DIARY

Book 154

December 1 - December 5, 1938
Amenberg, Nore

Now that Campbell has succeeded Igoe as United States District Attorney, Treasury will not ask for special lawyer - 12/2/38............................ 154 153

a) Corcoran recommends highly; Campbell is Cardinal Mundelein's personal counsel...... 123

Antidumping Act of 1921

HWR plans reexamination of responsibilities; group invited to advise him - 12/2/38........... 149

B -

Banking Legislation

Eccles' bank plan: Gaston memorandum on questioning by Mike Flynn, et cetera - 12/5/38........ 258

Bonds

Oliphant memorandum on Supreme Court case concerned with discharge of a bond payable, not in gold only but also in a named foreign currency at bondholder's election - 12/1/38.................................... 20

Business Conditions

Haas memorandum on situation for week ending 12/3/38. 371

C -

China

Conference with Chen - 12/1/38............................ 1

a) HWR suggests that publicity on purchases in United States may help with proposed loan; Chen agrees

Suggestion that Freda Utley (Far Eastern correspondent of London News Chronicle) call on HWR - 12/2/38.... 102

Conference with Bewley accompanied by Hall-Patch (British Financial Attaché to China); Butterworth also present - 12/3/38.............................. 212

Sketch map of Yunnan-Burma road...................................... 257

Memorandum on eventual truck selections for use on Yunnan-Burma road - 12/5/38.......................... 263

Burma Government states policy in regard to transit shipment of war materials - 12/5/38.............. 265

Tung oil loan: Oliphant memorandum that arrangement does not violate United States Treaty with China of 1844 and International Treaty concerning China of 1922 (question raised by State Department) - 12/5/38........................................... 347

Comptroller of Currency

Oliphant memorandum on authority for Office of General Counsel to take over legal work of Comptroller of Currency - 12/1/38........................................ 47, 103

Regraded Unclassified
Farley, James
Discusses with HHJr over telephone political situation, advice to FDR, business conditions, et cetera - 12/5/38

Financing, Government
12/15/38:
Suggestions by Discount Corporation, Salomon Brothers, et cetera - 12/1/38
Parkinson (Thomas) consulted - 12/1/38
Haas memorandum on probable yield bases and market prices - 12/1/38
Sproul reports on market reception of announcement - 12/2/38
Burgess reports on proposed issue - 12/2/38
Conference with Treasury people and Ronald Ransom - 12/2/38
a) Conversation with Sproul - 12/2/38
Conference of Treasury group (Ransom, Pizer, and Hadley join group later) - 12/3/38
a) Conversation with Sproul
b) Conversation with Walter Cummings
c) " " Eccles (in New York)
d) Later conversation with Ransom
Announcement of offering - 12/5/38
a) Sproul reports on market reaction - 12/5/38

Fiscal and Monetary Advisory Board
Meeting; present: HHJr, Eccles, Delano, Bell, Currie, Ruml, Taylor, White, Haas, Sanford (Federal Reserve Bank of New York), and McReynolds - 12/5/38
a) Problems considered: Potential national income and probable Federal revenue; effect of budget items on national income; Federal fiscal operations outside the budget; flexibility
b) Memorandum on railroad and automobile demands for steel
c) Memorandum on estimates of national income for 1939

France
See Stabilization: Great Britain

- G -

Germany
White, with assistance of May (Treasury Attaché assigned to Berlin office), instructed by HHJr to prepare comprehensive report on methods employed in carrying on foreign trade - 12/1/38

Gold
See Stabilization: Great Britain
Great Britain
See Stabilization

Regraded Unclassified
Hanes, John W.
HMJr warns Hanes on hatred of Krock for FIR - 12/5/38

Housing
Keyserling (Leon H.) memorandum to HMJr concerning United States Housing Authority proposal to enlist private capital for larger participation - 12/2/38

Italy
See Stabilization: Great Britain

Japan
Arakawa calls on HMJr; also present: Lochhead, Cochran, and Butterworth - 12/2/38

- a) HMJr amused at Arakawa meeting Chen on his way out

Suggestion that Freda Utley (Far Eastern correspondent of London News Chronicle) call on HMJr - 12/2/38

Conference on memorandum to FDR concerning discrimination against American trade and enterprise in Chinese areas now under Japanese control; present: HMJr, Gibbons, Taylor, Oliphant, Cairns, and White - 12/2/38

- a) Actual memorandum

Kennedy, Joseph P.
Farley and HMJr discuss FIR's attitude toward - 12/5/38

Krock, Arthur
See Hanes, John W.

National Income
Estimates for 1939 (unsigned)

Numismatists and Philatelists
Oliphant memorandum on revision and codification of all laws in furtherance of FIR's interest - 12/1/38

- P -

Philatelists and Numismatists
Oliphant memorandum on revision and codification of all laws in furtherance of FIR's interest - 12/1/38

Poughkeepsie, New York, Post Office
See Procurement Division

Procurement Division
Landscaping Division: HMJr upset about painting done at Poughkeepsie Post Office; asks investigation - 12/1/38
Railroads
Report on United States Railroad Equipment Authority (unsigned) - 12/2/38

Stabilization
Great Britain;
Letter to PM from Mac from UK concerning proposal to impose embargo on gold imports as a way to protect position of dollar against further depreciation of sterling currencies sent to Viner and Hansen for criticism - 12/1/38
Bolton gives market resume to Knox: difficult and anxious times due partly to unpleasant French relations with Italy - 12/1/38
Jodhan memorandum concerning conference with Sewrey in which Sewrey gave specific figures concerning gold holdings of exchange equalization account - 12/3/38

Temporary National Economic Committee
Clifphant memorandum on opening of public hearings - 12/1/38
Verbatim record of first public meeting; testimony of O'Mahoney, Arnold, Borch, Lubin, Clifphant, Douglas, et cetera - 12/1/38

Unemployment Relief
National income estimates for 1939 (unsigned)
Clifphant memorandum regarding letter to Acting Commissioner General asking reconsideration of decision concerning Works Progress Administration relief workers sent to United States Employees Compensation Commission with regard to continuation of medical services - 12/3/38
United States Employees Compensation Commission
See Unemployment Relief
United States Housing Authority
See Housing

Works Progress Administration
See Unemployment Relief
December 1, 1938
10:45 a.m.

Present:
Mr. Chen
Mr. Tsi-mou
Mr. Ren
Mr. Lochhead
Dr. White

HM, Jr.: I see a little break in the clouds. I don't want to be too encouraging, but I see a little break in the clouds. And I am trying very much to help the sun come out.

Mr. Chen: Thank you very much. I know you have been working very hard.

HM, Jr.: And I am trying to make the sun shine. It is difficult, but I have received a little encouragement and I wanted you to know that.

Mr. Chen: I am glad to hear that.

HM, Jr.: And I wondered if you care to tell me how you are getting along with your motor trucks.

Mr. Chen: We have received all the bids from the manufacturers, I think seven altogether, and it will take about three days more to tabulate it. Capt. Collins, who has helped us to get specifications, is helping us to tabulate it and then we will make decision, probably next Monday.

HM, Jr.: I see.

Mr. Chen: And then we will proceed to ship it to Rangoon From Rangoon to Burma Road.

HM, Jr.: I think -- I want you to think this over -- I think it would be helpful to you -- and I want you to think it over -- that if and when you do decide to buy, that you give it publicity.

Mr. Chen: Yes. Yes.
HM Jr: I think it would be helpful to me in trying to get this loan for you.

Mr. Chen: Yes. Yes.

HM Jr: In other words, the fact that China is spending money here plus the fact that you are getting trucks for this road, unless there is some military reason that they don't want it known -- there may be some military reason why they want to keep it secret; the Japanese might find it out.

Dr. White: They know it already.

HM Jr: But I think with the public and right here in Washington it would be helpful to know that there are 1,000 trucks going over the Burma Road, because I still can't convince the people that the Burma Road is open. Now, they keep telling me it isn't open.

Mr. Chen: Well, the engineer is here.

HM Jr: I know. I told them that. So you think it over, but my own feeling would be unless there is some military reason ......

Mr. Chen: I can see because when we decide the bids we have also transportation on commercial boats, to open this trade.

HM Jr: One other thing, if I may make this suggestion, which also would be helpful: that in shipping these trucks, you use American flag ships.

Mr. Chen: Oh, yes! Oh, yes! That we have already decided to do that.

HM Jr: Because all that helps build up sentiment for China.

Mr. Chen: Yes. Yes. Yes.

HM Jr: I mean, that Americans are getting the shipping. Have we a line to Rangoon?

Mr. Lochhead: There are two things, first of all, for instance, like the Eagle Line, it does not run direct
to Rangoon, but it is just a question of whether it would be enough on one boat, otherwise they would trans-ship at Manila. And then there is, second, the Roosevelt Line.

**HM.Jr:** There is a line?

**Mr. Lochhead:** There is another line that runs there.

**HM.Jr:** And if there is a ship -- Basil Harris, Vice President of that line (he's United States Lines)...

**Mr. Lochhead:** Two lines. One does more business on the Pacific.

**HM.Jr:** Either one, if they knew there were 1,000 trucks to transport, they would fill up a boat and send it direct.

**Mr. Lochhead:** Mr. Chen has spoken to me and in talking about it up in New York, the question of handling transportation came up and decision was reached by Mr. Chen that they are to be American bottoms and, of course, the question is how deliveries are to be made. They probably won't get 1,000 trucks -- they probably won't be able to make deliveries just as fast as that, but however they go, they will go American bottom.

**HM.Jr:** Is it your inclination to do business with just one company?

**Mr. Chen:** We don't know yet.

**HM.Jr:** Depends upon prices.

**Mr. Chen:** Yes. So far, the General Motors has been completed, so we have not made any decision.

**HM.Jr:** Is it 2 or 3 tons?

**Mr. Chen:** Three tons. We had to change from 2 tons.

**Dr. White:** How soon do you anticipate making a final decision on that?

**Mr. Chen:** Monday. I think we will work on Sunday.
Mr. Lochhead: Mr. Chen explained the trouble is not just a question of laid-down price on the trucks. The interesting part is what service these people can give them once they get over there.

HM, Jr.: You have asked all that?

Dr. White: Such a big order, you could get a big story. Perhaps it would be a good idea to start now on the story if it is to be finished on Monday, start tomorrow or Saturday.

HM, Jr.: Oh, I wouldn't do anything ....

Dr. White: Gaston might do this.

HM, Jr.: I don't think it should come from us. It should come from the Chinese. My feeling is -- I may be wrong -- that it would be helpful to you.

Mr. Chen: Sure. I think so too.

HM, Jr.: But I am working very hard on the loan thing. I am not discouraged.

Mr. Chen: I am glad to hear that.

HM, Jr.: I am not discouraged, but, as I say, I do see a little bit of sunshine and I want you to know that and I wanted the newspaper men to see you were here.

Mr. Chen: When we were in New York, we completed the organization of the new company and officers have been elected.

HM, Jr.: Fine:

Mr. Chen: And we have some names, so that as soon as those are finished, we will have the operation of the company.

HM, Jr.: Good! You find Capt. Collins helpful?

Mr. Chen: Very! Very! Our engineer had conference with him yesterday.

HM, Jr.: Good! Anything else I can do?
Mr. Chen: You have been kind already. Thank you so much.

HM, Jr.: Let's hope one of these days I can go to China and have a visit.

