investigation by internal revenue agents under Revenue Agent in Charge G. J. Wilson, which was supposed to be in progress, had been "stalled," and that his investigators could secure no information from the revenue officers. He intimated that the investigation had been stopped because of the fear on the part of revenue officers of the influence of Judge McDevitt. Mr. Irey reminded him of the promise made to Mr. Harzenstein some three months ago, that he would secure the reports on these investigations as soon as they were submitted to the Bureau, review them, and furnish to Mr. Harzenstein any information contained therein which could properly be furnished. It was explained that the reason this had not yet been done was that none of the reports had been received. Mr. Irey indicated that he did not understand that the investigations had been "stalled," but thought that they were being pushed vigorously.

The Secretary told Governor Earle that he would have Mr. Oliphant ascertain and report to him the next morning as to whether, under the law, an interim report could be furnished, and whether, upon conclusion of the investigation, a final report could be furnished. It was also agreed that Mr. Wilson would be called to Washington and the status of the cases discussed with him. The Secretary further advised Governor Earle that he would communicate with him by noon on March 25.

Thursday
March 24, 1938
9:33 a.m.

333

HMJr: Hello.

T.O.: James Roosevelt. Go ahead.

HMJr: Hello.

James
Roosevelt: Good morning, Henry.

HMJr: Jimmy, there must be some misunderstanding. Steve Gibbons just comes in and says that you said that I'd agreed that McGrath could stay a State Chairman of Massachusetts.

R: Oh, no, no, no.

HMJr: What?

R: No, no, no, no. I said that the President knew in appointing him that he was the State Chairman of Massachusetts and that we were going to talk it over with him and see what - how we'd work it out.

HMJr: Well, because we just went through this whole thing with Kelly.

R: Yes.

HMJr: And McGrath has given out a lot of publicity up there...

R: Uh huh.

HMJr: And, after all, ever since I've been here my understanding with the President is that a fellow cannot hold a political office and be in the Treasury at the same time.

R: Yes.

HMJr: So...

R: Well, I think that's absolutely correct. Well, what he wants, do you see - the President knew about it at the time, that what he wants is a couple of weeks to be able to work it out and get the fellow he wants in as Chairman, do you see?

-2-

HMJr: Well...

R: He didn't - in other words, he gave out his statements - whatever he gave out - for the purpose of not having a lot of candidates on his hands, you see?

HMJr: Well, it'll make it much easier for me if - if the fellow will stop making statements...

R: Yes.

HMJr: and - like, I mean, "The Secretary of the Treasury is over-ridden...." and that sort of stuff.

R: Yes.

HMJr: And - because it just puts my back up and I'm going to fight, that's all.

R: Sure.

HMJr: And, after all, we started with seventeen members of the National Committee in the Treasury and there are none here now.

R: Yes.

HMJr: And I just went through the most difficult one I've ever gone through - on Kelly - and the President backed me a hundred per cent.

R: Yes.

HMJr: So, inasmuch as that's your State, Jimmy, if you would tell this fellow to get out and keep quiet why it'll keep peace in the President's family.

R: Yes. All right, sir. Well, it'll be all worked out. And the boss knew about it so don't worry about it.

HMJr: Well, I won't.

R: And it'll be all straightened out.

HMJr: You're going to take - you're going to assume the responsibility then?

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R: Yes, I'll straighten it out, boss.
HMJr: What?
R: I'll straighten it out.
HMJr: All right. Thank you so much.
R: All right, Henry.

March 24, 1938.
11:00 A. M.

Present: Mr. Taylor
Mr. Oliphant
Mr. Gaston
Mr. Haas
Mr. Daggit
Mr. Peoples
Mr. Reynolds
Mr. Barton
Mr. Lawes
Mr. O'Connell
Mr. Stinebower
Mr. Thurman Arnold
Mr. Comer (Justice)
Mr. Blaisdell
Mr. Currie
Mr. Bean
Mr. Lubin
Mr. Hinrichs
Mr. Edwards
Mr. Chawner
Mr. Stone
Mr. Fox
Mr. Piquet
Mr. Fisher

H.M.Jr: I think we are all glad to welcome Mr. Thurman Arnold to our group - try to produce some good cases for him. I am sure we'll get the best kind of cooperation. This is the first time Mr. Arnold's worked with the Treasury.

Now where are we at? I think you gentlemen all know that the President signed the report on cement as it was written, with no changes, and he's giving Admiral Peoples, the head of Procurement, the authority to buy all cement for the entire Government. Is that right?

Peoples: Yes, Mr. Secretary.

H.M.Jr: And the President made only one stipulation: That from now on we ask for bids f. o. b. mill. I was very much interested in seeing the letter which the Federal Trade Commission was kind enough to let me see. This goes back to 1934, that the President has been trying, since 1934, to get bids f. o. b. mill, and has been unsuccessful since then, and maybe - I hope we'll be

more successful.

Peoples: Mr. Secretary, that f. o. b. mills is the only way we can invite the proposals, because no one knows now exactly where the cement is going to. Of course, the country will be divided up by regions and this cement will be required on W. P. A. jobs in different regions, etc., many of which have not yet been approved, and they don't know

H.M.Jr: But up to now we've never been able to get bids that way.

Peoples: Absolutely. Although it's been tried before; the cement people have positively refused to bid f. o. b. mills.

That letter from Mr. Traynor was very illuminating, Mr. Secretary.

H.M.Jr: Unfortunately he's dead.

Peoples: Unfortunately, yes.

Oliphant: Maybe his successor is carrying on.

H.M.Jr: Let's hope so.

Now, before we get on the question of rackets, Mr. Blaisdell, you got anything more on prices?

Blaisdell: No sir.

H.M.Jr: You haven't?

Blaisdell: Nothing this morning.

H.M.Jr: All right. Who's our chief racketeer?

Reynolds: I seem to be, Mr. Secretary.

H.M.Jr: All right.

Reynolds: Monday of this week we invited representatives of the War Department, Navy Department, Veterans Bureau, United States Housing, to discuss this matter, and we made a great deal of progress,

especially in a critical way, of what had previously been prepared. Yesterday we had a meeting of some of the men of this larger committee - went over it again - and we have for you, this morning, a report in which there is not complete agreement on one or two items, but we would like to present it to you, if we may.

H.M.Jr: Please. Will you read it out loud. Just sit down.

Reynolds: The first page is simply a summary of the seven or eight pages we prepared before. The second page will be of interest, I think. That is, it contains the recommendations.

"After formal approval of the various Federal agencies concerned, it is recommended that the procedure outlined below be made applicable to the building construction contracts of all Governmental agencies:

"1. Require the bidder to whom award is made by the Government to file with the contracting agency of the Government:

(a) All bids of any prospective supplier of labor or materials pertaining to the plumbing, heating, or electrical work specified in the invitation to bid.

"(Note: In the interest of brevity, the term 'subcontractor' will be used hereafter to designate a prospective supplier of the labor or materials pertaining to plumbing, heating, or electrical work specified in the invitation to bid).

(b) The figures used by the bidder in preparing his bid to the Government for the plumbing, heating and electrical portions of the work.

"2. Require the bidder to whom award is made (within 10 days after his receipt of any such bid or the execution of any such agreement) to file with the contracting agency of the Government:

(a) All bids of the character described in paragraph 1(a) above, received subsequent to the award.

(b) A copy of each agreement executed by a sub-contractor.

"3. Require each bidder to accompany his bid to the Government with a certificate:

(a) That the prices bid by him were neither directly nor indirectly affected by any agreement with any other bidder, and

(b) That he has received or will require to be filed with him a similar certificate (to be forwarded to the Government upon request) from each subcontractor with whom a contract is executed.

"4. Provide that the general contractor and each subcontractor with whom a contract is executed, upon request by the contracting officer, will make available for inspection all records in his possession which have a bearing upon the prices bid by him.

"5. Provide that the right of a contractor to proceed may be terminated by the contracting Governmental agency, with the usual consequences, in the event that the representation of the contractor is found to be false in fact; and require the general contractor and each subcontractor to make a similar arrangement for termination of the right to proceed, upon demand by the contracting Governmental agency, of any subcontractor, whose representation is found to be false in fact.

"6. Provide a penalty in the form of liquidated damages in the event that the representation of the general contractor or any subcontractor is found to be false in fact.

"7. Submit all information indicating collusive bidding or other violations of law to the Department of Justice and to the Federal Trade Commission for such action as they may deem appropriate."

Reynolds: I might read these comments - very short.

"Your Committee has informally discussed the subject matter of this report with representatives of the War Department, the Navy Department, the Veterans' Administration and the United States Housing Authority. Such representatives are in general agreement with this report. The representatives of the United States Housing Authority, however, indicated the necessity for further consideration of the problem before they will be in a position to advise as to the extent to which the foregoing procedure may legally and practicably be adapted by it -- this, in view of the fact that the Authority does not enter into construction contracts but is engaged in the financing of a low cost housing program through loans to non-Federal agencies, which execute the necessary construction contracts."

However, Mr. Secretary, they were in complete agreement that something like this should be done to lower the cost of housing.

H.M.Jr: May I interrupt a minute? Herman, where is some case - last four or five years - where we let the following - where we had rules following the financing - something comes to mind we did

Oliphant: Where we what?

H.M.Jr: Where we would finance - we laid down certain rules, and the rules would follow the financing.

Oliphant: I don't, for the moment, recall it.

H.M.Jr: Well, of course, Agriculture is one. I mean

Reynolds: P. W. A. or the Housing Administration can make contingent upon the monies being made available to them certain contract requirements.

H.M.Jr: Well, yes; well, I was thinking, when I was in Farm Credit we wouldn't give a fellow - finance him unless he'd signed certain

Oliphant: That's right.

H.M.Jr: - Agreed to certain regulations by the Department - by Three A.s.

Oliphant: We did that - crop loans - seed loans.

H.M.Jr: Seed loans.

Oliphant: Seed loans, I mean.

H.M.Jr: Didn't we?

Oliphant: Yes, we did, that's right. I don't know whether that's analogous or not, but we did it.

H.M.Jr: ~~Go~~ ahead.

Reynolds: "In the opinion of the Committee, the approach to the very serious problems considered in this report, should be gradual. For this reason, certain more drastic contractual provisions have been considered and discarded for the present. For a similar reason, it has been deemed best to limit, for the present, the immediate program to an attack on the abuses existing in the mechanical trades, rather than to apply it to all of the building trades. The mechanical trades were selected as the ones in which the abuses sought to be corrected are probably most prevalent.

"When the results of the procedure outlined are available, the entire situation again should be canvassed. If this is done, it is suggested that the following points would merit consideration:

"1. Organize a national committee to seek the organization and direct the activities of local committees to study and seek a solution of the problems raised by abuses of the character portrayed herein in their local communities.

"2. Apply the recommended procedure to additional trades in the building industry."

Now, Mr. Secretary, there is some disagreement as to the wisdom of recommendation six, and also some with respect to five, which provide penalties in the form of liquidated damages in the event

H.M.Jr: Have you got a copy for Mr. Arnold? I think it is important that he follow this.

Reynolds: (Gives Mr. Arnold copy.) I have some other copies if any - Mr. Oliphant?

H.M.Jr: Lubin wants one.