Mr. Chen: We will be glad to welcome you.

oo-oo-oo
His count Bayz
2 3/4 60-65 $400
2% 8 1/2 $300

Leften 1/9 notes
you think ittain of 2%

150-200 1 1/8

Date 1st
Ecker - metropolitan

would take $5 million
of 2% 1/4

$50 million of 9%.

not interested in 5%.
Levine

2 3/4

60 - 6 T

101 3/8

2

9 years

101 3/8 - 101 5/8

1/8

For rights only

Lee 1 21
Levi - Solomon 1945

60 - 64 2 3/4

14 4/11 2 1/2

June 1 1/8 vs Lee 6/2

 espionage 1 1/8 would 50

does not like 8 yr 2/10
Aldrich

1. note
2. 7 yrs
3. long-term bond

Said Bank of France consulted Reichsbank recently on exchange control. Brinkmann advised French not to use gold into exchange control.
James

\[ \frac{3}{4} \]

1960–5 = 1.5 \frac{1}{3}

8 \frac{1}{2}

2 \frac{7}{10} = 1 \frac{1}{2} \frac{1}{8}

might give a note

asked him about

2 \frac{1}{5}

1952–4 a little thin

[Signature]
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Repp

Dec 1

Regraded Unclassified
225  1\frac{1}{8}
850  2
625  2\frac{3}{4}

Dec 1
200 5 year $100
200 9 year $500
300 60-65-2 3/4 $340
\[ \frac{700}{942} \]

Mills

Meet
Nanking via N. R.
Dated December 1, 1938
Rec'd 3:45 p. m.

Secretary of State,
Washington,

193, December 1, 3 p. m.
My 189, November 29, 3 p. m.

The "National Peoples Representatives Congress" closed yesterday. The congress passed a number of resolutions, including one recommending the constitution of a Confederate Government for China. During the "discussions" which were held in the congress, it was emphasized that a strong Central Government would not be suited to present conditions in China and that a confederate form of government, with provinces retaining a large measure of autonomy, would be preferable.

The congress issued a manifesto, which included a condemnation of Chiang Kai Shek and Communism, an expression of appreciation of Japanese assistance, and a recommendation that a Confederate Government be organized.

In a press interview after the closing of the congress, Chiang Hsing Chia stated that it was possible that the form of
of Central Government to be established in China might be determined at the third meeting of the "Joint Commission of the Republic of China" which he said would probably be held sometime in December, but that a decision on the matter might be postponed until the fourth meeting of the joint commission.

Sent to Shanghai, Peiping.

SMYTH

CSB
TO: Miss Chauncey  
FROM: Mr. White  

Subject: For the Secretary’s Record

On Tuesday, November 29, 1938, the Secretary, after conferring with Mr. May, Treasury Attache (assigned to the Berlin office), called Mr. White and instructed him to prepare a comprehensive report describing exactly the methods employed by Germany in carrying on foreign trade. He assigned Mr. May to Mr. White and said that Mr. Miller would soon arrive in the United States and would be available as an additional source of information. If it were necessary to get additional information in Germany in order to complete the report he stated that Mr. May could return and send us the needed material.

He emphasized that he wanted a complete picture of German trade practices describing exactly how German trade was conducted. He expressed the opinion that if the United States was to maintain or strengthen its hold upon foreign markets, it was essential that all the tactics employed by countries who were operating on clearing arrangements, barter arrangements, multiple currency, etc., be known and understood here.
TO Secretary Morgenthau

FROM Herman Oliphant

For your information

You recall the President's interest in permission to reproduce stamped envelopes, and in other problems of interest to philatelists and numismatists. The present statute law on these and related matters is unsatisfactory. Its purpose to guard against counterfeiting is carried to the extent that Treasury rulings on particular cases often seem highly technical and arbitrary.

Consequently, I have asked Mr. Bernard, in charge of the Legislative Section, to revise and codify all of the law on the subject and put it into satisfactory form for enactment at the coming session.
TO Secretary Morgenthau
FROM Herman Oliphant

For your information

There has now reached the Supreme Court a case on how much must be paid to discharge a bond payable, not in gold only, but also in a named foreign currency at the bondholder's election.

In the absence of any substantial Treasury interest in the status of outstanding private bonds on which the bondholders can demand payment in a foreign currency, we are concurring in what the Department of Justice's position will probably be, viz., that the Government should not get into this case.

[Signature]
December 1, 1938

Dear Jack:

I am enclosing draft of a proposed letter to the President which the Secretary has asked me to submit to you for comment. It appears that this suggestion has cropped up several times and apparently has impressed the President so much that the Secretary thinks it worth while to send him a brief statement of the Secretary's views on the proposal. The intent was not to include all the ramifications of the proposal but only the more important ones in as abbreviated a form as the subject will permit.

At the conference on Tuesday, November 27, that you were unable to attend, a letter roughly in this form was passed upon.

As the Secretary wishes to send the letter off on Saturday, he would appreciate it if you would telephone your comments to me sometime before Saturday noon.

Sincerely,

(Signed) H. D. White

H. D. White

Dr. Jacob Viner,
Mount Royal Hotel,
Montreal, Canada.

Enclosure

Hوتها
December 1, 1938

Dear Alvin:

I am enclosing draft of a proposed letter to the President which the Secretary has asked me to submit to you for comment. It appears that this suggestion has cropped up several times and apparently has impressed the President so much that the Secretary thinks it worth while to send him a brief statement of the Secretary's views on the proposal. The intent was not to include all the ramifications of the proposal but only the more important ones in as abbreviated a form as the subject will permit.

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As the Secretary wishes to send the letter off on Saturday, he would appreciate it if you would telephone your comments to me sometime before Saturday noon.

Sincerely,

[Handwritten Signature]

H. D. White.

Prof. Alvin H. Hansen,
Harvard University,
Cambridge, Mass.

Enclosure
I understand that a proposal to impose an embargo on gold imports has been suggested to you as being an effective measure to protect the position of the dollar against further depreciation of sterling currencies. Such a step, in my opinion, might well have an effect on the exchange rates opposite to the one desired, and in addition would have consequences which would increase economic instability throughout the world.

An embargo on gold imports would probably increase the pressure against foreign currencies. During the past year the demand for dollar exchange has exceeded the supply arising from all international transactions, other than gold shipments, by almost $110 million a month. The importation of about $1,500 million of gold into the United States this year has been the means of supplying the additional dollars necessary to satisfy the demand at the prevailing rates of exchange. If the demand for dollar exchange continues to be in excess of the supply and if, further, dollars could not be acquired by the sale of gold to the United States, such dollars as are available on the foreign exchange market would become more valuable. In other words, numerous currencies would depreciate still further vis-a-vis the dollar. Since there does not seem to be any immediate prospect of a substantial shift in the demand-supply relationship for dollars an embargo on the imports of gold at this time would be a step in the direction of aggravating the very condition the proposal seeks to alleviate.

Furthermore, the declaration of an embargo on gold imports would — quite apart from its political repercussions both domestic and foreign — constitute a very disturbing factor in international economic relations. The Tripartite Accord would, of course, be automatically terminated and the instability in exchange rates would be much intensified. Grave uncertainties with respect to international monetary and commercial matters would be introduced, the full consequences of which cannot be entirely foreseen.

By curtailing the possibility of employing gold as a compensatory mechanism in the settlement of international balances, we would be promoting greater reliance on substitute devices. The cushioning effect that gold movements exert on exchange rates would be reduced and still more countries resort to clearing agreements and the more undesirable forms of exchange control for the purpose of narrowing the fluctuations in exchange rates.
Finally, an embargo on gold would deal a blow to the prestige of gold which now rests almost wholly on its use as an international medium of exchange. As a nation possessing more than half the world’s monetary gold stock, and as the third largest gold producer, we have a vital interest in the future of gold. Any step which would undermine confidence in gold and endanger its use as an international medium of exchange should be taken only with the greatest reluctance and only after less drastic alternatives have been fully explored.
I called Mr. Bolton at 12:15 today. They had had a very difficult and anxious day, he said. The dollar had opened quite high and he had managed to pick up about $1,000,000 but shortly afterwards sterling dropped to 4.67 1/4 and they had to sell $5,000,000 in support. Cariguous likewise had to support the franc and sold substantial amounts of dollars in Paris (I think he mentioned $5,000,000 but his subsequent cable asking us to convert $8,000,000 of his gold into dollars would indicate that his sales were in the neighborhood of the latter figure).

As far as they could judge the sudden change in the market was due to the fact that French relations with Italy had become very unpleasant. He had, of course, in mind the scene in yesterday's Chamber of Deputies in Rome when after a speech by Ciano the Deputies staged a demonstration clamoring for the realization of Italy's as yet unsatisfied national aspirations in Nice, Savoy, Corsica and Tunisia. He ascribed the sudden outbreak to the fact that the French Government is offering naturalization in Tunisia to Italian Jews who want to leave Italy. Later on in the day, Bolton said, the demand for dollars dried up somewhat and the sterling rate recovered to about 4.68 where the market seemed to be steady at the moment he spoke. Their squeeze, he thought, was beginning to take effect with 3 months dollars now up to 2 cents. People like Kleinwort, Bankers Trust,
Swiss Bank Corporation, Lazard and others were all trying to buy forward dollars without success. The big maturities had not really started running off yet and we should be able to see the effect better towards the beginning of next week. The British Treasury had given Washington an outline of the steps contemplated in London and had pointed out that this was, of course, purely of a temporary character and could last only during the present conditions. They had asked the clearing banks not to refuse any forward business but if they received orders to execute them in the market rather than to use their own means for financing such swaps.

I referred to our cable of last night offering to give them gold against our operations of the day at the approximate equivalent of the sterling rate obtained by us on our sterling sales rather than at his gold points. Bolton stated that he appreciated the gesture and that it was extremely considerate of us but hoped that we did not feel that we had created a precedent that we would have to stick to. Meanwhile, everybody was very happy about the setup and thankful to us. I stated that the next renewal of our weekly gold order would be at what we now figured to be the exact shipping point from London to New York, that is, 34.70 1/4 instead of 34.75 as heretofore. Incidentally, 34.70 1/4, Bolton said, was exactly the point according to their calculations. I think Bolton also appreciated
DATE December 1, 1938.

SUBJECT: TELEPHONE CONVERSATION WITH BANK OF ENGLAND.

this step of ours; he added that as long as he had gold in New York he would, of course, use that rather than fill us up with gold in London.

LWK: KW
Operator: Mr. Barton. Go ahead.

HMJr: Hello.

Leroy Barton: Hello.

HMJr: How are you?

B: Fine, Mr. Secretary.

HMJr: Barton?

B: Yes, sir.

HMJr: I asked for the Admiral, he's up on the Hill. Miss Ann Baker made an investigation for me of the work done by a contractor in the planting around the Poughkeepsie Post Office.

B: Yes.

HMJr: And she found that the fellow did not live up to his contract. Now what I want is, I want you to find out how many other jobs he did for us, the same contractor, see?

B: All right, sir.

HMJr: And then I want Miss Baker employed to investigate all the other work that he did, see?

B: Yes, sir.

HMJr: Is it clear?

B: Yes.

HMJr: Let's say that contractors Smith and Smith did the job at Poughkeepsie, well she found and they agree over there that his work, he didn't live up to his contract. Now I want to know how many other jobs the same contractor did for us, landscape fellow, and I want Miss Baker employed to go and visit all the jobs that he did and compare them against the specifications and see whether he cheated as badly on the others as he did at Poughkeepsie.