Reynolds: Colonel Tripp, of the Veterans' Bureau, makes this suggestion: He said, "I would favor the elimination of paragraph 7," which is the liquidated damage clause. "It seems to me that the term 'liquidated damages' implies the thought which is often expressed in connection with the 'previously estimated and agreed upon,' and that obviously the extent to which the Government might be damaged through collusive bidding cannot be fixed in an arbitrary way. If it should be found that through the action of a bid depository, or otherwise, the Government had been damaged through arbitrary or fraudulent increase in bids, the existence of actual damage readily could be demonstrated and recovery made through action against the contractor and his surety."

And the United States Housing Authority comments in this manner:

"I have just looked over the draft of the procedure discussed in the meeting in your office yesterday, and I think it reflects very well the consensus of opinion brought out in the meeting.

"I am inclined to question the feasibility of including the liquidated damage provision (item 7); at least in the form stated. I am of the opinion that the offending contractor would face sufficiently serious consequences as a result of the operation of the provision in items 6 and 8. In stating this view, I am thinking that the problem is one of a continuing crusade against unethical practices rather than an attempt to police any one particular job.

"However, if it should be desired to retain a provision for a collection of damages, I think the amount of the damage should be determined from the circumstances rather than from an arbitrary figure established in advance."

My personal thought has been that it would be unwise, at this time, to put in a liquidated damage clause. As I view the situation, first we would like to have from the contractor the bids that he receives from subcontractors when he makes up his bid to the Government, and also the bid that he uses which may not be any of the bids that he receives - it may be lower - and then after he gets the contract, we want to know what he actually paid for the work, as evidenced by a contract in his hands with the subcontractor. That will indicate then immediately whether he has been able to buy for twenty-five per cent less than what they bid to him in the first instance, or thirty or forty.

Secondly, we would like to have from him a certificate indicating that he nor his subcontractors have entered into collusive agreements, and that is a moral factor which we think of great advantage; and, third, my view was, although there's been opposition to that, that as a penalty clause, at the present moment we would take subcontractors whom we have shown to make fraudulent representations to the Government, and place them on a list, refusing them to bid to any general contractor for a period of at least a year on any Government work. We are doing that in other kinds of contracts - that is where we find the contractor is not responsible. We write him a letter and tell him that he will not be permitted to bid for three or four months.

H.M.Jr:

Do you mind my interrupting you? As to the general picture, I think you are getting somewhere, and you are getting into very technical questions which I, as a layman, am not in a position to be of any assistance. I mean, you're getting down to legalistic questions which I think Treasury lawyers and any other Department who is going to do this, have to sit down with the Department of Justice, so that whatever the rules and regulations are, first the Department of Justice says, "Well, on that basis we've got a seventy-five per cent chance of winning, and throw this out because this isn't practical." But I think I'd put this in, you see?

Now, whatever Treasury lawyers, plus the lawyers for any other department that is going to do this, plus whatever the Department of Justice say we need in order to have a seventy-five per cent chance of being successful, I'll accept without seeing it again. See, Mr. Arnold?

Arnold: Yes sir.

H.M.Jr: I mean, that is getting down to - they've got to have something, plus - I just want to say one other thing. I wouldn't make it immediate - so they'll immediately come out - attack us - that the rules are so complicated - so much red tape, so much paper work - I mean, I'd keep that down to a minimum.

Reynolds: That is my view - that we shouldn't.

H.M.Jr: And the third thing is that if any other department is hesitant about going along on a basis that the trial lawyers say that they need in order to make it - why, then Procurement is willing to be the "stalking-horse" and go ahead and try this thing out, and after we have been successful, why, then if the President wishes to he can then order the other Bureaus to come in. I think that would be the best way. I mean, in order to make it easier - I mean, we'll go ahead on any basis that the lawyers, plus the people in Procurement who have to carry this thing out - I mean, I want Admiral Peoples satisfied; I want the lawyers to write him a ticket - and he says, "Well, I can't do business on that basis." In other words, it's got to be practical.

Peoples: Mr. Secretary, I think you've hit the nail on the head, sir, when you said we don't want to make these rules so complicated as to frighten off everybody, and not get really legitimate competition. What we are trying to do is to correct abuses.

H.M.Jr: Well, we are trying to find out what they are.

Peoples: Exactly.

H.M.Jr: And now, I am saying that if the lawyers will get together with the Department of Justice, and with you who've got to carry them out, and then submit them to the other departments - now if they don't want to go along, why, at this stage I wouldn't - in other words, try to bend my bow in order to pull them in, if we feel by doing it we are weakening our case. In other words, in order to, say, get Housing in - United States Housing - I wouldn't give up something which you think you need in order to win, or I wouldn't put something in which Peoples says, "Well, I need this in order to make it work." In other words, I'd go ahead; if these other people want to come in, fine; if they don't Procurement will go ahead on this plan, which looks all right to me, without getting down to my crossing the "T," to dotting the "I." Then, after we've had a little experience we can show the President that we've really accomplished something and it is up to him to decide whether he wishes to instruct the other departments and bureaus to comply to this. Now that is the way I feel about it.

Reynolds: As a matter of fact, the four agencies that were called in were most enthusiastic and wanted to cooperate in every way, and to assist in putting it forward. I would suggest, in preparing the final phraseology that the Federal Trade Commission be requested to have a representative there. Mr. Edwards would be most helpful in the language to use so as to make it applicable to Federal Trade Commission practices in the event some action will be taken by that body.

H.M.Jr: All right. Now let's - before we go around, I mean, who, who wants to - who sees any holes in this? Lubin?

Lubin: Well, it's a question that we've been discussing, and it pertains to Three A, and it's a matter in which I'd like Mr. Oliphant's judgment, whether or not you couldn't get the same results by adding the word "collusive" before the word "agreement." In other words, "... Prices bid by him were neither directly nor indirectly affected by any collusive agreement with any other bidder." I mean, he may have other types of agreements perfectly legal that you may have no objection to.

- Oliphant: I think that's a good amendment. I hadn't seen this before I came in.
- H.M.Jr: What other suggestions have you got?
- Lubin: I'd like to ask a question of Mr. Reynolds, a question of fact. How frequently do subcontractors bid to supply only labor in such contracts?
- Reynolds: No, no. Very few. Very seldom.
- Lubin: In other words, what I am trying to do - to get to the question, whether anybody is going to interpret this as a drive on trade unions when you say "Any prospective supplier of labor or materials."
- Reynolds: I have no objection to changing the phraseology. I can see your point, because it may raise a question which is not intended in this document.
- Oliphant: What number is that?
- Lubin: That is (a) - 1 (a).
- Reynolds: We usually refer to a subcontractor as a supplier of labor and materials, as you know, Doctor, but we can refer to it as subcontractor.
- Oliphant: Just put in the word "subcontractor" instead of "Supplier of labor and materials."
- Blaisdell: And, Mr. Reynolds, is it not the practice in the trade to speak of labor as supplied by a subcontractor who usually supplies labor and materials?
- Reynolds: That's right.
- Blaisdell: I found myself getting tripped on that any number of times, because of our layman's use of the term "labor" which doesn't usually include the term "and supplies."
- H.M.Jr: What else? Well, what I am going to do, I am going to go around the room; then what I am going to suggest is that Mr. Reynolds have another meeting after you have taken in all these suggestions, next week, you see; but that this be put into effect by April 1 - not later than April 1 - that is the dead-line.

Reynolds: Yes sir.

H.M.Jr: See? Let's go around - take all the suggestions - then those people that are interested have another meeting - see what you do with the suggestions - go all over it ~~once~~ more - twice more, if necessary, but April 1 is the dead-line. I want to get started as of April 1. Let's just go around the room. Edwards?

Edwards: A suggestion was made yesterday concerning (b) - 1 (b) - that some less inclusive term than "figures" be used in discussing what the bidder shall submit. The figures used by the bidder sound much larger than what you actually want.

Reynolds: Yes, I think so. That is, it's subject to different interpretations, it is true.

Edwards: 1 (a) - and what 1 actually wants, I take for granted, is the subbids - the lump sum figures.

Reynolds: That's right.

Peoples: Estimates - word estimate would take it.

Reynolds: No, that is a straight bid from subcontractor to general contractor, so it would be a lump sum figure.

Peoples: Yes, sure.

H.M.Jr: Anything else?

Edwards: Not that I see now.

H.M.Jr: But you'll have a chance to meet again. Mr. Arnold?

Arnold: I have just seen the general scope.

H.M.Jr: Well, you'll want a chance to study it, won't you, before it goes into effect?

Arnold: Yes, I'd like to, and cooperate in every way.

H.M.Jr: Fine.

Arnold: Mr. Comer is from the Department too.

Comer: Just one superficial comment. A large amount of identical bidding on Government contracts is not obviously, and superficially, the result of collusion. It may be far underneath, but it would be unfortunate if you so narrowed the situation that you can't reach the ordinary price leadership where one big man puts out his price and all follow it, and all copy, which is not necessarily collusion, and therefore, I think it would be unfortunate if the great realm of price leadership is ruled out of consideration here. It is not necessarily collusive.

H.M.Jr: Anybody want to answer that?

Peoples: I don't see how it would, by these rules here - these rules are to bring out certain facts.

Oliphant: Well, I think

Peoples: It is what the facts may show.

Comer: Well, Admiral, all I have in mind is that, as you know from our conversation on tires and cement, and other things, collusive - I mean identical prices on cement and tires and things like that are of outstanding importance, but they can exist without collusion, by the price mechanism. I do not say they do, but cement, obviously, can be identical without collusion; whether it is or not is another matter.

Oliphant: As I understand, this purports to be a program of action.

H.M.Jr: Yes.

Oliphant: And what we are after here is a situation with reference to which we can take action. Obviously we'd want to use all cases. I agree that you can't have - that you can have cases of identical bids as a result of a miracle, for example.

Comer: A result of copying.

Oliphant: Or as a result of copying. But underneath many of those alleged cases of price leadership are meetings in somebody's house, so that it does imply Since it is a program of action I think it should be limited to situations with

reference to which your action would be open and unconcealed on collusion.

Arnold: I think Mr. Oliphant is right on that, but it is a real problem which Mr. Comer raises - that is, the anti-trust laws think more of something which they call corporate restraint. That is, collusion is a bad word, but it is really a problem for possible amendment to the anti-trust law, and I think it would be very difficult to take care of it in this agreement.

Oliphant: Since this is a program of immediate action

H.M.Jr: Yes, as long as - well, as a matter of fact, I don't even know whether-when we get all around, I want Mr. Gaston - whether when we put in these new things, whether we want to announce publicly that we have or not. We can talk about that last. I don't know. Wayne?

Taylor: That was the question that I was going to raise - was how you were going to handle this when you put those rules in effect.

H.M.Jr: Well, let's - Gaston happens to be at the end of the circle, so he will have time to think about it.

Gaston: I'll tell you now, if you like.

H.M.Jr: What?

Gaston: I'll tell you now what I think if you like. When you put it into effect it is bound to become generally known. Better start with a story here rather than start with a story in New York, which is concerned with the indignation of some contractor or subcontractor. We better announce it when you

Taylor: Seems to me you get the maximum effect out of it when you do it that way - have a release prepared as to why and so on.

H.M.Jr: Well, I don't know a better example - I read all the comments on the President's speech, and I - "Oh, my, what did that man say?" "Oh, isn't it terrible?" "What could he have said?" I just

grabbed this morning's paper - I think what he said is, "We are going forward and not backward," and that was about all that he said. I mean, and - that was - all this stuff yesterday - that terrible speech that he made, and those shocking words that he said - "We are going forward and not backward," or words to that effect. I think, Herbert - but my hunch is - but you got time - I think you ought to give out a very careful story, with an explanation of just what it is all about - but again, we'll ask the advice of this group, and that would be - in other words, I think we ought to hit first.

Gaston: I think so.

H.M.Jr: But we can think about it. That would be my inclination. And after all they have asked every day, what we are doing here. Well, that is one of the things that we are doing.

Peoples: Become public immediately, you know, Mr. Secretary, any way.

H.M.Jr: I think it ought

Peoples: As soon as the proposals are issued.

Taylor: I don't see how you can do it any other way and get the proper effect.

H.M.Jr: No, I don't either.

Reynolds: I think it is very wise, from this angle, Mr. Secretary; that Mr. Barton and I were discussing it, and there may be some impression here that we are trying to get at those contractors for engaging in chiseling practices. Well, that isn't what we are aiming at, at this particular time. I mean, general contractors.

H.M.Jr: Well, let me just ask you a question. Let's say that this thing is ninety-nine per cent successful. What do you think we are going to accomplish?

Reynolds: I think we will accomplish immediately a moral effect. amongst these subcontractors who are acting this way, which may extend the benefits of it - which may extend to private industry.

And to place a monetary value on it - we wouldn't be able to say. We do know, or believe, that in many cases we are paying a third too much for this class of work in our buildings.

H.M.Jr: Taking battle-ships, for instance, do you think this would be helpful to the Navy in construction - I mean battle-ships, or - I mean, is this going to be a helpful thing?

Peoples: Only in certain general respects, Mr. Secretary. The question of collusive bidding as between private ship builders has been a matter which has been under consideration and advice by the Navy Department for years.

H.M.Jr: I've heard the President talk about it for twenty years.

Peoples: Years and years. And there may be certain features in here that would be applicable to them; other features would not.

H.M.Jr: Well, it certainly won't hinder them any way, will it?

Peoples: Oh no.

H.M.Jr: What?

Peoples: I think it would be well, after the thing is smoothed out, to put it to the Secretary of the Navy and ask him whether it wouldn't be applicable to construction contracts for men-of-war.

H.M.Jr: Well, I'd only do that if we decided to make it applicable to all. I think you will find out that if we just start with Procurement and see how it works, then if it works, when the President comes back, we'll say, "Well, we've tried this for a couple months and it's worked. Now do you want to extend it to other departments?"

Peoples: I am inclined to think, Mr. Secretary, that if the Committee can come to an agreement on that paragraph six with Justice, that is, along the lines of the meeting that you suggested, that these other people will come in on it too, at once.

Reynolds: The United States Housing Authority have asked that we move as rapidly as possible on this.

H.M.Jr: Oh, really?

Reynolds: Yes, so they can incorporate anything in here.

H.M.Jr: Because with all those, if they really go ahead, I mean, it would be most helpful to them, I should think.

Reynolds: Well, we are more interested in our own outfit - their outfit, as compared with our own, because they spend so much more money than we do - we are just kind of small, you know.

H.M.Jr: Taylor, anything else?

Taylor: No, that is the only thing.

H.M.Jr: Barton, is it?

Barton: I'd like to see this expanded to the other departments as rapidly as

H.M.Jr: Well, I didn't say it shouldn't, but if we are going to have difficulty, I don't want to slow up the program trying to get agreement from other departments.

Barton: But it will be helpful to get as wide-spread use of this as possible.

Reynolds: Veterans' Bureau willing to go ahead with it immediately.

H.M.Jr: How about Interior?

Reynolds: Well, they have so little - didn't bother asking them.

H.M.Jr: On their dams, don't they?

Reynolds: Well, no. This wouldn't apply to that.

H.M.Jr: You sure?

Reynolds: No. We are hitting here at the mechanical trades and buildings, and things of that sort - have very little in there.

H.M.Jr: Herman, how about R. F. C. loans?

Oliphant: Same status as the F. H. A.

H.M.Jr: Anything else, Admiral?

Peoples: No, thank you, Mr. Secretary.

H.M.Jr: Hinrichs?

Hinrichs: No.

H.M.Jr: Blaisdell?

Blaisdell: I'd like to raise one question, Mr. Secretary, because as far as possible, I'd like to stay out of the courts, or out of the legal process in trying to enforce anything of this kind, and if possible, like to rely on such economic strength as we have in our own hands. Undoubtedly the Committee's explored this, but Mr. Reynolds, can tell us a little more if they have. Suppose we are faced with collusive action here and we still can't get competitive bidding. Is there any possibility of moving in with direct Government construction on work that is usually done under contract?

H.M.Jr: Well, Peoples can answer that.

Peoples: You mean, to make a force account job out of it?

H.M.Jr: That is what he means.

Blaisdell: That is my question.

Peoples: Well, force account jobs always run way beyond the money available.

H.M.Jr: No, it's a question - could you, under the statute under which you operate, could you switch from a contract to a force account?

Reynolds: I understand we can, Mr. Secretary.

H.M.Jr: What?

Peoples: I think it can be done.

Reynolds: We wouldn't recommend it.

H.M.Jr: But as a means of breaking a log jam, you could?

Peoples: It can be done.

Blaisdell: That is exactly what I've got in mind - one of those things you hold in the background, without intent to go through, unless you absolutely have to.

H.M.Jr: I think it is a good point to have, just as an extra club.

Blaisdell: I believe certain electrical work in the Government, we do it that way because it is cheaper to do it that way - extensions of electric lines - things of that kind - regular jobs under Government - where normally the telephone company would do it, we don't have it done by them, we do it by our own men.

H.M.Jr: Anything else?

Blaisdell: I think that is the only idea that I've got.

H.M.Jr: Dr. Fisher?

Fisher: I have nothing to suggest except that we are in the peculiar position of probably being the greatest beneficiaries of this if it works, but there is nothing we can do about it.

H.M.Jr: I see. In other words, you are more than willing to have us try it.

Fisher: We'd love to see you try this.

H.M.Jr: Well, I take it that if this works for the Government, and then the thing is through publicity, to spread it so that it will work to F. H. A. guaranteed mortgages, and every other private enterprise, wouldn't it?

Reynolds: Well, Mr. Walker's idea is, the Government, by local committees - I think it's a good suggestion.

H.M.Jr: I've got that.

Fisher: I am more optimistic, I think, Mr. Secretary, than some of them, about the effect this program will have. I believe that it will produce a big effect in breaking up some of these practices. The mere fact that they've got to certify that they haven't been in collusion

H.M.Jr: You think we are on the right track?

Fisher: I do, very much.

H.M.Jr: Daggit?

Daggit: Nothing.

H.M.Jr: George?

Haas: I have nothing.

H.M.Jr: Currie?

Currie: I have nothing to suggest.

H.M.Jr: What?

Currie: I have nothing to suggest.

H.M.Jr: Are you satisfied?

Currie: Yes, very pleased.

H.M.Jr: Have you got anything on the other thing - price thing, I mean, are you on that with Huh? You boys are going ahead with steel, aren't you?

Blaisdell: (Nods "Yes.")

H.M.Jr: What?

Blaisdell: We are going ahead with steel.

H.M.Jr: And plaster. Don't want to lose my job.

Fox?

Fox: Nothing, except I want to report that the iron and steel report of the Commission will be ready in a very few weeks.

H.M.Jr: What?

Fox: The iron and steel report.

H.M.Jr: I thought it was a matter of days.

Fox: Well, the printing of it will take some time.

H.M.Jr: I see, but it is finished.

Blaisdell: Mr. Fox, will it be available in advance draft for study?

Fox: That's right. We propose to make it available.

H.M.Jr: Fine.

Chawner: The question which is of particular interest to the Department of Commerce at the present time, of course, one which interests all of us, Mr. Secretary, and that is the enlargement of activity - business activity, and a program such as this, relating to business practices, if properly presented as a fair attempt to eliminate practices in business without any suggestion of any punitive effects upon any legitimate business should have very beneficial effects. But some of these groups are suspicious, generally, it may be said, of course, in their - but I think the matter of presentation and the enlistment of the cooperation of business groups in such a program would be highly desirable. As Admiral Peoples suggested, we wouldn't want to discourage the willingness of contractors to bid on Government or private projects because of any action that we might take, and that any suggestion of any punitive measures upon legitimate business practice ought to be very clearly eliminated from any public statement.

H.M.Jr: Well, there seems to be some misunderstanding both as to this and as to the other one we are doing. You used the word "legitimate business." No legitimate business has got anything to worry about if they obey the law. But they have been breaking the law now for a long time, and if we simply draw this matter to their attention and they want to comply with the law, why, the decision entirely rests with them, but there is no one going out and trying to punish legitimate business. The decision, in other words, rests with them and not with us. If they will obey the law and be

legitimate, why, everything will be fine.

Chawner: Mr. Secretary, I am sure that by far the largest part of business groups would welcome such an attempt as this to eliminate collusive practices between the local distributors and some of the local labor groups, which have interfered with their business.

H.M.Jr: I hope you are going to be right.

Reynolds: You have a background of this, in the last week.

H.M.Jr: Excuse me, but I just want to say to you again that there is no thought here to go out and hurt anybody who is doing business, living both under the law - both as to the spirit and every other way. If business is doing that they've got nothing to worry about as far as I'm concerned, or anybody else, as far as the President is concerned, but if they don't obey the law - in other words, the decision rests with them.

Chawner: The only reason I mention that at all, Mr. Secretary, is it seems to me one of the most important parts of this whole program is the manner in which it is presented to the public.

H.M.Jr: I agree with you.

Chawner: That it might succeed or fail upon that statement.

H.M.Jr: I agree with you. The idea is that we want to help the legitimate contractor break some of these barnacles which have grown on this industry, and the more I go into this thing the more I am convinced that we need it very badly. I agree with you; I am sure legitimate business would welcome the aid that we can give them.

Reynolds: Mr. Secretary, at the last meeting of the Association of General Contractors they passed a resolution on this very point, pledging the facilities of their organization to help break it up.

H.M.Jr: But if you read that letter which the Federal Trade Commission was kind enough to show us, showing that the President tried to get the

cement industry to bid on an f. o. b. basis, and the way they threw him down - and four years have passed since then; we've been unable to do it - and if you look at some of the files of the Federal Trade Commission, it can't help but make you sort of wonder - and then, unfortunately, having something to do with taxes, I don't always see the best side of the business man, so I am just a little bit suspicious. But I still have kept my faith in human nature, but - so if business wants to be legitimate, I say, God bless them. But I think that Gaston can present that thing so that the Government's side will be one of offering cooperation. That's the point.

Chawner: That's right.

H.M.Jr: Anything else?

Chawner: (Nods "No.")

Stone: (Nods "Nothing.")

H.M.Jr: State Department?

Stinebower: (Nods "Nothing.")