B: All right. How far back would you go?
HMJr: Oh, well I'd go -
B: About four years?
HMJr: What?
B: About four years?
HMJr: No. Well let's go back - well let's take, let's - I don't know - it depends on how many he did. I don't think I'd go back more than two years.
B: Two years. All right, sir.
HMJr: What?
B: All right.
HMJr: And I wouldn't - I would say this, I'd put it this way, if they'd examine three other jobs that he did.
B: That makes it
HMJr: If he's done three other jobs I'd examine three other jobs that he's done.
B: Yes.
HMJr: And frankly if I find that those are phoney then I'm going to have a complete investigation of the whole landscaping. I think there's something lousy in the landscaping department. I think there's something crooked there the way it looks to me. I'm very much upset about it.
B: I'll get a hold of it and -
HMJr: Take a look at Ann Baker's report and then - what it said. Now why do I have to employ somebody from the outside.
B: All right.
HMJr: There's something - there's something radically wrong in the landscape end of Procurement, and I'll start - if this contractor had three other jobs I want her to do those, and then if those aren't right, I'm going to have the whole thing examined.
B: All right, sir.
HMJr: Will you give it your personal interest?
B: Yes.
HMJr: And tell Admiral Peoples about it.
B: Do it right away.
HMJr: Thank you very much.
B: All right, sir. Goodbye.
PARAPHRASE OF TELEGRAM RECEIVED
FROM: American Embassy, Paris, France
DATE: December 1, 1938, 4 p.m.
NO.: 2033

Today on the exchange market trading has been very active, with francs being in large demand. The present rate for sterling is 178.20, at rates varying from 178.32 to 178.20 the fund has again been able to obtain substantial amounts of sterling. During the morning it acquired 2,900,000 pounds. The dollar-sterling rate has varied between 4.89 at opening and 4.67-5/8, the rate at present. One month forward sterling rate ranges between ten and sixteen centimes, and one franc for three months; following this movement the dollar-franc rate has been erratic. Our market contact has told us that the fund is controlling the present rate.

Profit taking was in evidence on the security market today, showing a less favorable tendency.

There are no important changes in the bank statement for November 24 which was issued today. No change in the gold reserves is shown; the portfolio increased by 562,000,000; there was a decrease of 500,000,000 in thirty day advances, deposits are up 340,000,000, and there was a decrease in note circulation of 550,000,000. Total of 3,915,000,000 for Treasury account. Gold coverage ratio moved up to 60.21 from the former ration of 60.25.

General feeling here is one of profound relief, satisfaction and quiet optimism, as a result of the very important success of the Government yesterday in enforcing law and
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General feeling here is one of profound relief, satisfaction and quiet optimism, as a result of the very important success of the Government yesterday in enforcing law and
order and because the strike was practically a complete failure. The Government is urged in the financial press to take advantage at once of the opportunity held out by the prestige which it gained, and to carry on its reconstruction program energetically.

END MESSAGE.

WILSON.
Operator:  Go ahead.

HMJr:  Hello.

Thomas Parkinson:  Hello Mr. Secretary.

HMJr:  How are you?

P:  Fine, thank you.  I just got back from the President's meeting and found your note.

HMJr:  Right.  We're going to sell seven hundred million dollars worth of Government merchandise on Monday.

P:  So I hear.

HMJr:  And I wondered how you felt about it.

P:  Well, we're in need of just such merchandise.

HMJr:  You do.

P:  Yes.

HMJr:  Well, we're kind of thinking of a two and three quarter long bond and we haven't gone much beyond that, I mean it'll be - we'll have something else, but we don't know yet what.

P:  I see.  How long?

HMJr:  60.65 that's what it looks like tonight.

P:  I see.  With the usual normal tax exemption.

HMJr:  The usual.

P:  Yes.

HMJr:  Yes.

P:  Well, such is our condition that we'll have to subscribe to most anything you offer us.

HMJr:  You would.

P:  Yes.
About what would you need, I mean not the way, what you put in for subscription, but about what do - how many would you want approximately?

We'd be delighted to get about fifty million.

You would.

Yes.

I see. Would a nine year two interest you?

Nine year two. Yes.

It would.

Yes. More than the five year tax exempt.

It would.

Yes.

Well I mean would you, for instance if we offered both a nine year two and a two and three quarters 60.65, would you subscribe to both?

Yes.

Would you take, what, about twenty -

I think if you - I think if you made it - I think the banks would probably take that.

The nine year two.

Yes.

Which would be more preferable to your company, the two and three quarter long or the nine year two?

I think I'd prefer the nine year two.

The nine year two.

Yes.

Uh-huh.

But only on that old theory that some day you've got to come around to giving us a taxable three per cent coupon.
I see.

I don't want to load up too much with long terms under three.

I see.

But we need the investments.

But the nine year two is a little bit more attractive to you.

Yes I think so, for us.

But if we offered both you'd take both.

Yes.

Uh-huh.

If I were in your position, if you don't mind my saying so, I'd offer all three.

That is what?

The five year -

The five year, the nine year and the long two and three quarter.

Yes, this is going to be a pretty large amount you know.

It's a billion seven.

Yes.

Yes.

And we'd all be happy if it's thoroughly successful.

Yes, well it's got to be.

Yes, that's it.

It's got to be.

That's it.
Well, that's what I want to talk to you about.

Well I think that you can get away with that if your rates are as you always have made them, adjusted to the markets.

Yes. We can have them so that they'll sell at a comfortable premium.

Well sir, we'll be on your list.

All right. Thank you so much.

Not a bit.

If you come to Washington let me know, I'd like to have you have lunch with me.

I'd like a lot to see you even for a moment. I'll do that.

Well, when you come down, let me know.

I'll do that.

Thank you so much.

Thank you. Goodbye.
From: Bankers Trust Co., N. Y.
London Office
Date: December 1, 1938

DE CASTELLANE REPORTS CONTROL TOOK IN £2,000,000 THIS MORNING THIS AFTERNOON EXCHANGE MARKET VERY QUIET BOURSE WEAKER. ITALIAN DEPUTY'S OUTBURST YESTERDAY CREATED UNFAVORABLE IMPRESSION. NEW FRENCH AMBASSADOR SO FAR RECEIVED COLD RECEPTION FROM ITALIAN GOVERNMENT. ITALIAN CHARGE D'AFFAIRES IN PARIS DESCRIBED DEMONSTRATION AS NONSENSE AND CLAIMS ITALY'S ONLY ASPIRATION END SPANISH WAR. RELATIONS BETWEEN POPE AND FASCIST GOVERNMENT VERY UNSATISFACTORY. CHAMBER WILL PROBABLY MEET DECEMBER 9TH DALADIER'S POSITION DEFINITELY STRENGTHENED AND MAJORITY NOW ALMOST ASSURED. WHILST PROBLEMS CONNECTED WITH EXTERNAL SITUATION STILL SERIOUS GENERALLY BELIEVED CORNER TURNED.

LIQUIDATION LONG DOLLARS POSITIONS SEEMS ENDING AND SINCE NOON UNDERTONE DOLLAR RATHER WANTED. FORWARDS WANTED. DEMAND FOR FRENCH FRANCS ALSO SLOWING DOWN. FORWARDS INCLINED BE OFFERED.

CONFIDENTIAL
REB

SHANGHAI via N. R.
Dated December 1, 1938
Rec'd 8:28 p. m.

Secretary of State,
Washington.

1456, First.

November thirtieth Chungking. Concerning Admiral Oikawa's memorandum to senior Naval officer concerning movement of foreign naval vessels on the Yangtze.

SHANGHAI TIMES commenting editorially points out that Admiral Oikawa's memorandum leaves no doubt that the Yangtze will remain closed so long as Chinese resistance continues but expresses the opinion that is "a clear military duty of the Japanese to safeguard the arteries of communication which they have opened." The paper concludes that the foreign powers clear cut issue which must be met either by concrete opposition or recognition of Japan's point of view.

The SHANGHAI EVENING POST and MERCURY described the Japanese Admiral's memorandum and the recent statement reported to have been made by the Japanese Vice-Minister of War as "a drive against foreign neutrality in China" and states that apparently the only way any foreign country can preserve its rights in China is bow before Japan.

The
2-#1456, From Shanghai, Dec. 1

The CHINA PRESS remarks that the Vice-Minister of War has neither wasted nor minced words regarding Japan's attitude toward Great Britain while Oikawa has reaffirmed Japan's decision to keep the Yangtze closed. This journal states further that because of the inactivity and lack of cooperation among the democratic countries, Japan has gathered sufficient courage to speak out her mind regarding British and French interests. It concludes with the hope that these developments will stir Great Britain to firm action either alone or together with other powers similarly situated.

Repeated to Peiping, Chungking, Hankow.

G.USS
TO Secretary Morgenthau

FROM Mr. White

Subject: Meeting of the National Munitions Control Board, November 30, 1938, 2:30 P.M.

The meeting was called to consider the procedure governing the issuance of licenses for the exportation of tin-plate scrap during the calendar year 1939. However, a representative of one of the de-tinning plants requested to appear in person before the Board in order to make a statement before a final decision was made on the procedure for the coming year. The Board voted not to hear the representative's testimony but to give him and all other interested concerns an opportunity to present additional written statements to the Board before a final decision was reached. The meeting was adjourned for two weeks, during which time an opportunity would be given for the presentation of statements by various interested concerns.

A copy of this is being sent to Mr. Oliphant and Mr. Taylor.
The public hearings of the Monopoly Committee opened this morning with a full attendance and a large crowd. After an introductory statement by Senator O'Mahoney, Lubin took the floor, and, with pointer in hand, stated the meaning of a multitude of charts on how our economic machine has not been operating at a rate sufficient to absorb the unemployed. He did not go into the reasons, but his exposition of the facts was impressive. The large crowd was silent with intent attention. The atmosphere of the whole proceeding was that of the first lecture in a first class university course in elementary, descriptive economics. Peoples was present during the forenoon, and was to attend during the afternoon in my absence.
My dear Mr. Secretary:

I acknowledge with thanks the receipt of your letter of November 30 forwarding for my confidential information copies of various memoranda and maps which have been furnished you by Mr. K. P. Chen.

Your thoughtfulness in sending me copies of this material is very much appreciated.

Sincerely yours,

The Honorable

Henry Morgenthau, Jr.,
Secretary of the Treasury.
TO Secretary Morgenthau
FROM Mr. Haas

With a total offering divided among three different securities, we would estimate the probable yield bases and market prices thereof substantially as follows:

(1) 1-1/8 percent 5-year note, probable yield basis about .95, probable premium 27/32.

(2) 2 percent 5% year bond, probable yield basis about 1.80 to 1.85, probable premium 1-6/32 to 1-18/32.

(3) 2-3/4 percent 22-27 year bond, probable yield basis 2.65, probable premium 1-21/32.
At my request, this afternoon Mr. Henderson asked Dr. Lubin the following question:

"Did I understand you to say this morning that in your opinion we have never produced too much wheat or cotton to satisfy our real needs?"

Dr. Lubin's reply was substantially to the effect that he had not been speaking merely of wheat and cotton, but that he did not think we could suffer from over-production in any field as long as there were people in the country who did not get an adequate share of the goods produced. In reply to a question from Senator Borah as to whether or not he thought that that situation existed to-day, Dr. Lubin answered "of course".

This afternoon's hearing was uniformly quiet and followed along the same general lines as this morning, with Senator King asking most of the questions. The Senator attempted to develop to some extent the thesis that our economic system did not break down in 1929, but rather that due to some certain external causes, particularly world indebtedness, it was prevented from functioning in a satisfactory manner. He also suggested the importance of speculation prior to 1929 as being a major contributing cause of the depression.

While a chart of cement production was under discussion Dr. Lubin pointed out that in recent years 50 per cent or more of all of the cement produced was for public works. Senator Borah asked Dr. Lubin whether there had been any reduction in cement prices during the period shown by the chart, to which Dr. Lubin replied, "You will have to speak to Mr. Oliphant about that."

Dr. Lubin finished this afternoon, and Dr. Thorp goes on at 10.30 tomorrow morning.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE DEC 1, 1938

to Secretary Morgenthau
from Herman Oliphant

This opinion is for your files. Copies are being sent to
Messrs. Hanes, Delano, Duffield, Upham, and Gaston.