Piquet: (Nods "Nothing.")

H.M.Jr: Agriculture?

Bean: (Nods "Nothing.")

H.M.Jr: How about all these lawyers?

Oliphant: I'd like to agree with what Blaisdell said. Want to be sure I understand him. I don't think he meant - he used economic measures to the exclusion of these measures. What he hoped was that the economic measures themselves would be effective without more -----

Blaisdell: Exactly.

Oliphant: And on that score, so far as doing this work on - what do you call it - forced account basis, I think we have to very seriously consider the difference between the short-time cost and the long-time cost. Might very well be that you

might do two or three projects at somewhat higher price, but when you figured your cost to the Treasury over a period of five years, you would have saved an enormous amount of money.

Peoples: I doubt it. Not on force accounts, sir. I've had too many years' experience with force account.

Oliphant: Depends on the success.

Peoples: The Government can not do work as cheaply as the private contractor.

Oliphant: I admit that. And if the discreet use of the force account resulted in breaking up some of these long-time practices, the long-time savings to the Government might be very successful. It is the difference between our taking the short-time and long-time view of it.

H.M.Jr: Is that all, Herman? Has anybody else got anything?

Well now, as I understand it, this will be ready for announcement not later than April 1, to go into effect, is that right, Reynolds?

Reynolds: Well, it gets in the hands of the lawyers, now.

(Laughter)

H.M.Jr: We got the right kind of lawyers.

Oliphant: That's a joke everywhere except the Treasury.

H.M.Jr: I still say the first of April or sooner, and you'd be surprised how quick these lawyers can give me

Oliphant: And how much we wait on these administrative fellows.

H.M.Jr: But you will meet again and go over this once more very carefully, and what I am hoping to do - just want to say one word - is that when the President comes back, what I want to recommend to him is that a permanent Board be set up, with

somebody giving it his full time to do this thing and continue it, but I think it is very worthwhile, and I suggested that to him and he was very much interested that a permanent Interdepartmental Committee, with regional offices, be set up on a permanent basis to do just this sort of thing. Just so

All right.

I

SCOPE OF STUDY

The problem considered is how to combat certain collusive practices which exist in the building industry and which result in unjustifiable increases in the cost of construction. The method proposed to be followed is the utilization of the position of the Government in the building field to eliminate such practices. There is excluded from the scope of the study, however, consideration of purchases of materials by the Government, which method falls within the scope of another inquiry.

II

CONCLUSIONS ARRIVED AT

A study of the situation brings to light certain practices prevalent in the industry, recognized as being objectionable and which, if eliminated, would afford substantial reductions in the cost of building. The practices examined have been found to be most prevalent in the mechanical trades (plumbing, heating, and electrical work), and, therefore this report should be read as applicable primarily to such trades.

The Government's experience in the building field indicates:

(a) That general contractors compete for work on a genuinely competitive basis.

(b) That subcontractors are often in collusive agreement, either by means of so called "bid depositories" or otherwise, for the purpose and with the effect of controlling the price of the work and eliminating competition.

(c) That manufacturers, by collusive agreement among themselves, fix the prices at which they sell to distributors, and at which the distributors are permitted to sell to others.

(d) That there are collusive arrangements between jobbers and associations of subcontractors restricting sales prices, to whom sales may be made, etc.

(e) That manufacturers of particular building products have exercised a considerable influence in the preparation and revision of municipal building codes, often with the effect of eliminating undesired competition and controlling prices, all to the detriment of the public interest.

(f) That labor in the building industry has developed many working rules and customs, which in certain instances, have proven not only economically disadvantageous for the employee but also discouraging for increased building activity.

(g) That correction of abuses found throughout the building industry does not appear probable by action within the industry, and that, due to the extent of its dealings with the construction industry,

The facilities of the Federal Government can be employed to advantage where other methods are not available, with a start towards the solution of the problem indicated by the recommendations for action hereinafter set forth.

III

RECOMMENDATIONS

After formal approval of the various Federal agencies concerned, it is recommended that the procedure outlined below be made applicable to the building construction contracts of all Governmental agencies:

1. Require the bidder to whom award is made by the Government to file with the contracting agency of the Government:

(a) All bids of any prospective supplier of labor or materials pertaining to the plumbing, heating, or electrical work specified in the invitation to bid.

(Note: In the interest of brevity, the term "subcontractor" will be used hereafter to designate a prospective supplier of the labor or materials pertaining to plumbing, heating, or electrical work specified in the invitation to bid).

(b) The figures used by the bidder in preparing his bid to the Government for the plumbing, heating and electrical portions of the work.

2. Require the bidder to whom award is made (within 10 days after his receipt of any such bid or the execution of any such agreement) to file with the contracting agency of the Government:

(a) All bids of the character described in paragraph 1(a) above, received subsequent to the award.

(b) A copy of each agreement executed by a sub-contractor.

3. Require each bidder to accompany his bid to the Government with a certificate:

(a) That the prices bid by him were neither directly nor indirectly affected by any agreement with any other bidder, and

(b) That he has received or will require to be filed with him a similar certificate (to be forwarded to the Government upon request) from each subcontractor with whom a contract is executed.

4. Provide that the general contractor and each subcontractor with whom a contract is executed, upon request by the contracting officer, will make available for inspection all records in his possession which have a bearing upon the prices bid by him.

5. Provide that the right of a contractor to proceed may be terminated by the contracting Governmental agency, with the usual consequences, in the event that the representation of the contractor is found to be false in fact; and require the general contractor and each subcontractor to make a similar arrangement for termination of the right to proceed, upon demand by the contracting Governmental agency, of any subcontractor, whose representation is found to be false in fact.

6. Provide a penalty in the form of liquidated damages in the event that the representation of the general contractor or any subcontractor is found to be false in fact.

7. Submit all information indicating collusive bidding or other violations of law to the Department of Justice and to the Federal Trade Commission for such action as they may deem appropriate.

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IV

COMMENTS

Your Committee has informally discussed the subject matter of this report with representatives of the War Department, the Navy Department, the Veterans' Administration and the United States Housing Authority. Such representatives are in general agreement with this report. The representatives of the United States Housing Authority, however, indicated the necessity for further consideration of the problem before they will be in a position to advise as to the extent to which the foregoing procedure may legally and practicably be adapted by it--this, in view of the fact that the Authority does not enter into construction contracts but is engaged in the financing of a low cost housing program through loans to non-Federal agencies, which execute the necessary construction contracts.

In the opinion of the Committee, the approach to the very serious problems considered in this report, should be gradual. For this reason, certain more drastic contractual provisions have been considered and discarded for the present. For a similar reason, it has been deemed best to limit, for the present, the immediate program to an attack on the abuses existing in the mechanical trades, rather than to apply it to all of the building trades. The mechanical trades were selected as the ones in which the abuses sought to be corrected are probably most prevalent.

When the results of the procedure outlined are available, the entire situation again should be canvassed. If this is done, it is suggested that the following points would merit consideration:

1. Organize a national committee to seek the organization and direct the activities of local committees, to study and seek a solution of the problems raised by abuses of the character portrayed herein in their local communities.
2. Apply the recommended procedure to additional trades in the building industry.

March 24, 1938

My dear Mr. President:

Inasmuch as none of the newspapers that I have seen carried Magill's statement before the Finance Committee on Tuesday, I thought that you would be interested in receiving a copy.

Sincerely yours,

The President,

Warm Springs, Georgia.

FOR RELEASE UPON DELIVERY.

Statement of Roswell Magill, Under Secretary of the
Treasury, to the Finance Committee of the Senate, Tuesday,
March 22, 1938.

The Chairman of the Committee has asked me to present at this time; first, the views of the Treasury regarding the revenue bill ~~now pending~~ before the Committee; and second, Treasury estimates on various proposals which have been made for the revision of our revenue laws. Since the provisions of the bill have already been discussed in detail in executive sessions before the Committee, I shall not make an extended statement at this time regarding them.

Nearly a year ago the President recommended that the tax structure should be surveyed and legislation enacted to remedy defects which experience disclosed. The President repeated his recommendation in his budget message of January 3, 1938, saying, "I hope that there may be enacted at an early date such amendments to the revenue law as will maintain the revenue producing power of the present tax structure while correcting at the same time existing proven inequities."

Consequently, the Treasury conducted its study of the tax system last year with two ends primarily in view: (1) That proven inequities in the revenue laws should be eliminated, including both provisions which created hardships to particular classes of taxpayers and provisions which granted unjustifiable exemptions from tax; and (2) that the productivity of the internal revenue laws, as amended, should be

equivalent to that of the existing laws. The recommendations of the Ways and Means subcommittee on tax revision which were later embodied in the revenue bill introduced in the House were formulated with these two basic objectives in mind.

All persons agree that tax laws should be equitable, but there is great diversity of opinion as to what constitutes equity in particular cases. No one enjoys paying taxes. Any taxpayer is apt to consider the tax which he has to pay as more oppressive than it should be and more oppressive than his neighbor's tax. Appeals for relief are always persuasive, since the particular taxpayer can readily show the weight of the burden he is bearing, and, unlike the Congress and the Treasury, he is not concerned with alternative imposts.

Framing tax laws in these times is one of the most complex and difficult and technical procedures with which the Congress and the Treasury is charged. Granted that a given total of revenue is to be raised, relief to one class of taxpayers usually means increased burdens on other taxpayers. Consequently, a determination of the merits of any proposal for tax reductions or tax increases involves not merely the immediate operation or revenue significance of the particular suggestion; but also the relative desirability of the relief or additional tax proposed as compared with the burdens, whether increased or merely maintained, which must be borne by others. The size of our tax bill and the significance of taxation in our economic life both require that proposals for shifts in tax burden from one group of taxpayers to another should be studied with great care.

The Committee has expressed its interest, not only in the various amendments of the revenue laws which are embodied in the House bill,

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but also in several alternatives as to which estimates have been requested. Consequently, the Committee may wish a brief summary of the propositions which the Treasury regards as fundamental in the formulation of a sound revenue system for the United States. Some of these propositions are set forth at greater length in the statement which I made before the Ways and Means Committee on January 14, 1938.

1. Income taxes and estate taxes are a better measure of capacity to pay than consumption taxes. Consumption taxes in general take little account of the income or wealth of the taxpayer. Yet at present taxes of this character account for about one-third of our total internal revenue. Consequently, the Treasury has held the view, expressed by the Secretary last fall, that the number of consumption taxes should be reduced as the state of the revenues permits. In view of the necessity for maintaining the total revenue yield, it is evident that not many consumption taxes can be repealed at this time, unless the Congress is prepared to make up for decreases in revenue so caused by increases in other levies. The first consumption taxes to be repealed should be those which are difficult of administration, which produce relatively small sums, and which are imposed upon articles in common use. The bill as introduced in the House made a start upon this type of revision by eliminating a number of consumption taxes aggregating about \$30 millions. On the floor of the House, however, the tax on distilled spirits was increased to yield an estimated \$19 millions additional; and the import tax on pork products was almost trebled in amount, a change which, however, appears unlikely to yield any additional revenue. Both of these changes the Treasury regards as undesirable.

The most important changes in the House bill concern the income tax and in particular the taxes on corporation income and on capital gains. I shall discuss these briefly under the two following heads:

2. The income tax should rest equally on incomes of similar size. It is on this basis that the Treasury has urged for many years that existing exemptions from Federal income taxes, now extended to the interest on state and local bonds and to state and local official salaries, should be eliminated for the future; and that capital gains should continue to be subject to the income tax. Neither of these recommendations is peculiar to this Administration.

So long as a vast reservoir of tax-exempt securities exists, it is difficult or impossible to make any system of progressive surtax rates operate effectively. Possibly the problem can be partially solved by a statutory provision, such, for example, as that which was urged by Senator Carter Glass when Secretary of the Treasury; possibly a constitutional amendment should be proposed as the most effective means of ending these tax exemptions for the future. The Treasury strongly recommends that effective action be taken as promptly as possible in one or both forms.

Gains from sales of property have been subjected to income taxation from 1913, when the Sixteenth Amendment was adopted, to the present time. The basic reason, no doubt, has been that such gains represent a capacity to pay quite as great as that represented by income from salaries, interest, dividends, or the like, at least in the absence of great changes in the general level of prices. It is agreed on all sides that the gains realized by a merchant from repeated sales of property should be taxed like ordinary income. It is hard to see why

an individual who makes a profit of \$25,000 from a single sale of securities or other property has less capacity to pay an income tax than a merchant with a profit of a similar amount from repeated sales. Nor is it easy to see why either of these individuals has less capacity to pay than an individual who earns a salary of like amount. To put the matter in another way, would it be just to repeal the present tax on capital gains entirely, a tax which has yielded a net of \$1,415 millions in the ten-year period of 1927 to 1936 inclusive after allowable deductions and credits for losses; and to make up the lost revenue, an average of over \$140 millions per year, by increased income tax rates on salaries and other forms of ordinary income? To do so would be to exempt one type of income at the expense of other types of income.

Most proposals do not go so far, but rather suggest that income taxes on capital gains should be modified to preferential rates particularly advantageous to taxpayers in the upper brackets. Simply on the score of fairness, gains from sales of property held less than one year do not appear to be entitled to any different treatment from ordinary income which has accrued in a similar period. In fact, the Revenue Acts from the beginning have treated one-year capital gains like ordinary income. On the other hand, in taxing gains of individuals which have accrued over a longer period, fairness requires that consideration be given to the length of time during which the gains have accrued. In other words, a profit on the sale of property held ten years ought not to be taxed in the same way as a profit which accrued in a single year. Rather, the ideal treatment would seem to be to tax the ten-year gain at the rates which would have been applied to it if it had been realized in ten equal annual installments.

The present law contains a method of taxation designed to give effect to this philosophy, although in fact the tax produced is ordinarily considerably less than it would have been had the total gain been taxed evenly in the various years in which it accrued. It is perhaps not generally realized how favorably the percentage scale in the present law treats the capital gains of individuals. We may compare, for example, two individuals, each of whom receives, from salary and interest, a surtax net income of \$50,000 a year. The first individual receives an additional income of \$25,000 a year in dividends for two years - a total of \$50,000 in dividends. The second individual receives, instead, additional income as capital gain on stock held slightly less than two years, and sold at a profit of \$50,000 - an average gain of \$25,000 a year. For the two-year period he pays 11 per cent less tax on his \$50,000 capital gain than the first individual pays on his \$50,000 of dividends. That is, the taxpayer in such a case is given a 11 per cent discount on the tax on his capital gain, as compared to the rate of tax on other types of income that develop in the same length of time and that reach the same amount. This instance is one of the more moderate. If we use the same total amounts, but spread the gain (and the dividends) over six years, we find that for the six-year period the capital gain pays 56 per cent less tax than the dividends. Still greater differentials exist in other instances. In practically every conceivable case there will be found some differential in favor of capital gains.

The House bill gives further relief to the taxpayer and increases the liquidity of the capital market by a series of changes that

- (1) affect the percentages governing the amount of gain or loss to be

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taken into account, (2) fix a maximum tax rate applicable to the gains after they have been reduced by the percentages, (3) allow a carry-over of losses of one year to reduce gains of a subsequent year, (4) improve the definition of a capital asset. On the other hand, the bill tends to increase the revenue from this source by restricting deductions of short-term losses to short-term gains, and of long-term losses to long-term gains. Requiring deductions on account of worthless securities to be treated as capital losses also tends to increase the revenue.

In general, the treatment of capital gains and losses under the House bill, as under the existing laws, has the following important characteristics: (1) Capital gains on assets held more than one year are given decidedly preferential treatment compared with income from other sources such as interest, dividends, rents, salaries, fees, and wages; (2) capital losses, on the other hand, are treated less favorably than business losses, losses by fire, theft, etc., and other deductible items allowed in the individual return; (3) capital gains, like other income, are affected (though not to the same extent) by the various levels of surtax rates.

To summarize, capital gains (other than one-year gains) are already given much lower income tax rates than ordinary income. They will receive still more favorable treatment under the House bill. Capital losses are allowed as deductions only to a limited extent under existing law; and under the House bill the treatment of losses is liberalized somewhat by a provision whereby a net capital loss may be carried over to the following year and offset that year's capital gains. There is a

strong case for a further liberalization of the provisions for the deduction of losses. A prospective investor in a hazardous enterprise must count on a tax on his gain if he is successful (though the tax will be lighter than if he got the same amount in a salary), and a very small deduction if he is completely unsuccessful. Exactly how far an extension of the capital loss provisions should go depends in large part on the revenue aspects of the problem. In any event, application of the proposition that the income tax should rest equally on incomes of similar size calls for more generous treatment for capital losses, but not, it seems, for more generous treatment for capital gains.

3. The income tax should rest equally upon different classes of taxpayers with similar incomes. The problem of providing a fair mode of taxation for corporations and their shareholders, as compared to individuals and partnerships with similar incomes, has given the Congress and the Treasury concern for many years. Individuals are subjected not only to a normal tax but to progressive surtaxes which now reach a maximum of 75 per cent. The corporation normal tax has varied in rate and at present runs from 8 to 15 per cent. Consequently, if the corporate stock is owned by individuals with large incomes, there is a strong tax incentive for the accumulation of earnings by the corporation, if these earnings are subjected only to these normal taxes.

On the other hand, a flat tax rate of 15 per cent is the equivalent of the effective rate applicable to a married person with an income of approximately \$40,000. Corporations with small incomes are commonly owned by individuals whose personal incomes do not approach this figure. Hence, it seems that a lower tax rate should be applied to such corporations than to corporations with large incomes.

Although the undistributed profits tax adopted in 1936 has been the subject of much public discussion, the fundamental basis for it has not always been clearly recognized. Individual proprietors and members of partnerships are subject both to normal taxes and surtaxes upon the entire net incomes of their businesses whether distributed or not. This means, among other things, that there is no deduction for amounts of income used for the payment of debts or for plant expansion, since such expenditures do not affect current operating income as the business man and his accountant compute it, and it is current operating income which is being subjected to the tax. The question then is: Is it fair to tax an individual proprietor and to tax partners upon the entire net incomes of their businesses at the full normal tax and surtax rates, whether the income of the business is distributed to them or not; and at the same time, to tax corporations simply at a flat normal tax rate? Before the question can be answered, an additional factor must be added; namely, that stockholders of the corporation will pay normal taxes and surtaxes upon any dividends distributed to them. It then appears that the distributed income of the corporation enjoys no tax preference as compared to the income of the individual or partnership business. Both are subjected to the applicable normal taxes and to the surtaxes. Indeed, the distributed corporation income is somewhat more heavily taxed, since the corporation has paid a normal tax of 8 to 15 percent on it before distribution, and the stockholder is subject to a second normal tax of 4 percent (as well as to any applicable surtaxes) when he receives the dividend. In fairness, he might properly be given a credit against his own normal tax for the normal tax already paid by the corporation.

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The undistributed corporate income, however, stands on a different and more favorable basis. In the absence of an undistributed profits tax, the corporation pays a flat normal tax upon its total net income, whether distributed or not; but unlike the cases of the individual proprietor or partnership, no surtaxes of any kind are collectible on the undistributed portion of its net income. Under this system, then, the Treasury collects less taxes from undistributed corporate income than from income distributed in dividends. Moreover, the corporation then enjoys this tax advantage over the partnership or individual proprietorship, that its earnings may be retained without surtax liability. The case for an additional tax on the undistributed portion of corporation incomes rests primarily on the basis of subjecting like incomes to like taxes.

It is evident that retained corporate earnings may be used for desirable purposes. So likewise corporate dividends may be usefully enjoyed by their recipients. Partnership incomes may be retained to advantage, or spent to advantage by the partners. The question here, however, is not the desirability of particular forms of expenditures, but the formulation of taxes which will rest as nearly equally as is possible upon individuals, partnerships or corporations with similar net incomes.

For these reasons, the Treasury favors the retention of a tax upon undistributed corporate earnings, as a means of equalizing the distribution of the total tax burden. Since the corporate form does not act as a shield against the personal surtax if the corporate profits are small and the stockholder's own income is small, it is reasonable

to exclude corporations with small incomes from the operation of the undistributed profits tax. Although some corporations with small incomes may be owned by wealthy stockholders, the majority of shares in such companies are apt to be owned by investors of modest means. Approximately 88 percent of the 200,000 corporations taxable in 1936 had incomes of less than \$25,000; and under the House bill would not be subjected to any undistributed profits tax. They can retain all or a substantial part of their earnings, and pay less tax than under the existing law.

Cases of hardship can be cited in the operation of any tax. They can be cared for either by a series of specific exceptions, or by a relatively low tax rate. The House bill utilizes both methods. In the first place, the bill fixes the rate of tax on undistributed corporate earnings at 4 percent, the rate of the normal tax on individuals. It is evident that the Treasury would receive less revenue at this rate, if corporations were to retain all their earnings, than it would if the earnings were all distributed in dividends. In other words, the rate is decidedly moderate. However, with no undistributed profits tax, corporations distributed an average of three-fourths of their net incomes over the ten-year period 1926-1935, inclusive. Normal corporate practice plus the proposed undistributed profits tax, will result in adequate tax revenues from corporate earnings under present business conditions, in the cases of the bulk of business corporations whose stock is widely held. There is no similar assurance in the cases of large closely held corporations whose shareholders pay individual income taxes in the higher brackets. In the absence of such higher

graduated undistributed profits tax rates as were generally applicable in 1936-1937, some special treatment to eliminate this tax differential in favor of accumulations by closely held corporations appears essential. The recommendation of the House Ways and Means Committee in the proposed title 18 was designed as a safeguard of the revenues in this respect.

Secondly, the bill contains some notable relief features for special cases. Corporations that are bankrupt or that are insolvent and in receivership are exempt from the undistributed profits tax. So too are all banks, insurance companies, mutual investment companies, rental housing corporations, China Trade Act corporations, and corporations doing business chiefly in possessions of the United States.

All corporations are relieved of the tax to the extent that any of their stockholders agree to include in their personal returns any part of their shares in the corporation's current earnings (this is the "consent dividend" provision). Again, if a corporation has a net loss for one year, this loss is in effect deducted from its next year's income, if any, in determining how much of that income shall be subject to the undistributed profits tax. Further, if a corporation declares dividends greater than the year's earnings, the excess can be carried over to reduce or eliminate the undistributed profits tax of the next two years. Finally, it is to be recalled that, even with all these "cushions," failure to distribute profits can result at the maximum in a tax of only 4 percent of adjusted net income.