Herman Oliphant
My dear Mr. Secretary:

Consideration has been given to the authority for and the operation of Department Circular No. 595, issued by you on September 13, 1938. That Circular provides:

"The operating control of, and responsibility for, the legal work of the Office of the Comptroller of the Currency is hereby transferred to the General Counsel for the Department of the Treasury. Responsibility for decisions on all legal matters, including matters of general legal policy, as well as on any legal aspects of specific cases or instances shall rest with the General Counsel or those he designates for this work.

"The Secretary of the Treasury shall pass upon all changes in the legal staff and in their salaries, upon the recommendation of the General Counsel. The General Counsel will be responsible for the assignment of work to various members of the legal staff and for other matters mentioned in Department Circular No. 519, dated June 20, 1934."

I am of the opinion that the Circular is in every respect within your legal authority as Secretary of the Treasury. Stated in summary form, my conclusions are as follows:

I. The Secretary of the Treasury has control over the administrative functions of the Comptroller of the Currency. This appears from:

A. The debates in Congress relating to the legislation creating the office of the Comptroller of the Currency and establishing a system of national banks;

B. The legislation itself, the interpretations thereof, and the interpretations of parallel laws.
II. The supervision and control of the personnel and the work of the legal staff are a part of the general regulatory powers of the Secretary. These powers include:

A. The re-arrangement of the legal machinery of the Department and the general supervision of legal activities;

B. The appointment of attorneys or the approval thereof.

III. The foregoing propositions are fortified by a consideration of the statute creating the Office of the General Counsel for the Department of the Treasury.

I.

A. The Congressional debates which preceded the passage of the act creating the office of the Comptroller of the Currency reveal the clear intention of Congress to invest substantial control over the functionings of that office in the Secretary of the Treasury. During the course of these debates there was a persistent effort made by a group in the House of Representatives to secure the independence of the proposed bureau from the authority of the Secretary. Representatives Brooks and Pruyn, the leaders of the opposition, did succeed in having the House strike out a provision which made the approval of the Secretary a condition to the appointment of the Comptroller by the President. Thereafter, amendments designed to strike from the bill the various provisions for supervision and control by the Secretary were regularly introduced and as regularly rejected. The debates
make it certain that the question as to what should be the relation between the Comptroller and the Secretary was clearly presented to Congress and that Congress deliberately chose to make the Comptroller subordinate to the Secretary and subject to a considerable extent to control by the Secretary. Ultimately the House acceded to the Senate Bill and approved a provision making the Secretary's recommendation a factor in the appointment of the Comptroller.

The understanding of Congress as to the relation which would be created between the two officers appears from the following excerpts from the debates:

Rep. Pruyn in (1864) 64 Cong. Globe 1272: "I think that sufficient prominence and sufficient position is not given by this bill to the head of this department [Comptroller of the Currency]. It should be made, not a bureau of the Treasury Department—the Treasury has enough to attend to already—but it should be made a separate administrative Department of the Government, and it should be located at the commercial center of the Government, at New York, and not at Washington."

Rep. Brooks (objecting to the requirement of the approval of the Secretary in the case of the organization of banks, etc.) (p. 1288): "I suggest that, especially under existing circumstances, that is a power which ought not to be lodged in the Secretary of the Treasury, however safe it might be to lodge it in the Comptroller of the Currency. Indeed, it seems to me that the whole bill, undesignedly without doubt, concentrates extraordinary powers in the hands of the Secretary of the Treasury. This is a high and dangerous power to give to any one man, particularly to the Secretary of the Treasury at this moment, standing in the peculiar relation to the country that he does."
Rep. Stevens (p. 1350) pointed out that the "whole bill goes upon the supposition that the comptrollership is a part of the Treasury Department."

B. The Act was passed on June 3, 1864, and section 1, 15 Stat. 99, provided as follows:

"* * * there shall be established in the treasury department a separate bureau, * * * . The chief officer of the said bureau shall be denominated the comptroller of the currency, and shall be under the general direction of the Secretary of the Treasury." (Underscoring supplied.)

The above-quoted language was reenacted with slight grammatical changes as section 324 of the Revised Statutes of 1873, and although that section has been amended, the language above quoted is substantially that found in U.S.C. title 12, sec. 1. The following interpretation of this provision is contained in Frelinghuysen v. Baldwin, (D. N.J. 1882) 12 Fed. 395, 396:

"The Secretary of the Treasury is the head of the Treasury Department. Section 233 [U.S.C. title 5, sec. 244]. By section 324 [U.S.C. title 12, sec. 1] the Comptroller of the Currency is the chief officer of a bureau of the Treasury Department, charged with the execution of all laws passed by Congress relating to the issue and regulation of a national currency, secured by United States bonds. This officer, in cases of the insolvency of the association, appoints a receiver, through whose instrumentality the assets are turned into the Treasury of the United States; but the Comptroller performs this, as well as all other duties, under the general direction of the Secretary of the Treasury." (Underscoring supplied.)

In Bank of Bethel v. Pahquioque Bank, (U.S. 1871) 14 Wall. 383, 394, the court refers to:

"the conceded fact that such associations (national banks) are created by an Act of Congress and that
they are instruments of the National Government
intrusted with the power of carrying on the busi-
ness of banking and of employing and circulating
Treasury notes as a National currency, subject to
the supervision and direction of the Comptroller
of the Currency and of the Secretary of the Treas-
ury." (Underscoring supplied.)

Other statutes containing similar language have been sim-
ilarly interpreted. In the case of Knight v. U.S. Land Association,
(1891) 142 U.S. 161, the authority of the Secretary of the Interior
to set aside a certain survey and order a new survey was contested,
and in deciding the issue it was necessary for the court to determine
the meaning of a provision which placed the Commissioner of the Gen-
eral Land Office "under the direction of the Secretary of the Interior."
The court's determination is contained in the following language (at
pages 177-178):

"The phrase 'under the direction of the Secre-
tary of the Interior' as used in these sections of
the statutes, is not meaningless, but was intended
as an expression in general terms of the power of the
Secretary to supervise and control the extensive op-
erations of the Land Department of which he is the
head. It means that in important matters relating
to the sale and disposition of the public domain, the
surveying of private lands claims and the issuing of
patents thereon, and the administration of the trusts
devolving upon the government, by reason of the laws
of Congress or under treaty stipulations, respecting
the public domain, the Secretary of the Interior is
the supervising agent of the government to do justice
to all claimants and preserve the rights of the people
of the United States."

Continuing, the court quoted (at page 178) with approval the following
statement made by the Secretary of the Interior:
"The statutes in placing the whole business of the Department under the supervision of the Secretary, invest him with authority to review, reverse, amend, annul, or affirm all proceedings in the Department * * *. The mode in which the supervision shall be exercised in the absence of the statutory direction may be prescribed by such rules and regulations as the Secretary may adopt * * *. The rules prescribed are designed to facilitate the Department in the dispatch of business, not to defeat the supervision of the Secretary * * *."

It pointed out further that the powers of direction and supervision are given in general terms to the Secretary, in order to obviate the necessity of a statutory particularization of each duty and power resting with him. See also Stoneroad v. Stoneroad, (1895) 158 U.S. 240.

The interpretation of this same provision was again involved in Orchard v. Alexander, (1895) 157 U.S. 372. In that case, the court said, at page 385:

"Nevertheless the section contemplates that the proceedings shall not be wholly withdrawn from the control of the Secretary, and implies that they are but part and parcel of the general administrative system for the disposal of public lands. While it is within the discretion of Congress to segregate any particular step in the proceedings * * * from the scope of the general system, and place it outside of and beyond any supervising control of the higher officers, yet the courts should be satisfied that the language indicates an intention on the part of Congress to do before any such break in the harmony of the system is adjudged * * *.

From the interpretations contained in these decisions there would appear to be little doubt that the Bureau of the Comptroller is merely one division in the Treasury Department, and that the Comptroller is a subordinate of the Secretary quite as much as division and bureau
chiefs in the various executive departments are subordinates of the heads of those departments. Any other conclusion would do violence to the provision that the Bureau of the Comptroller of the Currency is a bureau of the Treasury Department, and would nullify that provision which gives the Secretary "general direction" over the Comptroller in the performance of his duties.

Since, therefore, it may be taken as established that the Secretary has some control over the activities of the Comptroller, it becomes important to define the nature of that control.

In an opinion to the President by Attorney General Wickersham, (1912) 29 Op. Atty. Gen. 555, it was said (at page 562):

"It is true that while the Comptroller is performing quasi-judicial functions his discretion can not be controlled by you (Butterworth v. Hoa, 112 U.S. 50), yet this is not so of all his duties, otherwise the provision in the statute that he perform his duties under the general direction of the Secretary of the Treasury would amount to nothing. Certainly, broad general lines of policy may be laid down by you to be followed by the Comptroller; and you may direct him to make inquiries along certain lines and to consider the data thus acquired in determining whether individual banks are in sound condition and are obeying the existing law, and whether amendments thereto should be recommended." (Underscoring supplied.)

Likewise, in Butterworth v. Hoa, (1884) 112 U.S. 50, the court, while recognizing and applying a distinction between the "quasi-judicial" and executive or administrative functions of bureau officers, impliedly concedes that the head of a department, under his general powers of supervision, may direct the latter type of activity. (Pages 56 and 67.)
The statements contained in these authorities with reference to the "quasi-judicial" functions of the subordinate bodies are of no relevance here; the important fact in each is the recognition of the control over bureau chiefs which rests with the heads of departments in connection with executive or administrative functions.

II.

The question may now be conveniently rephrased to read as follows: Is the action of the Secretary in issuing Department Circular No. 595 anything more than an exercise of this recognized right to control administrative functions? Under the Circular, the legal staff and the legal work of the Bureau is transferred to the office of the General Counsel, and the power to appoint and remove legal personnel is vested in the Secretary. In other words, there has taken place an intradepartmental rearrangement of legal machinery which coordinates the legal work of the Department and promotes its efficiency.

A. Upon analysis it appears that this redistribution of work involves nothing more than an administrative question. Before the issuance of the Circular, the Comptroller, prior to reaching a final determination in any case lying within his jurisdiction, was advised by the legal staff of his bureau. Under the new arrangement, the Comptroller is advised by the legal staff of the General Counsel.
The power of the Secretary to effect this redistribution is expressly recognized in section 161 of the Revised Statutes of 1873 (U.S.C. title 5, sec. 22), which provides as follows:

"The head of each department is authorized to prescribe regulations, not inconsistent with law, for the government of his department, the conduct of its officers and clerks, the distribution and performance of its business, and the custody, use, and preservation of the records, papers, and property appertaining to it." (Underlining supplied.)

The Attorney General, in (1903) 24 Op. Atty. Gen. 697, interpreting this provision in an opinion addressed to the Secretary of the Treasury, has said (at page 698):

"* * * I do not think that Congress, in entrusting you with certain machinery to be employed in executing the laws, desired to restrict your freedom in designating the divisions of what was of course intended to be an organized Executive Department and not a mere gathering together of distinct institutions."

B. That the appointment and removal of members of the legal staff is the exercise of an administrative or executive function has been frequently held by the courts. Myers v. United States, (1926) 272 U.S. 52, 161 ("The power to remove inferior executive officers, like that to remove superior executive officers, is an incident of the power to appoint them, and is in its nature an executive power."); State v. Denny, (Ind. 1889) 21 N.E. 252; State v. Rose, (Wis. 1909) 122 N.W. 751; People v. Griffing, (App. Div. 2nd Dept. 1915) 152 N.Y.S. 113. Such officers are employed in the administrative branch of the Government, and their appointment or discharge is the exercise of an administrative power.
In the absence of an express provision for the appointment of particular subordinate officers of a bureau, the authority to appoint such officers will be presumed to be in the head of the department rather than in the head of the bureau. *Nishimura Ekito v. United States,* (1891) 142 U.S. 651, 655. The same thing undoubtedly is true with respect to the fixing of salaries. Having those powers as head of the Treasury Department, the Secretary of the Treasury may, of course, require the recommendation of the General Counsel.