It seems evident, therefore, that the corporation taxes provided for in the House bill are amply safeguarded against hardships to corporations in general, or in the particular cases to which attention has

been drawn. Corporations with small incomes will receive much lower rates of tax than would obtain if a flat tax were applied to all corporations. Likewise, corporations with large incomes, which follow a normal American policy of dividend distribution, will receive a lower rate of tax than would obtain if all corporations were taxed at a flat rate.

The problem of adjusting the rates and the method of income taxation, as between different classes of taxpayers, is one of extreme difficulty. The system of corporation taxation and of individual taxation as well can doubtless be further improved as time goes on, and experience develops. But if equal taxation of different classes of taxpayers with similar incomes is desirable, as doubtless all would agree, the House bill more nearly approaches the standard than a reversion to the pre-1936 method of taxing corporate incomes.

4. The Treasury fully shares the desire of the Congress and of taxpayers that the administration of the revenue laws should be as simple and as expeditious as possible. Several of the changes embodied in the House bill were adopted for this purpose. The most important is the consolidation into a single intelligible rate schedule of the two sets of estate tax rates and exemptions which have cluttered up the law for the past six years. The total burden of the estate tax has not been changed thereby but the general operation of the tax and, in particular, of the credit for state death taxes has been improved and simplified. Although, as I have stated, the aggregate yield of the estate tax is not changed, the amount of the credit for state death taxes allowed to particular estates will differ somewhat from existing law. The principal change will be that a great many small estates which

under the present law receive no credit or an inadequate credit for state inheritance tax will now receive more liberal treatment. All estates of \$1,100,000 or less, or over 98 percent of all taxable estates, will receive a larger state death tax credit under the House bill than under existing law. By the same token, estates of more than \$1,100,000 will receive slightly less favorable treatment than at present.

The changes in the revenue law so far described result in a net loss as compared to existing law. Consequently, the Ways and Means Committee decided that some of the additional revenue required to maintain the present flow of internal revenue might properly be obtained by decreases in estate tax and gift tax exemptions. At present, there are only about 9,000 taxable estate tax returns filed with the Federal Government each year, although approximately 1,100,000 adult deaths occur annually. Estate and gift tax exemptions may aggregate \$120,000, plus the indefinite amount of property which may be transferred by gift free from tax through the medium of the annual gift tax exemption of \$5,000 per year per person. In other words, it is a comparatively easy matter for a man to transfer an estate of several hundred thousand dollars to his wife and children over a period of years without any Federal estate or gift taxes at all. The House bill provides that the estate tax exemption of \$40,000 shall be reduced by so much of the gift tax exemption of \$40,000 as has been utilized by the decedent during his life. The result is that the present group of exemptions totaling \$120,000 is reduced to \$80,000. Secondly, the House bill reduces the annual gift tax exemption from \$5,000 to \$3,000.

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Although the revenue bill covers many other subjects of considerable importance in particular cases, as you know from your detailed study of its provisions, I believe I have mentioned the highlights of the bill. Revenue revision is a continuing process which must be carried out cautiously, not only because of the complexity of the subject itself, but also because of its far-reaching effects upon every citizen in the country. I shall not burden the Committee with a recital of other major topics which are now being considered in the Treasury and upon which recommendations may be made in the future at the request of the Congress. Many of these could not be considered at this time, because of the generally accepted policy of concentrating attention mainly upon corporation taxes and taxes on capital gains. In due course, we hope that the administrative provisions generally, and in particular the methods of court procedure in tax cases can be simplified and improved. The overlapping of State and Federal taxes is increasing, and needs thorough study and prompt solution. It may be possible to consolidate Federal estate and gift taxes, with an increase in simplicity and in fairness. These and a number of other more detailed problems are now being considered, and data and recommendations will be available later when desired.

The President has strongly urged that the revenue system, as revised, should be so designed as to yield as much as the existing system. The Committee has asked the Treasury to furnish estimates of revenue yield, not only for the next fiscal year, but for the calendar years 1936 and 1937, in which business conditions were better than it is

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anticipated that they will be during 1938. The statistics for 1936 are particularly useful, since we have accurate and complete data as to total incomes and deductions for that year. We agree with the Committee that, in considering prospective revenue yields, past performance for years like 1936 as well as future probabilities for years like 1938-39, should be taken into account.

The estimates now to be presented have been prepared by the staff of the Division of Research and Statistics of the Treasury, under the immediate direction of Mr. A. F. O'Donnell, who is available to answer any questions regarding them. I shall present them informally, in order to facilitate the fullest discussion.

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Estimated revenue yield from the taxation of capital gains and losses under present law, under the House Revenue Bill of 1938 (H.R. 9682), and under various proposed methods of taxation

General method of taxing capital gains and losses	:	Loss carryover provisions	:	Calendar years 1/			:	Fiscal year
	:		:	1936	1937	1938	:	1939 2/
(in millions of dollars)								
1. Present law (Revenue Act of 1936)	None			187.1	28.7	74.5		56.2
2. House Revenue Bill of 1938 (H.R. 9682) ..	As provided in the Bill			154.0	11.7	42.2		57.8
3. 1924 Act method, except that the flat rate is 15%	None			156.6	-7.3	46.4		39.3
4. 1924 Act method, except that the flat rate is 15% applied to gain or loss from the sale of assets held over 1 year	None			137.4	-8.4	45.6		38.9
5. Modified 1924 Act method:								
Short-term gains and losses (from the sale of assets held 1 year or less)		Short-term net losses of the current year may be carried forward and applied against short-term net gains of the following year						
Net gains - enter into net income								
Net losses - disallowed in the current year								
Long-term gains and losses (from the sale of assets held over 1 year)		Long-term net losses disallowed in the current year may be carried forward and applied against long-term net gains of the following year						
Net gains - option of (1) a flat 15% tax rate or (2) entering 1/2 of net gain into net income								
Net losses - enter into net income the smaller of (1) 1/2 of the net loss, or (2) \$2,000				134.6	8.8	40.7		49.9

Treasury Department, Division of Research and Statistics.

March 19, 1938.

1/ Assuming that all provisions are fully reflected in revenues.

2/ Assuming that the proposed changes in law become effective for taxable years beginning after December 31, 1937. The major changes in the law are, therefore, only partially reflected in fiscal year 1939 revenues, while the loss carryover provisions are not reflected in revenues until the fiscal year 1940.

Regraded Unclassified

Thursday
March 24, 1938
9:58 a.m.

382

HMJr: Hello.

T.O.: Senator Pittman.

HMJr: Thank you.

T.O.: Go ahead.

HMJr: Hello.

Key
Pittman: Hello.

HMJr: Key.

P: Yes.

HMJr: Henry talking.

P: Yes.

HMJr: How are you?

P: Pretty good.

HMJr: Key, I'd like to get your advice and confidence please. The question may come up about our renewing our agreement to buy silver from Mexico. Hello?

P: Yes.

HMJr: And I don't know yet, but the State Department may decide that it's part of their program that they may ask us to stop buying. And I wondered how you felt about it. I mean, it hasn't yet come to a head but it may and I'm leaving town tonight and I wanted to get your advice in confidence.

P: I don't know, Henry, I....

HMJr: What?

P: I'd like to drop in and see you about it, - ah - sometime.

HMJr: Could you do it today?

P: Well, would it be all right today?

HMJr: Well, I'm leaving town tonight. I'm going South with my family.

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P: Well, does this have to be settled up before Monday?

HMJr: Ah - it doesn't have to be, no. But I mean I won't be here Monday.

P: I'm inclined to - I'm very much disgusted the way the Mexicans are acting.

HMJr: I see. But Taylor's entirely familiar with the situation and he'll be here - Wayne Taylor.

P: Yes. Well, of course I'd rather get your advice on some of this financial end of it.

HMJr: Well, I'll be here all day.

P: All right.

HMJr: I'll adjust myself to you.

P: Yes. You'll be where?

HMJr: I'll be here at the Treasury until five o'clock.

P: All right, thank you.

HMJr: Thank you.

Thursday
March 24, 1938
10:15 a.m.

HMJr: Hello, Bob Wagner?

Robert
Wagner:

Yes, Henry.

HMJr: How are you?

W: Oh, I don't know. How are you?

HMJr: Just the same.

W: Good. Say, Henry, before the President left McIntyre called me up, he said that I ought to get in touch with you about some - these - this proposal on industrial loans.

HMJr: Yes.

W: That you were taking it up with Jesse Jones and Douglas and some of the others.

HMJr: That's right.

W: Now, all I can say to you is that whenever I'm available, I mean, I don't know how I fit into the picture at all, but if there's anything for me to do or whether I wait until you gentlemen digest it and then - I assume he called me because of my Chairmanship of Banking and Currency, I don't know.

HMJr: Well...

W: But anyway...

HMJr: Bob...

W: There it is.

HMJr: I'm always more than pleased to give you the facts.

W: Yes.

HMJr: And this is just between the two of us. What the President did before he left - he cleaned out his basket on everything that had to do with financing...

W: Yes.

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HMJr: ...and dumped it in my lap.

W: (Laughs)

HMJr: And he gave me all the memoranda he's received on loans to industry and loans to small business men and all that kind of stuff, see?

W: Yes.

HMJr: Now, we had a meeting here and it lasted three hours yesterday - with the heads of the various financial agencies...

W: Yes.

HMJr: And all I can say as a result of it I had acute indigestion. Now...

W: What is it?

HMJr: What?

W: You had acute indigestion?

HMJr: Yes.

W: I see.

HMJr: I mean, you asked me what I had digested...

W: Yes. Yes.

HMJr: And my answer is I've got acute indigestion.

W: Yes.

HMJr: Now, it'll take, oh, a number of more meetings before even at this end of the Avenue we can come to any kind of an agreement.

W: Yes.

HMJr: And just as soon as we have I'd like to have a chance to present it to you.

W: Yes.

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HMJr: But right now - the President's had I don't know how many memoranda from different people and every one of them is different.

W: Yes.

HMJr: Now...

W: The only thing I'd suggest, Henry, is this, that if we're to do anything this session, you know, if it's something....

HMJr: But the thing - for instance, Douglas started to send us over/draft of the bill - I don't know - Monday or Tuesday and I think he's changed it three times in three days.

W: Yes.

HMJr: Well, I mean I - in other words I've got nothing to go on.

W: Yes.

HMJr: And we're going full steam ahead and trying to digest it for the President...

W: Yes.

HMJr: And if you say, "Have you got anything today?" my answer to you is, "No."

W: I see.

HMJr: See?

W: Yes.

HMJr: But I'm not - I'm - all I'm trying to do is - I've got no opinion on this myself - all I'm trying to do is to take all of these different ideas to try to make one idea out of them.

W: Yes.

HMJr: But they're pretty far apart.

W: Yes. Well, I can imagine...

HMJr: Now, that's the whole story.

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W: Yes.

HMJr: I'm delighted you called, but...

W: Yes.

HMJr: ...if you said, "Henry, have you got a program?" the answer is, "At this end of the Avenue we've got 10 programs."