In those limited situations with respect to which there are specific statutes, the legal position is substantially the same. Only three such statutes have been found.

Section 328 of the Revised Statutes of 1873 (U.S.C. title 12, sec. 8), provides:

"The Comptroller of the Currency shall employ, from time to time, the necessary clerks, to be appointed and classified by the Secretary of the Treasury, to discharge such duties as the Comptroller shall direct." (Underscoring supplied.)

Section 5240 of the Revised Statutes of 1873, as amended (U.S.C., Sup. III, title 12, sec. 481), as it appears in the Code, provides, in part, as follows:

"The examiners and assistant examiners making the examinations of national banking associations and affiliates thereof herein provided for and the chief examiners, reviewing examiners and other persons whose services may be required in connection with such examinations or the reports thereof, shall be employed by the Comptroller of the Currency with the approval of the Secretary of the Treasury: * * *.*" (Underscoring supplied.)
It will be observed that both of those statutes expressly refer to the power of the Secretary of the Treasury. Since the first statute expressly gives the power of appointment and classification to the Secretary, the language, "The Comptroller of the Currency shall employ," is intended to direct the Comptroller to make use of the services of persons who are appointed by the Secretary. There can, therefore, be no question about the Secretary's power to appoint and fix salaries, insofar as that statute refers at all to members of the legal staff. The second statute expressly requires the approval of the Secretary of the Treasury for the employment of the persons mentioned, including, by clear implication, the fixing of salaries. Thus, with respect to persons employed under that statute, the Secretary clearly may "pass upon all changes in the legal staff and in their salaries" and may do so "upon the recommendation of the General Counsel", as provided for in Department Circular No. 595.

Section 209(b), title II (providing for National Agricultural Credit Corporations), of the Agricultural Credits Act of 1923, 42 Stat. 1467 (U.S.C. title 12, secs. 9, 9(a)), provides, in part, as follows:

"The Comptroller of the Currency is hereby authorized to employ such additional examiners, clerks, and other employees as he deems necessary to carry out the provisions of this title and to assign to duty in the office of his bureau in Washington such examiners and assistant examiners as he shall deem necessary to assist in the performance of the work
of that bureau. The salaries of the Deputy Comptrollers of the Currency and of such additional examiners, assistant examiners, clerks, and other employees shall be fixed in advance by the Comptroller of the Currency."

It should be noted at the outset that that statute has a very limited application, viz., to persons employed to carry out the provisions of law relating to National Agricultural Credit Corporations. Moreover, section 77 of the Farm Credit Act of 1933, 48 Stat. 272 (U.S.C. title 12, sec. 1151a), provides:

"After the date of the enactment of this Act, no national agricultural credit corporation shall be formed under the provisions of the title II of the Agricultural Credits Act of 1923."

It is understood that all the National Agricultural Credit Corporations have been liquidated except one. The liquidation of that one has been almost completed, and it involves no legal work. Thus, section 209(b) of the Agricultural Credits Act of 1923 is no longer applicable to members of the staff doing the legal work of the Office of the Comptroller of the Currency.

In any event, appointments under that section had to be approved by the Secretary of the Treasury. Section 1 of the Act of June 30, 1876, 19 Stat. 65 (U.S.C. title 12, sec. 191) and section 5234 of the Revised Statutes of 1873, as amended (U.S.C. title 12, sec. 192), authorising the appointment of receivers in certain cases by the Comptroller, do not refer to the Secretary. In spite of this omission, the conclusion resulting from a line of holdings is that the approval
of the Secretary is a prerequisite to the valid appointment of receivers. *Frelinghuysen v. Baldwin*, (D. N.J. 1882) 12 Fed. 396; *Price v. Abbott*, (C.C. D. Mass. 1883) 17 Fed. 506; *United States v. Schlierholz*, (E.D. Ark. 1905) 137 Fed. 616; *Gibson v. Peters*, (1893) 150 U.S. 342; *In re Chatwood*, (1897) 165 U.S. 443; *Auten v. United States National Bank*, (1899) 174 U.S. 125; *United States v. Weitzel*, (1918) 246 U.S. 533. The question in these cases was whether receivers are "officers of the United States" for the purpose of jurisdiction of the lower Federal courts, and it was held that appointments of receivers are to be presumed to have been made with the concurrence or approval of the Secretary, and, therefore, are made by the head of a department within the meaning of Article 2, section 2, of the Constitution. Such a presumption would be unjustified except upon the ground that the Secretary had the power to approve or disapprove appointments. The theory of the courts apparently is that powers of this nature vested in the Comptroller are modified by section 324 of the Revised Statutes of 1873, as amended (U.S.C. title 12, sec. 1), which provides, as it appears in the Code, as follows:

"There shall be in the Department of the Treasury a bureau charged with the execution of all laws passed by Congress relating to the issue and regulation of a national currency secured by United States bonds and, under the general supervision of the Board of Governors of the Federal Reserve System, of all Federal reserve notes, the chief officer of which bureau shall be called the Comptroller of the Currency and shall perform his duties under the general directions of the Secretary of the Treasury." (Understating supplied.)
The same theory applied to employment under section 209(b) of the Agricultural Credits Act of 1923, with regard to salaries as well as appointments. Since, then, employment and salaries under this statute were subject to the approval of the Secretary, the same conclusion follows as was reached above in connection with the second statute discussed.

It should be observed that the result reached in the foregoing cases leads to the conclusion that the Secretary also has regulatory powers over administration, since his control over appointments is predicated upon his general supervision of the Comptroller's functions and the administration of receiverships is one of these.

III.

By section 512 of the Revenue Act of 1934, 48 Stat. 758 (U.S.C. title 25, secs. 1720-1726) there was created in the Treasury Department the office of General Counsel. That it was the intention of Congress, in enacting this provision, to include the legal work of the Comptroller's office within the scope of the General Counsel's control and responsibility, clearly appears both from the report of the Committee on Finance of the Senate and the report of the Committee on Ways and Means of the House. The Senate report contains the following statement (1934) Sen. Rep. No. 558, 73d Cong., 2d Sess. 50; to accompany H. R. 7635):
The legal activities of the Treasury Department are now handled by separate, uncoordinated legal units in the various divisions, bureaus, and offices of the Department. A single responsible law officer, having the necessary power, can coordinate the activities of these distinct legal units and prevent inconsistency of action, duplication of effort, delays, and waste of public funds." (Underscoring supplied.)


"Section 512. General Counsel for the Treasury: At the present time a number of the bureaus and divisions of the Treasury have separate legal staffs, operating independently of each other. Although the law provides for a Solicitor of the Treasury, he is vested with power only over a limited field, not assigned to other legal officers in the Department. There is no responsible legal officer in the Treasury with power to coordinate the legal work of these separate groups of lawyers and to prevent waste and duplication of effort among them." (Underscoring supplied.)

Section 512, as finally enacted, provided, in part:

"The General Counsel shall be the chief law officer of the Department, and shall perform such duties in respect of the legal activities thereof as may be prescribed by the Secretary or required by law."

Pursuant to the authority of this section, the Secretary of the Treasury, by Department Circular No. 519, of June 30, 1934, provided as follows:

"The General Counsel is hereby authorized to perform all duties and functions incident to the administration of the legal activities of the Treasury Department, including the signing of letters and approval in my stead of such documents as may come before him in the legal course of his administration of the Legal Division of the Treasury Department, and such other duties as may be assigned to him by me from time to time."
"All matters relating to personnel in the Legal Division, including recommendations for new appointments, transfers, promotions, or other matters relating to changes in personnel, and all matters relating to the purchase of books and supplies for the Legal Division shall be referred to the General Counsel for approval before any action is taken thereon."

This order of the Secretary placed in the General Counsel's office the active supervision of all Treasury legal matters and referred to the General Counsel the appointment of all personnel in the Legal Division for approval before final action by the Secretary of the Treasury.

Since the effective date of this order, the General Counsel has supervised the legal work of the Bureau of Narcotics, the Coast Guard, the Bureau of Customs, the Procurement Division, etc. It seems obvious that the control of the General Counsel was properly extended by the order under consideration, Department Circular No. 595, of September 13, 1938, to the legal business of the Bureau of the Comptroller of the Currency, since, in its relationship to the Treasury Department, that bureau would seem to occupy a position no different from any of the other bureaus enumerated above.

Very truly yours,

[Signature]

General Counsel

The Honorable

The Secretary of the Treasury
TREASURY DEPARTMENT
WASHINGTON

December 1, 1938

CONFERENCES IN THE SECRETARY'S OFFICE
REGARDING THE DECEMBER 15 FINANCING

(The Secretary, Mr. Allan Sproul of the
Federal Reserve Bank of New York and
Mr. Bell, present.)

Mr. Levy,
Salomon Brothers and Hutzler
9:15 a.m.

The Secretary asked Mr. Levy what he would advise the
Treasury to do in connection with the forthcoming financing.

Mr. Levy said that he would have three issues, a 2-3/4% bond of 1960-64; a 2-1/2% straight 14-year bond; and a Treasury note, either an additional issue of the last June notes or a 4-year note maturing December 15, 1942. He said that the insurance companies will take both the 2-1/2% and the 2-3/4% bonds and the banks will certainly take the 2-1/2%.

Mr. Sproul asked him how much there is in the investment market for a 2-3/4% bond. Mr. Levy said it was his opinion that the amount was relatively small compared with the total investment funds available. He thought the savings banks would take the 2-1/2% bond rather than the 2-3/4%.

The Secretary asked Mr. Levy if he thought there would be any market trouble in the 2-3/4%. He said absolutely none. Then the Secretary asked him about a 5-year note.
Mr. Levy said he had not considered a note at all, but looking over his yield sheet he thought we might want to go to as much as 1-1/4% for five years; that 1-1/8% would go but it is not quite rich enough, while the 1-1/4% might be considered a little too rich. He said a 2-3/4% bond would certainly go and every one would subscribe to it, but there is always the question of subsequent redistribution, which makes a bad market for a period of two or three weeks following an issue.

The Secretary then asked him if we could sell a 25-30 year bond at 2-3/4%. Mr. Levy did not feel that such a bond would be certain of success although the insurance companies would take an issue of this kind. He thought it would be much better to reduce the period to 20-24 or 22-25 years.

Mr. Sproul asked how much the market would absorb in long-term bonds, whether the market would take as much as one billion dollars of a 2-3/4% issue. Mr. Levy seemed to evade the question and said it was hard to tell, he did not know whether it would go as much as a billion or not.

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Mr. Aldrich,
Chase National Bank
9:45 a.m.

The Secretary told Mr. Aldrich that he assumed he had seen the announcement in the morning papers to the effect that the
Treasury was offering some kind of new security for $700,000,000 in cash and exchange offerings to the holders of the March maturities in the amount of $942,000,000. He said he would like Mr. Aldrich's advice on what would be proper for the Treasury to do, not only from the standpoint of the country but from the standpoint of the banks.

Mr. Aldrich said that from his observation the commercial banks would certainly prefer a relatively short-term obligation. He was quite familiar with the current talk in New York and he was inclined to agree that a three-way proposition is the better course to pursue; that is, a note of some kind, a 7-year bond and a long-term bond. As an alternate, the Treasury could certainly get by with a long-term bond and an intermediate bond. He does not feel that the note should be issued. As a matter of fiscal policy he thinks the Treasury should make every attempt to extend the present maturities and get the present heavy debt program in the next five years extended over a much longer period.