W: Yes. Well, then I'll tell you what I'd better do is just wait until you think there is something that's...

HMJr: And then we'll come up and tell you what we've got.

W: You can translate it, yes. I do - don't you think that - that some kind of a push of some kind is needed, I don't know just what it is?

HMJr: Ah - Yes, but there's somethings - as/^{to}just what the Government can do for industry - has to be clarified.

W: Has to what?

HMJr: It has to be cleared up.

W: Yes. Yes.

HMJr: Clarified.

W: Yes.

HMJr: And it's very muddy. I mean, I couldn't tell you myself.

W: Yes.

HMJr: See?

W: Yes.

HMJr: I mean, if we had an agency like Farm Credit which is working smoothly for Agriculture - if we had something as good as that for industry it'd be wonderful.

W: Yes.

HMJr: But we haven't.

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W: Yes. Well, maybe we can create it.

HMJr: Maybe. But that's what we're working on, Bob.

W: Yes. All right. Thank you, very much, Henry.

HMJr: All right.

W: Then I'll just lay low until I hear from you.

HMJr: Thank you so much.

W: All right.

HMJr: Goodbye.

W: Goodbye.

Thursday
March 24, 1938
11:50 a.m.

HMJr: Hello.

T.O.: Senator Pittman.

HMJr: Hello.

Key
Pittman: Hello.

HMJr: Key.

P: Yes, Henry.

HMJr: Henry.

P: Yes.

HMJr: This Mexican thing has come to a head and I've got to make up my mind before I go away tonight.

P: Yes.

HMJr: Are we going to be able to get together?

P: Yes. I guess I can run there about three o'clock, how's that?

HMJr: Three o'clock? - I'll make it all right.

P: What's that?

HMJr: I'll make it all right.

P: What time are you folks thinking of leaving the office?

HMJr: A little after five.

P: Well, I'll - what's going on here is, you know, is we're voting today on this reorganization thing.

HMJr: Yes.

P: And I'm going to try and get down there a little earlier than that. You go to lunch at what hour?

HMJr: One o'clock.

P: One o'clock. Well, I'm going to try and get down there right after your lunch for a few minutes.

HMJr: What time would that be?

P: Well, that would be about two.

HMJr: Two o'clock. I'll be waiting here for you from two o'clock on.

P: Because I won't have very much time myself because we're voting on one thing at three and another thing at five - for unanimous consent. But I want to do - but I want to get your views on that whole situation.

HMJr: Well, let's leave it - if I don't hear from you again I'll expect you at two o'clock?

P: Yes, sir.

HMJr: Is that all right?

P: That's all right.

HMJr: Now, I'll adjust my appointments, I'll change them around.

P: All right. Yes.

HMJr: I'll expect you at two if I don't hear from you.

P: I want to try to be right on the dot too so that I can back here at three.

HMJr: I'll be - I'll be waiting for you.

P: All right.

HMJr: Thank you.

Thursday,
March 24, 1938
12:56 p.m.

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HMJr: Hello.

T.O.: Mr. Jones.

HMJr: Hello.

Jesse Jones: Hello.

HMJr: Jesse, the Jones?

J: Yes, sir. Have you recovered?

HMJr: (Laughs) Oh, boy!

J: (Laughs)

HMJr: Listen, I never worked so hard in my life.

J: Gosh, that was an ordeal.

HMJr: Yes.

J: It really was.

HMJr: I'll say so.

J: And I want to talk to you some more about it.

HMJr: All right.

J: - a few minutes. I waited so long that when I got through with Wayne that you had gone out.

HMJr: Yes. When do you want to talk. I've leaving at five tomorrow.

J: At five tomorrow? Well, I - any time you say.

HMJr: Well...

J: What are doing today for lunch?

HMJr: Well, I've got Mrs. Morgenthau and some people...

J: For lunch, huh?

HMJr: Yes.

J: Well, I was...

HMJr: I'm glad you like our lunches.

J: I do.

HMJr: (Laughs) Maybe you've got a rain check.

J: Ah...

HMJr: Do you want to - I tell you -

J: Yes.

HMJr: Tomorrow morning is kind of - let me just see, you wouldn't want to - is ten-thirty a good or bad time for you?

J: Well...

HMJr: In the morning.

J: Let's see, tomorrow, then...

HMJr: Or do you want to do it this afternoon early?

J: Why don't I give you a ring when I - what time will you be through lunch?

HMJr: Oh, around two. Do you want to drop in?

J: Why don't I drop in a little after two?

HMJr: That'll be all right.

J: - Just a few minutes - I just want to talk...

HMJr: Shall we say about two-fifteen?

J: All right.

HMJr: I'll be delighted.

J: All right.

Thursday
March 24, 1938
12:12 p.m.

333

HMJr: Hello. What did the Governor have to day?
Guy T.
Helvering: Well, I told him that we had had that conference
this morning in your office.

HMJr: Yes.

H: And that I wanted to tell him that we were perfectly willing to cooperate in anything we could legally do.

HMJr: Yes.

H: And - well, he explained to me that it was the legislative commission - it wasn't his commission - and so forth.

HMJr: Yes.

H: And wanted - requested that we have a - well, I told him flatly that if there was anything that we could give them that would be of interest to them and we could legally do so we'd do it.

HMJr: That's right.

H: Now, he says that this man Hazzenstein...

HMJr: Yes.

H: ...thinks we have the information about this Judge McDermot's tax that it is most essential for them to get.

HMJr: Yes.

H: I told him that you had instructed your General Counsel...

HMJr: Yes.

H: ...to prepare a memorandum for my guidance in this matter on what we could legally do.

HMJr: That's right.

H: Then he asked if I would see Hazzenstein and I told him yes.

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HMJr: Yes.

H: And that - to take everything up with me...
He said, "Then I won't bother the Secretary."
"No," I said, "take it up with me."

HMJr: Right.

H: And so he's to advise Hazzenstein to get in touch with me...

HMJr: Right.

H: And then I've arranged that Irey and Wenchel and I will have a conference with him.

HMJr: What is Hazzenstein, a Pennsylvania Dutchman?

H: Well, he used to be. He was in Florida in our - in fact he's on leave from our Alcohol Tax Unit now. He was...

HMJr: Is that where he comes from?

H: Yeah.

HMJr: Is that where he gets the name?

H: (Laughs) Hazzenstein?

HMJr: Yes. I mean, is he one of these Pennsylvania Dutch?

H: Well, I don't know him at all, personally.

HMJr: No, I mean, I just wondered if he was a Pennsylvania boy.

H: Well, I think that - that they asked for him up there.

HMJr: I see.

H: And we released him to go on this committee, that is, he's on leave without pay, with our Alcohol Tax Unit.

HMJr: Well, he's working up there then?

H: Yes.

HMJr: Well, what you say sounds all right, Guy; and thanks very much.

-3-

H: Of course, this Hazzenstein fellow is - he's getting twelve thousand dollars a year up there, (Laughs) on this job.

HMJr: And if any of your collectors feel badly I'll buy them a new toe for their boots, see?

H: (Laughs) All right. Well, it'd be too bad if they wear out their boots kicking those sacks around.

HMJr: Well, I'll buy them a new pair of shoes.

H: (Laughs) All right.

~~HMJr:~~ (Laughs) All right. Goodbye.

H: Goodbye.

March 24, 1936

My dear Mr. President:

The inclosed correspondence was given to us from the files of the Federal Trade Commission.

I was particularly interested in this correspondence because it shows that as far back as 1934 you were trying to get the cement industry to give the Federal Government an F. O. B. Mill price.

I hope that this time you will be successful in getting the cement industry to see the light.

Yours sincerely,

The President,

Warm Springs, Georgia.

(see President's ack.
filed under date
3-28)

FROM: MR. O'CONNELL'S OFFICE

TO: Mr. Oliphant

The attached letter, read into the record in the cement case before the Federal Trade Commission, is of interest.

The background, as given to me at the F. T. C., is as follows:

In January, 1934, the N. R. A. Administrator wired the Code Authority to the effect that the President was disturbed about the cement situation and that he saw no reason why the Government should not get F.C.B. mill prices. The reply (written to Mr. Rader, who was the Code Authority as well as one of the 12 Trustees of the Cement Institute) was very uncooperative and led to the attached letter from Mr. Treanor (now dead) who was also one of the 12 Trustees of the Institute and President of the largest cement company on the West coast.



Form B-72

THE CODE AUTHORITY
for the
PORTLAND CEMENT INDUSTRY
CHICAGO

RIVERSIDE CEMENT COMPANY
821 South Hope St.,
Los Angeles, Calif.

May 17, 1934

Mr. B. H. Rader, Regional Manager,
The Cement Institute
Room 748, 111 West Washington St.,
Chicago, Illinois

Dear Bud:

I have been thinking about your telephone call, from which I got the impression that you sent a pretty unyielding telegram to Murray -- as you say at least that you "did not intend to make any concession before the 'trading' starts."

Now I would have conceded the mill price at once on Federal business and I would have indicated a very open-minded attitude toward the larger question; and this to create the impression, deliberately, that something besides obstruction and short range trading can be had out of the cement industry. I would have taken advantage of this great opportunity to lay a telegram on the President's desk which he would have read. We know he is watching the cement question. I would have tried to strike a new note of co-operation and reasonableness, in contrast with what Ickes and the Federal Trade Commission tell him about us. This could have been the beginning of a real campaign for better public relations. I don't think this chance is yet lost -- that is why I am writing you. The only thing that I think has been lost is a neat opportunity to score our point with the President himself.

As a member of this industry, my fate is to a considerable extent in your hands, so that I have both a right and a duty to let you know my views.

If we were a generally well regarded industry, we might be justified in taking a stiff trading position upon the President's request. However, we are anything but popular, we have a very difficult position to maneuver out of, and we should not gamble unnecessarily, running as we do the risk of a blast from the President's office that may be ruinous.

The f.o.b. mill price on Federal business is of no real importance, is entirely practical to grant, and I think will be forced out of us -- therefore good trading would have been to give it without any trading.

Now, when it comes to the larger question of mill price on commercial business, much as I would like to think otherwise, I am convinced that we will have to maintain our basing point position and refuse the President's request. It will not be an easy refusal to defend upon economic grounds. It will be almost impossible to persuade an unsympathetic government that we are justified in our refusal. But the least we can do is to prepare the way by an initial showing of open mindedness, which might entitle our later arguments to sympathetic hearing.

Do you think any of the arguments for the basing point system, which we have thus far advanced, will arouse anything but derision in and out of the government? I have read them all recently. Some of them are very clever and ingenious. They amount to this however: that we price this way in order to discourage monopolistic practices and to preserve free competition, etc. This is sheer bunk and hypocrisy. The truth is of course -- and there can be no serious, respectable discussion of our case unless this is acknowledged -- that ours is an industry above all others that cannot stand free competition, that must systematically restrain competition or be ruined. We sell in a buyers' market all the time. The capital cost, as distinguished from the out-of-pocket cost, of producing cement is extraordinarily large. In free competition this capital cost is whittled away and this means loss and ruin.