He said there seemed to be no question about a 2-3/4% bond and that a substantial amount of subscriptions for this security will come from insurance companies, while the banks would be heavy subscribers in an intermediate bond if one is offered.

Mr. Aldrich asked about the deficit. He said he thought that was an uncertain factor and when I told him that the latest official
estimate indicated that the deficit for the current fiscal year would be about $3,985,000,000, the only uncertain factor in that estimate being the additional funds required for the Works Progress Administration program for the period from February 1 to June 30, 1939, he said he thought the figure was too low. He felt it would be nearer $5 billion dollars. In reply to his question as to the estimate of revenues, I told him $5,000,000. He seemed surprised and said he had a figure in mind of about $5 billion for revenue.

The Secretary asked Mr. Haas to come in and bring the so-called "bubble charts" which he explained to Mr. Aldrich. They showed that for the first four months of this fiscal year the receipts are about 8% above the estimates and the expenditures about 6% below.

Mr. Aldrich then went into a discussion of deficit financing. He said he believed that the responsibility of those who buy Government bonds and advise others to buy them is about as great as the responsibility of the Secretary of the Treasury in carrying out the fiscal policies of the Administration. With a program of deficit financing and no possibility in sight of a balanced budget, he questioned whether the banks should buy long-term Government's. He said he did not believe in the pump-priming theory and he was quite certain that it had not produced the results which its advocates had promised. He believes that the influx of gold will continue and that there will be some pressure in the next Congress for further
devaluation of the dollar. These will have a tremendous influence on our economic situation.

Mr. Aldrich said he is amazed at the amount of money that continues to flow from abroad. His bank has from 50 to 60 new accounts every month, many of which are opened by German refugees, and substantial amounts of money are constantly being deposited to the credit of these accounts. Foreign deposits with the Chase National Bank today stand at about $256,000,000.

Then he went into a rather lengthy discussion of the foreign situation as he viewed it from his trip this fall. He said he had a number of conferences with high government and banking officials and came away with the feeling that it is only a question of time until the situation in central Europe will be brought to a crisis, which may result in a much better situation than has prevailed in the past. He said he was surprised when he got to France to learn that French officials had conferred with German officials on the question of how to handle the French situation. The advice given by the Germans urged the French not to put on any kind of exchange controls because that was the first step that Germany took, which, in the opinion of these officials, later led to the various steps that were taken, namely, regimentation, control of the Jews, control of prices, control of production and prohibition against free speech, all of which in turn led to larger expenditures for national defense.
Another point stressed was the feeling abroad of every country watching the experiments being made in the United States and the urge on the part of many politicians over there to adopt many of these experiments. It was his opinion that the United States cannot go on indefinitely with deficit financing; that if it does the day is certainly approaching when we also will drift further towards regimentation and control of the whole economic situation, which in turn will have a far-reaching effect upon the European situation, each country following what we are doing, and eventually all will go over the precipice together. He said he assumed that the Secretary was just as worried about the situation as he is and that he probably is constantly thinking about it. He feels that something will have to be done to stop the very definite trend in this country toward regimentation and control.

Mr. Aldrich continued by saying that he realizes the next Congress will have to air its political views and make some attempt to carry out some of the many political promises made during the last campaign and that there will be a great deal said about Social security programs such as the Townsend Plan and others. However he hopes the Administration will be successful in opposing all of these Utopian schemes.

After we got out in the corridor Mr. Aldrich handed me a memorandum covering the December 15 financing. A copy is attached.
MEMORANDUM

to

Mr. Aldrich

Re: U. S. Treasury December Financing

The Treasury Department has announced that the December financing will include the sale of $700,000,000 of securities for cash and the refunding of $342,000,000 1 1/2% Notes due March 15, 1959. This latter issue is now selling at approximately 101 18/32, which theoretically establishes the price of at least one of the issues to be offered in the refunding operation.

Various opinions are given as to the types of new issues to be offered both for cash and in exchange for the notes to be refunded. Combinations of at least four types of securities are being discussed.

1. A five-year note having a coupon of 1 1/8% or an additional issue of the notes presently outstanding due in four and one-half years having a coupon of 1 1/8%, now selling at 101 6/32 to yield .85%.

2. A 2% bond due in eight or nine years. Bonds optional in seven and one-half years are presently selling at about a 1.87% basis, and bonds optional in nine years at approximately 1.86%. This obligation and the issue next described, it is thought, would be in demand on the part of commercial banks.

3. A 2 1/2% bond due in 1952 or 1953. This bond at 100 would compare with a 2 1/2% bond due 1952/50, which was sold at 100 in September and is now selling at around 102 to yield 2.30%. The 2 3/4's due 1954/51 at 103 1/2 now yield 2.42%.

4. A 2 3/4% bond due in the neighborhood of twenty-five years. There is an issue outstanding of 2 3/4's due 1965/58 which was given in exchange in June, 1958, and is now selling at 102 6/32 to yield 2.60%. This type of bond would probably be more suitable for insurance companies.

The general discussions of the various combinations of the four above-mentioned securities include a combination of the note issue and the 2 3/4% bonds due in about twenty-five years, both of which would be exchangeable for the issue to be refunded.

Another program includes the sale for cash of equal amounts of 2% bonds due in eight years and long 2 3/4% bonds, these two issues to be offered also in exchange for the 1 1/2% notes, with an additional offering on an exchange basis only of 4 1/2 year 1 1/8% notes.

A third program would consist of three securities offered for cash: (1) a four and one-half or five-year 1 1/8% note, (2) a 2% bond due in fourteen years, and (3) an 8% bond due in 1960.
years, or in place of this issue a 2% bond due in eight or nine years. As the third part of the program, they could offer a 2 3/4% bond due in approximately twenty-five years. All of these issues would be exchangeable for the 1 1/2% notes due in 1959.

I feel that a good program for the Treasury to follow would be to offer for cash four and one-half or five-year 1 1/2% notes and 2 1/2% bonds due in fourteen years. Both of these issues would be offered in exchange for the 1 1/2% notes due March 15, 1939, and this latter issue could also be turned in for the 2 3/4% bonds due 1963/68 which are presently outstanding and sell at 102 1/8 to yield 2.60%.

Nov. 30, 1938

R. Green
Mr. Garner,
Guaranty Trust Company,
11 a.m.

The Secretary asked Mr. Garner what he would do if he were sitting in his chair with respect to the December financing.

Mr. Garner said he had given the matter quite a bit of thought and had talked with people in New York, and if he were writing the ticket he would have three issues: (1) a 2-3/4% 1960-65 bond (possibly the maturity date could be brought down to 1964 or 1963 and would go better); (2) an 8-1/2 year (June 15, 1947) 3% bond; and (3) a note, possibly 1-1/8% for 5 years. The note, however, is not essential.

Mr. Garner said there is a good but somewhat limited demand for long-term bonds. Insurance companies, savings banks and some commercial banks will take the long bond, and no doubt it will be many times over-subscribed as it will command a premium of from 1-5/8% to 1-3/4%. He feels that the commercial banks will take the 8-1/2 year bond and that it will be largely over-subscribed as it will sell at a premium of from 1-1/2% to 1-5/6%. This latter bond is in line with the longer bond and would not throw a larger percentage of the offering to one or the other. He thought the subscriptions might be on an even keel. To offer a note in connection with this program is not essential but there are always note buyers in the market and he believes the Secretary should satisfy the
market to that extent. It is necessary to bear in mind that we are eliminating from the market some $942,000,000 in notes and it is only fair to replace them in part by a small note issue.

Mr. Garner continued by saying that if the Treasury should desire to issue a long-term bond and a note, he was quite satisfied that we would get an over-subscription for the note for cash but we would get very few exchanges; that a large part of the exchange subscriptions would go into the long-term bonds even by those who would not hold them but would take them for sale in order to get the premium. This would raise a rather serious problem of subsequent distribution, whereas if we have an 2-1/2 year bond this would fit in very nicely with the banks' portfolios and would give the banks a nice maturity for which they would exchange the notes, the majority of which are held by commercial banks. By issuing a 2 bond and a 2-3/4 bond the effect would be to eliminate the speculator from the market because the issues would go exactly where they belong and would be kept and not disposed of.

The Secretary then asked Mr. Garner how far the Treasury could go with a 2-1/2 bond. He said we could probably go to 1952 and might even extend it to 1953 with a definite maturity. We could make it a 1951-63 bond but he would not put out a 2-1/2% and a 2-3/4% bond. He believes the 2-1/2% would very definitely detract from the 2-3/4% and might give rise to an even more serious
problem of distribution. He believes there are two distinct demands in the market -- one by the banks for the shorter bond and one by the insurance companies for the longer bonds.

The Secretary then asked him whether, if the Treasury put out three issues, a 2-3/4%, a 2% and a 1-1/8%, it would be taken by the market as a sign of weakness. He said he did not think so but on the other-hand would be interpreted as an attempt on the part of the Treasury to meet the desires of the investors.

The Secretary requested his opinion on an offering of a 2-3/4% bond and a 1-1/8% note. He said there would not be any question about its success, but the majority of the exchanges would certainly go into the bonds. There was then quite a discussion of how a program of $300,000,000 2-3/4% bonds, $200,000,000 2% bonds and $200,000,000 1-1/8% notes, all for cash with the privilege to the holders of the March maturity of exchanging for any of the three issues, would go. Mr. Garner said a program of this kind in his opinion would exactly fit the situation as it exists today and would be pleasant news to the whole market.

We then discussed the length of bond we could issue with a 2-3/4% coupon. Mr. Harris, who had just come into the room, thought we might go as far as 13/22-67 and that it might command a premium of from 1-3/8% to 1-3/4%. He and Mr. Garner both agreed that it might be weak. They thought a 13/60-65 would command a premium of 1-5/8% and might work up to 2%. Mr. Garner said he preferred, if the Secretary
wanted to get beyond the 1960 period, a 1961-65 and we might even go to 1962-65. He did not feel the Secretary ought to go beyond 1965 as a maturity date but that he could fix the call period any place between 1960 and 1963.

He was then asked how he thought the exchanges would go on the three-way proposition. He said he did not think the notes would get any exchanges to amount to much but that the two bonds might split evenly within a range of from $350,000,000 to $500,000,000. Mr. Harris raised the question of how the exchanges would go if the note issue bore a rate of interest of 1-1/4%. He said that would make some difference but he still thought the large majority of the exchange subscriptions would go into the bonds. The Secretary then said he was very definitely not in favor of a 1-1/4% note. Such a security would command a premium of almost as much as the two bonds and he did not think the Treasury should pay that much for its money when it could get it at 1-1/8%.

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Dr. Burgess,
National City Bank, New York City
Luncheon conference.

Others present were Under Secretary Hanes, Assistant Secretary Taylor and Mr. Hanes.

The Secretary asked Dr. Burgess to give his views on the forthcoming financing. He started out by saying that the Treasury
could sell almost any kind of security as the market is in excellent condition. He thought, however, that we ought to arrange our issues so that they will just about fit the market requirements. What we should try to do is to arrange our maturities and rates so that not more than $750,000,000 will go into any one issue. He thought a 2-3/4% bond of 1960-65 and a 3% bond of June, 1947 (83 years) would just about take care of the market requirements. He said that we could open up the notes of last June to satisfy those who want to continue their investment in notes, but he did not think we would get more than $50,000,000 in exchanges. Making this statement, Dr. Burgess was under the impression that the total financing, including the exchange offering for the maturities in March, would aggregate about 1-1/2 billion. He was told that the total financing would be about $1,700,000,000 so that the $750,000,000 limit previously referred to would probably have to be raised to around $850,000,000.

Dr. Burgess was quite certain that if the two bonds indicated were issued, the insurance companies and savings banks would be heavy subscribers to the long-term bond, while the commercial banks would be the heavy subscribers in the shorter-term bond. Furthermore, he thought we would not have a subsequent redistribution problem as both insurance companies and the banks would take these bonds for permanent investment. He thought that if we confined it to a longer
term bond, such as the 2-3/4% 1960-65 or 1-1/8% 5-year note, the
banks would subscribe to the bonds, not with a view to holding
them permanently but with a view to selling them on the market as
soon as it was possible in order to realize the profit.

The Secretary then said that in the morning conference he
had thrown out, just for discussion, the suggestion that we offer
a 2-3/4% 1960-65 bond in the amount of $300,000,000; an 8-1/2-year
2% bond for $200,000,000; and a 1-1/8% 5-year note for $200,000,000,
all for cash with the option to be granted to the holders of the
March 15 maturities to exchange them for any one of the three issues.
He asked Dr. Burgess what he thought of this suggestion.

Dr. Burgess said he thought it was very good and that it
would suit the market perfectly. He did not think we would get many
exchanges on the notes, probably $50,000,000. Of course we would
get the cash subscriptions which would make a note issue of about
$250,000,000. He thought the exchanges for the other two issues
would go about fifty-fifty. The only objection he had to this pro-
posal was the maturity date of December, 1943. He called attention
to the fact that we already have in this year a $600,000,000 note
maturity in June. It is also the call date for the 1943-47 bonds
in the amount of $450,000,000. October is the call date for the
1943-45 bonds in the amount of $1,400,000,000. He thought it might
be well to consider selling a 4-year note. The Secretary stated
that he would like to have the December, 1942 date kept as it is with
the small maturity. Dr. Burgess and Mr. Sproul both indicated
that the Secretary's suggestion of a three-way issue of new securities
would suit market conditions perfectly and that there is not much
argument between the 5-year note, the 4-year note and reopening of
an old issue.
Mr. Dertne, 
Devin and Company, 
3 p.m.

Mr. Hanes and Mr. Taylor also joined this conference as well as the one following.

The Secretary asked Mr. Devine what he would do with the forthcoming financing. He said that he would issue a 2-3/4% of 1960-65, a 2% 9-year bond all for cash and allow the privilege to the March holders to exchange into these securities, and in addition, he would reopen the 1-1/8% 5-year notes for exchange purposes only. He says there is some talk about a 2% bond, period 51-63, but he does not feel that this is the proper place to put a bond as there are already heavy maturities in this period.

He says the market is now just right for the program he has suggested. The banks are staying out of the market and have been for two months and cash is piled up and there will be ready investors as soon as the December financing is out of the way. He thinks that a 9-year 2% bond will sell at about 101-3/8 to 101-1/2. He believes that you might get as much as $600,000,000 conversion and if on Saturday morning the term seems a little too long the period can be reduced to 8-1/2 years. He says there has also been some suggestion in the market that the short bond be an 8 year obligation but he thinks this is ridiculous and entirely too rich.
The Secretary then explained to him that during the day we had discussed the possibilities of an issue for cash of $300,000,000 2-3/4% long bond, $200,000,000 2% short bond, and $200,000,000 1-1/8% notes with exchanges in all three. He asked Mr. Devine how many exchanges out of the $942,000,000 maturing notes he thought we would get and how would they be divided. Mr. Devine said that he believed that possibly as much as $500,000,000 of the long bond would go into exchanges, $400,000,000 of the short bond, and a negligible amount, 50 to 75 million dollars, would go into notes.

The Secretary then asked him if there was involved any question of confidence in this program. Mr. Devine said he did not believe that was a serious factor although he did not believe the Treasury would show a great amount of confidence by issuing notes for cash. He thought it would be much better to have $400,000,000 long bonds and $300,000,000 short bonds for cash, both of which would go well.

The Secretary then explained that the note market was thin. We would take $942,000,000 of notes out of the market and that the people who have purchased notes have been very good to the Treasury in the past and he did not see why we should not put out something in this financing, particularly in view of its size, that would please those who would prefer notes. Furthermore, the Secretary said there is a large
maturing issue in June, $1,294,000,000, and we may want another
500 or 800 million dollars in cash in which case it would make
a total financing of about $2,000,000,000 and that he might want
to try this three way proposition again either at that time or in
March.

Mr. Devine said that the market, he thought, would be quite
surprised to get three issues and for that reason he argued for the
reopening of an outstanding issue but in this connection the Secre-
tary was adamant. Mr. Devine said that if the Secretary would
issue $500,000,000 in long bonds and $300,000,000 in short bonds
to a fixed date it would help a great deal. It would also have
the effect, in his opinion, of not getting too much on a fixed
maturity date and, at the same time, not getting too large an amount
into the long maturity which might come back upon the market.

The Secretary then asked him if there was any question in
his mind as to the success of the three issues he had suggested.
Mr. Devine said there was none whatever, that it would go and go
big.

Mr. Mills and Mr. Sepp,
Discount Corporation,
3:20 p.m.

The Secretary asked these gentlemen what kind of a program
they had mapped out for the Treasury in the forthcoming December
financing. Mr. Mills said the market certainly expected a 2-3/4%
bond 1960-65 period. It seemed to him about the only question involved with respect to this issue was to how many long term bonds the market can absorb. We certainly don't want a large bond of this issue to be indigestible later on. He said the insurance companies will be in the market for bonds although their balances are not quite as large as they were in September, declining possibly $100,000,000. Savings banks and trust companies will take the long bonds and so will many of the other banks as they are now interested in earnings. He thought there were several sources of this character which would certainly take the long bond. He also thought we would have to write the ticket of the long bond in such fashion that we would get about the amount we would like to have outstanding in this issue then couple it with a short bond, say 2% for 8-1/2 years. Then he would have a note issue possibly for exchange purposes only and for this purpose he thought the reopening of an old issue would be preferable. Specifically he recommended $400,000,000 2-3/4% long bond, $300,000,000 2% short bond, all for cash with exchange privileges, and a reopening of the 1-1/8% of last June for exchange purposes only. He thought this program would give us possibly a large conversion into the 2's. In writing down the figures he thought we might get as much as $600,000,000 in exchanges and $200,000,000 in cash on the 2%, $400,000,000 in cash and $300,000,000 in exchanges on the 2-3/4%, and on the 1-1/8% notes the conversion would be negligible.
The Secretary then explained to them that he would not want a billion dollars falling due on a fixed maturity date and that something would have to be done to hold the short term bond down to 5, 6, or 7, and not more than $700,000,000. Mr. Mills suggested that we have the note for cash and that might take the pressure off the intermediate bond.

The Secretary then asked him what he thought of the proposition that we had been discussing throughout the day, namely, $300,000,000 2-3/4% long bonds, $200,000,000 9-years, and $200,000,000 1-1/8% new 5-year notes, all for cash with exchange privileges. The Secretary asked him what the Treasury would get under this program. Mr. Mills said he thought we would get on cash and exchanges $300,000,000 on the notes, $700,000,000 on the 2% bonds, and $640,000,000 on the 2-3/4% bonds. Mr. Repp thought we would get $250,000,000 on the notes, $600,000,000 in short bonds, and $750,000,000 in 2-3/4% bonds. Mr. Repp's estimate would be ideal if we could get that division.

Mr. Mills said that he would not, just speaking in a broad way, offer the financing in a three way proposition. He would put out $300,000,000 in notes and $400,000,000 in long bonds for cash and then an intermediate bond for exchange only. The Secretary said that was new and very interesting and wanted to know what he thought we would get on exchange if we offered a 2% 9-year bond. There was a great deal of discussion about this last suggestion. The Secretary asked them to consider
this suggestion of Mr. Mills in its relation to the other maturities and other securities that would have to be offered and come to his house at 8:30 p.m. for a further conference.

He made it plain before they left that he doesn't particularly like a fixed maturity date; that he wants to satisfy to some extent the note holders and asked them to keep these things in mind for the 8:30 discussion.

Messrs. Mills, Repp, Ranes
Sproul and Bell,
8:30 p.m.

Mr. Mills said that they had considered the matter for about an hour and then had had dinner with Mr. Sproul and further discussed it. Mr. Mills went on to explain at great length why they thought that the Secretary ought to put out two bonds for cash. He stated that putting the cash on the long term bond and no cash on the note might have the effect of pressing the prices on the long term bonds and throwing the conversion rights into the shorter term bonds and might get a large proportion of your notes converted into the short term bonds.

After a great deal of discussion on this point the Secretary stated that there were two things that he did not want. He did not want as much as a billion dollars maturing at a fixed date and he did not want more than $750,000,000
of long term bonds to be put out at this time for the simple reason that Federal Reserve System representatives feel that that is about the limit the market can absorb and anything in excess of that would no doubt be thrown back on the market for sale. This would have an adverse effect on the market and would require the Federal Reserve System to support the market. He wanted the cooperation of the Federal Reserve System in supporting the market. He wanted to confine the long term bond to about the amount suggested by the Federal Reserve authorities.

Mr. Mills said they had considered the proposition of the Secretary and had come to the conclusion that he could put out a 2-3/4% bond 1960-65 which would sell from 1-12/32 to 1-20/32 premium, a 2% 9-year bond, without cash, which would sell just about on the same basis, and a 1-1/8% 5-year note would sell about 1 point premium.

Mr. Mills thought that this program would produce about $640,000,000 long term bonds with $440,000,000 cash and $200,000,000 exchanges, $380,000,000 notes with $330,000,000 cash and $50,000,000 exchanges, and $690,000,000 of short terms on exchanges. Mr. Repp thought this was a fairly good program but he thought you might get as much as $300,000,000 exchanges on the long bond.
The Secretary then called Dr. Burgess of the National City Bank of New York on the telephone and made the suggestion to him and asked his advice on it. Dr. Burgess said he thought the 9-year 2% bond was a little thin and it would probably throw more weight toward the long term bond. The Secretary answered that by saying he thought we possibly could stand another
$300,000,000 on the long term bond without in any way hurting the situation. Dr. Burgess also questioned the compilations made byMessrs. Mills and Repp that the short bond for exchange purposes only would sell on about the same basis as the long bond, namely 101-12/32 to 101-30/32.

The Secretary said that in conclusion he was satisfied in general with the program and that he intended to announce before the market opened the next morning the following:

The Treasury would offer $400,000,000 2-3/4% long bond and $300,000,000 5-year note, all for cash, with the right of the March maturity holders to convert into either one of those securities, plus the right to convert into a 2% short bond.

He then called Mr. Haas on the telephone and told him what he had decided and requested that he get Mr. Seltzer and Mr. Harris together the following morning and discuss the relative yields of these various securities and then discuss it with him at nine o'clock.
ESTIMATES OF NATIONAL INCOME IN 1939

It is estimated that national income produced will be approximately $68 billion in 1939. This compares with an indicated $62 billion in 1938 (on the basis of data available for ten months only) and $70 billion in 1937. On this basis approximately three-fourths of the loss from 1937 to 1938 should be recovered in 1939.

The above estimate is based upon analysis of underlying conditions and current trends. This analysis indicated a probable average of 106 for the Federal Reserve Index of Production in 1939. In December of 1938, the index is expected to be in the neighborhood of 100 and after a levelling out, or perhaps even a small decline, in the early part of 1939, to increase rapidly in the later part of the year.

The estimated rise in national income produced from $62 billion to $68 billion is approximately ten percent, which reflects in part the improved position with reference to business savings. This item, after payments of dividends and withdrawals by entrepreneurs, is expected to show only a small net loss in 1939, as compared with an estimated net loss of more than $2 billion in 1938. National income paid out is expected to rise approximately six percent from $64 billion in 1938 to $68 billion in 1939. Since income payments are running at about an annual rate of $66 billion at the present time, it will be necessary for them to increase to an estimated rate of approximately $71 billion at the end of 1939 in order that the estimated average for the year can be attained.
Estimates of National Income in 1939

The accompanying table summarizes the above estimates and gives the comparable figures for 1937 and 1938, the latter being partly estimated also.