Now an industry in this fix needs some sympathetic understanding on the part of the government. I think our case can be made out, but it is not going to be done by the route of hard boiled short-range trading. We are either dealing with a very important large question of public relations or we are not. If we are not, we don't have to be so careful of our methods. If we are, then we had better approach the question in a large way; and the first approach is to acquire some good will in governmental quarters. All that we need for our reasonable prosperity is consistence with the President's original plan for NRA.

I haven't seen the telegram you sent. This letter may be unwarranted and is pretty sure to make you sore, but it is based upon your remark about "trading" and upon some general views of industry policy which I heard advanced by some of the very influential men of our industry.

Yours truly,

(Signed) John Treanor.

March 24, 1938

4:25 p. m.

Present:

Mr. Taylor
Mr. Lochhead
Dr. White

HM, Jr.: What's his name called me up -- Sumner Welles -- and he said they are going to get together on this silver thing tomorrow and I said we had a memorandum and he asked if I could get it over there this afternoon. Now, is this the memorandum?

Dr. White: I don't think that is appropriate, but I don't know. Wayne is agreeable.

HM, Jr.: May I take a look at this? What's the matter with this?

Dr. White: My thought was for a document of that kind to go for the use of the press and public is excellent. It's a position should someone ask why haven't you discussed your principles. But if you were to send that to Secretary Hull ...

HM, Jr.: How about having you walk it over to Feis?

Dr. White: I don't think that that would fill the bill. I thought it might be a little preferable to say a little bit more, saying that there are certain thoughts that occur to the Treasury. I have another copy here. You could cut out some paragraphs, if you wanted to, but as between yourself and Mr. Hull

HM, Jr.: That's the trouble. It's gotten down between the Treasury and Feis. I wanted to send it to Feis and you could leave it over there.

Dr. White: Feis now has a memorandum of the salient points that affect Mexico. He says what they are going to ask is that we cease the arrangements that we now have, knowing it will not be effective, but requesting it

merely as a gesture, hoping it will have some psychological effect. I think Wayne suspects, and I agree, that nothing should be sent.

Mr. Taylor: We can wait until they come over.

Mr. Lochhead: Feis called up and said there are rumors around that the Treasury was advancing \$13,500,000 against future purchases of silver.

(At this point, HM, Jr spoke to Dr. Feis and a ~~review~~ of their conversation follows this page.)

Dr. White: One slight remark -- his comments on the effects were confined exclusively to Mexico. They did not relate to the United States or our policies.

HM, Jr: I don't want to see his blankety-blank cables (see page 4 of telephone conversation). The Treasury position is a monetary one and we stand on that ground. I don't want to be influenced. I don't want to know about the political thing. They know it and have been all through it. They say it's bad. O. K. They ask us and we do what they ask us, but from the monetary standpoint I think we ought to continue to buy silver. Are we in agreement?

Mr. Taylor: I think in this particular case it does not make a damn bit of difference an agreement or not, so if it is a useful gesture to anybody, go ahead and make it.

HM, Jr: That's just the point. If I am going to call their bluff, I should have the cards. We say we are not going to buy silver from Mexico and we go right ahead and buy the same Mexican silver in London and it costs them shipping charges and insurance, and the bluff is no good. That's why I think they are making a mistake.

Dr. White: They understand that perfectly.

HM, Jr: Well, if they understand it, that's all right. Then the only ground that I can be on and the only safe ground that I can be on is as a monetary matter I think it is a mistake, but if it is a matter of foreign affairs and you want it, I accede to your request. That position is absolutely on sound ground.

Thursday
March 24, 1938
4:30 p.m.

HMJr: Hello.

T.O.: Dr. Feis.

HMJr: Hello.

Herbert
Feis: Hello, Henry.

HMJr: How are you?

F: Managing.

HMJr: Herbert.

F: Yes.

HMJr: I have here with me Taylor, Lochhead and White.

F: Taylor..

HMJr: Lochhead and White.

F: Yes.

HMJr: We're talking about silver. I just talked a little while ago to Sumner Welles.

F: Yes.

HMJr: And I asked him whether he wanted me to send a memorandum over about silver and he said to send it to you. Since then we've been talking it over and White says he's seen you and that you know everything about silver that we do.

F: Ah - I think probably that's true - in main fact. Let me give you the position here.

HMJr: Please.

F: As the Secretary understands it you're postponing your decision in regard to the renewal of your monthly arrangement for purchase until you have some indication of our attitude.

HMJr: That's right.

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F: And every time we've discussed the Mexican situation it's entered as a factor. Now whenever it's been brought out as a factor, especially this morning after talking with White I brought out the point that the mere refusal to go into the - a new monthly agreement would not in itself have any direct serious consequences for Mexico.

HMJr: For Mexico?

F: I beg your pardon.

HMJr: For Mexico?

F: For Mexico.

HMJr: Right.

F: That what would have serious consequences in a diversity of directions would be if we, besides not renewing the agreement, permitted the price of silver to decline.

HMJr: Yes.

F: The world price.

HMJr: Right.

F: And my analysis on that point I went over with White this morning and he said he didn't have anything substantial to add. So that's what I've put before the Secretary. Ah - may I talk just one minute more?

HMJr: Please.

F: Now, as for handling the whole general problem, the Secretary's attitude is positive. He's going to make some move in this matter...

HMJr: Uh huh.

F: ...to outline our position. We already have in an informal way through Daniels.

HMJr: Yes.

F: He wants to talk with the oil companies first. I'm perfectly sure, as sure as I can be, that he's going to ask you please not to take any action - just let the thing ride.

HMJr: Uh huh. Well, what does that mean, renew it?

F: I beg your pardon.

HMJr: Does that mean to renew it?

F: No, no. Just postpone discussion of whether to renew it or not.

HMJr: Well, we've got to let them know on the thirty-first.

F: Well, suppose you don't.

HMJr: Well, then it falls by the wayside.

F: Could you possibly say to them that you want another week to think it over?

HMJr: No. No. The thing is renewable on the thirty-first.

F: But - all right, suppose we said, "We can't renew now but we'll be glad to talk to you again in a week," or something like that. Is that feasible?

HMJr: Yes. Yes.

F: Ah...

HMJr: Anything's feasible.

F: All right. Now, I think the thing's reached the stage where the only satisfactory thing probably from your point of view is for me to tell Mr. Hull once again that we've gone over the thing as carefully as possible and our view of possible action is the same as the Treasury's and for him to talk directly with you.

HMJr: Yes. Well, you might say that I hope he isn't going to ask me to do it.

F: - ask you to do...

HMJr: To discontinue our arrangements with Mexico.

F: You'd rather, from the Treasury point of view, continue we know.

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HMJr: I - from the Treasury's point of view I think we should handle this thing as a monetary matter.

F: Yes.

HMJr: And...

F: All right.

HMJr: And I don't think we should use it as a political weapon.

F: It wouldn't be necessary - this isn't arguing with you, it's just...

HMJr: No, that's all right.

F: The picture we get...

HMJr: Yes.

F: I think if you - I was going to say if you'd find time I could come over and bring over all our cables on the thing, but...

HMJr: Well, that's not - no, I don't - I don't...

F: They're all in the newspapers, that's the whole story. It's an organized - it's taken the shape of an organized anti-foreign campaign.

HMJr: Yes.

F: And...

HMJr: Now just let me make my - I mean, I'm very much interested in Mexico and I brought this whole Mexican situation forcibly to the President's attention three months ago.

F: I'm sure you did.

HMJr: Well, you know I did. I took - Mr. Hull and I went over to see him and I - I was so worried that I asked Mr. Hull whether he wouldn't go over with me to see the President and it's a matter of almost three months ago that I went on record.

F: Yes.

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HMJr: Hello.

F: Yes.

HMJr: But the reason I don't want to see the cables now is that I - I'm just going to take a monetary position. You see what I mean?

F: Exactly. And what I was trying to say is what's got the Secretary somewhat disturbed is the likelihood that this would have further results in Colombia and Venezuela and elsewhere.

HMJr: What would?

F: If Mexico can make this appro- expropriation...

HMJr: Yes. Well, that would...

F: ...without adequate payment...

HMJr: Yes.

F: ...the whole American oil properties throughout Latin America and other properties...

HMJr: Yes.

F: ...would probably be fairly much jeopardized.

HMJr: Well, the point is this. My position is that if Mr. Hull asks me he's got to ask me publicly to stop it, you see? Hello?

F: Yes.

HMJr: We'll do it.

F: But from a purely monetary point of view if this hadn't arisen you would have renewed.

HMJr: Yes.

F: Yes. Well, Henry, are you going to be here all day tomorrow?

HMJr: I'm going to be here all day tomorrow.

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F: Well, as I say again, I think it's one of the things you won't be satisfied to do unless he talks...

HMJr: What?

F: ...directly to you or Welles talks directly to you.

HMJr: Well, I think - I imagine that Welles will because Welles said he thought he'd come over tomorrow and see me.

F: All right.

HMJr: But this takes the lieu of a memorandum, that's the point.

F: Thank you, Henry.

HMJr: This is in lieu of a memorandum.

F: Right. Now, can I talk to you a minute about another matter?

HMJr: Please.

F: This general circular went out.

HMJr: Yes.

F: Ah -

HMJr: Go ahead.

F: Of course, it's given me more - (Conversation breaks off at this point - no more of it is recorded on the Dictaphone.)

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Mr. Taylor: Absolutely.

Mr. Lochhead: Absolutely.

HM, Jr: Therefore, I don't want to see their cables and be influenced. As to the Mexican situation, what's going to happen, I was on record three months ago that we would have another Spanish situation and in the meantime we have sat here and done nothing. You are perfectly happy about my position?

(Dr. White, Mr. Lochhead and Mr. Taylor all nodded assent.)

HM, Jr: Gentlemen, adios! Manana.

March 24, 1938.

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The objectives of the Silver Purchase Act as announced in the Act, in the Congressional debates and in the statements of the Administration, are:

1. To increase the proportion of silver to gold in the monetary stocks in the United States.
2. To increase and then stabilize the world price for silver.
3. To promote the monetary use for silver throughout the world.
4. To increase the purchasing power of silver producing and silver holding countries.

If the Treasury were to operate in such way as to bring about a lower world market price for silver, we would be acting in direct opposition to all four objectives of the Silver Purchase Act.

1. Instead of raising the price for silver we would be lowering it, and we would be doing so under circumstances independent of factors connected with the gold and silver markets.
2. To lower the price of silver we would have to buy less silver. By so doing we would not be increasing the proportion of silver to gold at a rate "deemed reasonable and most advantageous to the public interest" as the Secretary of the Treasury is specifically directed to do by the Act.
3. Instead of increasing the purchasing power of silver producing and silver holding countries a reduction in the world price for silver deliberately reduces the purchasing power over foreign goods and thereby operates to reduce world trade. This is particularly true of countries like Mexico, Peru, Australia, Chile and Bolivia, who do not in the main employ their silver exports for the purpose of building up gold reserves or for improving their international credit position.
4. Instead of encouraging monetary use for silver the falling world silver price discourages it. It introduces greater uncertainty with respect to the future value of silver. Countries may regard our action as another step toward complete abandonment of our silver purchase policy. Furthermore, the more the price of silver falls and the more subject it is to broad fluctuations, the less likely will it be that countries will return to its use as a monetary base.