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<th>Description</th>
<th>1937</th>
<th>*1938</th>
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<td>National Income Produced</td>
<td>69.8</td>
<td>62.0</td>
<td>68.0</td>
</tr>
<tr>
<td>Business Savings</td>
<td>+0.5</td>
<td>-2.5</td>
<td>-0.3</td>
</tr>
<tr>
<td>National Income Paid Out</td>
<td>69.3</td>
<td>64.5</td>
<td>68.3</td>
</tr>
<tr>
<td>Compensation of Employees</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing, mining, construction</td>
<td>15.9</td>
<td>12.9</td>
<td>15.1</td>
</tr>
<tr>
<td>Transportation and utilities</td>
<td>4.8</td>
<td>4.4</td>
<td>4.6</td>
</tr>
<tr>
<td>Trade and Finance</td>
<td>7.9</td>
<td>7.6</td>
<td>7.9</td>
</tr>
<tr>
<td>Government, Service, Other</td>
<td>15.0</td>
<td>14.9</td>
<td>15.1</td>
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<tr>
<td>Work Relief</td>
<td>1.3</td>
<td>2.2</td>
<td>1.9</td>
</tr>
<tr>
<td>Dividends and Interest</td>
<td>9.5</td>
<td>8.2</td>
<td>9.0</td>
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<tr>
<td>Entrepreneurial Withdrawals</td>
<td>10.4</td>
<td>9.8</td>
<td>10.3</td>
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<tr>
<td>Net Rents and Royalties</td>
<td>2.6</td>
<td>2.6</td>
<td>2.6</td>
</tr>
<tr>
<td>Social Security Contributions, etc.</td>
<td>1.4</td>
<td>1.5</td>
<td>1.8</td>
</tr>
</tbody>
</table>

*Partly estimated

$ Estimated
### Internal Revenue

<table>
<thead>
<tr>
<th>Description</th>
<th>Visible Budget (Dollar Amounts)</th>
<th>Invisible Budget (Dollar Amounts)</th>
<th>Multiplier</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Income Tax</td>
<td>63</td>
<td>220</td>
<td>3 1/2</td>
</tr>
<tr>
<td>Net income under $5,000</td>
<td>271</td>
<td>813</td>
<td>3</td>
</tr>
<tr>
<td>Net income of $5,000 and under $25,000</td>
<td>203</td>
<td>508</td>
<td>2 1/2</td>
</tr>
<tr>
<td>Net income of $25,000 and under $50,000</td>
<td>192</td>
<td>704</td>
<td>2</td>
</tr>
<tr>
<td>Net income of $50,000 and under $150,000</td>
<td>374</td>
<td>397</td>
<td>1</td>
</tr>
<tr>
<td>Net income of $150,000 and over</td>
<td>397</td>
<td>220</td>
<td>1</td>
</tr>
<tr>
<td>Corporation Income and Capital Stock Taxes</td>
<td>1,476</td>
<td>3,690</td>
<td>2 1/2</td>
</tr>
<tr>
<td>Estate and Gift Taxes</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Alcoholic, Mfrs., Excise, and Misc. Taxes</td>
<td>1,071</td>
<td>3,749</td>
<td>3 1/2</td>
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<tr>
<td>Tobacco Taxes</td>
<td>568</td>
<td>3,490</td>
<td>2 1/2</td>
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<tr>
<td>Employment Tax (Title VIII—Old Age)</td>
<td>257</td>
<td>890</td>
<td>3 1/2</td>
</tr>
<tr>
<td>Tax on employers</td>
<td>257</td>
<td>643</td>
<td>2 1/2</td>
</tr>
<tr>
<td>Tax on Employers of 8 or More (Title IX—Unemployment)</td>
<td>90</td>
<td>270</td>
<td>3</td>
</tr>
<tr>
<td>Railroad Employment Compensation Taxes</td>
<td>75</td>
<td>263</td>
<td>3 1/2</td>
</tr>
<tr>
<td>Tax on employers</td>
<td>75</td>
<td>263</td>
<td>2 1/2</td>
</tr>
</tbody>
</table>

### Expenditures

<table>
<thead>
<tr>
<th>Description</th>
<th>Visible Budget (Dollar Amounts)</th>
<th>Invisible Budget (Dollar Amounts)</th>
<th>Multiplier</th>
</tr>
</thead>
<tbody>
<tr>
<td>Departmental</td>
<td>644</td>
<td>2,938</td>
<td>3</td>
</tr>
<tr>
<td>Public Buildings; Highways; River and Harbor Work and Flood Control</td>
<td>318</td>
<td>945</td>
<td>2 1/2</td>
</tr>
<tr>
<td>Social Security Act (grants to states for needy persons, etc.)</td>
<td>272</td>
<td>950</td>
<td>3 1/2</td>
</tr>
<tr>
<td>National Defense</td>
<td>974</td>
<td>2,653</td>
<td>2 1/2</td>
</tr>
<tr>
<td>Veterans Administration</td>
<td>532</td>
<td>2,042</td>
<td>3 1/2</td>
</tr>
<tr>
<td>Agricultural Adjustment Program</td>
<td>362</td>
<td>1,966</td>
<td>3 1/2</td>
</tr>
<tr>
<td>Civilian Conservation Corps</td>
<td>326</td>
<td>1,635</td>
<td>3 1/2</td>
</tr>
<tr>
<td>Interest on Public Debt</td>
<td>926</td>
<td>1,389</td>
<td>1 1/2</td>
</tr>
<tr>
<td>Public Highways; River and Harbor Work and Flood Control</td>
<td>188</td>
<td>576</td>
<td>2 1/2</td>
</tr>
<tr>
<td>W.P.A.</td>
<td>224</td>
<td>592</td>
<td>3.5</td>
</tr>
<tr>
<td>Other</td>
<td>224</td>
<td>592</td>
<td>2.6</td>
</tr>
<tr>
<td>Aid to Home Owners (including Farm Security Administration)</td>
<td>240</td>
<td>770</td>
<td>3.2</td>
</tr>
<tr>
<td>Public Works—Leases and Grants to States, etc.</td>
<td>134</td>
<td>335</td>
<td>2 1/2</td>
</tr>
<tr>
<td>IV. Transfers to Trust Accounts, etc.</td>
<td>507</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>V. All Other Expenditures</td>
<td>364</td>
<td>610</td>
<td>1.7</td>
</tr>
</tbody>
</table>

Total receipts: 6,242  
Total expenditures (excl. debt retirement): 19,091  
Visible Balance (Deficit): -1,384  
Invisible Balance (Income Effect): +4,684


<table>
<thead>
<tr>
<th>RECEIPTS</th>
<th>Visible Budget</th>
<th>Invisible Budget</th>
<th>Multiplier (Dollar Amounts)</th>
<th>Multiplier</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INTERNAL REVENUE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual Income Tax</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Income under $5,000</td>
<td>3 1/2</td>
<td>54</td>
<td>189</td>
<td></td>
</tr>
<tr>
<td>Net Income of $5,000 and under $25,000</td>
<td>3</td>
<td>229</td>
<td>687</td>
<td></td>
</tr>
<tr>
<td>Net Income of $25,000 and under $50,000</td>
<td>2 1/2</td>
<td>172</td>
<td>430</td>
<td></td>
</tr>
<tr>
<td>Net Income of $50,000 and under $150,000</td>
<td>2</td>
<td>299</td>
<td>598</td>
<td></td>
</tr>
<tr>
<td>Net Income of $150,000 and over</td>
<td>1</td>
<td>337</td>
<td>337</td>
<td></td>
</tr>
<tr>
<td>Corporation Income and Capital Stock Taxes</td>
<td>2 1/2</td>
<td>1,220</td>
<td>3,050</td>
<td></td>
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<tr>
<td>Estate and Gift Taxes</td>
<td>0</td>
<td>306</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Alcoholic, Unfair, Engine and Wren, Taxes</td>
<td>3 1/2</td>
<td>1,124</td>
<td>3,924</td>
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<tr>
<td>Inheritance Taxes</td>
<td>2 1/2</td>
<td>552</td>
<td>1,380</td>
<td></td>
</tr>
<tr>
<td>Employment Tax (Title VIII—Old Age)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax on employees</td>
<td>2 1/2</td>
<td>97</td>
<td>340</td>
<td></td>
</tr>
<tr>
<td>Tax on employers</td>
<td>2 1/2</td>
<td>97</td>
<td>242</td>
<td></td>
</tr>
<tr>
<td>Tax on Employers of 8 or More (Title IX—Employment)</td>
<td>3</td>
<td>58</td>
<td>174</td>
<td></td>
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<tr>
<td>ESTATES</td>
<td>3</td>
<td>486</td>
<td>1,458</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1 aver.</td>
<td>263</td>
<td>263</td>
<td></td>
</tr>
<tr>
<td><strong>ALL OTHER RECEIPTS (incl. adj.)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EXPENDITURES</th>
<th>Visible Budget</th>
<th>Invisible Budget</th>
<th>Multiplier (Dollar Amounts)</th>
<th>Multiplier</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I. GENERAL</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Departmental</td>
<td>3</td>
<td>560</td>
<td>1,680</td>
<td></td>
</tr>
<tr>
<td>Public Works, river and harbor work, and flood control</td>
<td>2 1/2</td>
<td>76</td>
<td>260</td>
<td></td>
</tr>
<tr>
<td>Social Security Act (grants to states for needy persons, etc.)</td>
<td>3 1/2</td>
<td>167</td>
<td>598</td>
<td></td>
</tr>
<tr>
<td>National Defense</td>
<td>2 1/2</td>
<td>797</td>
<td>2,356</td>
<td></td>
</tr>
<tr>
<td>Veterans Administration</td>
<td>3 1/2</td>
<td>250</td>
<td>1,253</td>
<td></td>
</tr>
<tr>
<td>Agricultural Adjustment Program</td>
<td>3 1/2</td>
<td>237</td>
<td>1,045</td>
<td></td>
</tr>
<tr>
<td>Civilian Conservation Corps</td>
<td>1 1/2</td>
<td>586</td>
<td>1,753</td>
<td></td>
</tr>
<tr>
<td>Interest on Public Debt</td>
<td>1 1/2</td>
<td>866</td>
<td>2,899</td>
<td></td>
</tr>
</tbody>
</table>

| **II. RECOVERY AND RELIEF** |                |                 |                            |            |
| Public Works, river and harbor work, and flood control | 2 1/2 | 335 | 889 |
| W.P.A. | 3 1/2 | 1,096 | 6,606 |
| Other | 2 1/2 | 100 | 600 |
| Aid to home owners (inc. Farm Security Acts.) | 3 1/2 | 932 | 932 |

| **III. REVOLVING FUNDS (NET)** |                |                 |                            |            |
| Public Works, loans and grants to states, etc, | 2 1/2 | 221 | 553 |

| **IV. TRANSFERS TO TRUST ACCOUNTS, ETC.** |                |                 |                            |            |
| All Other Expenditures | 2 1/2 | 213 | 498 |

| **Visible Balance (Deficit)** | - 3,148 |
| Invisible Balance (Income effect) | + 9,044 |

Total receipts | 5,294 | 13,052 |
Total expenditures (excl. debt retirement) | 8,442 | 22,126 |
Summary

1. On a reasonably optimistic estimate, industrial production may
rise to 106 by the second quarter of 1939, and about 115 to 120
for the fiscal year 1939-40.

2. If such a rise in industrial production does take place, it would
reduce non-farm unemployment from about 8.6 millions now to about
7.3 for the 1939-40 fiscal year.

3. To continue to provide relief to the same proportion of the unem-
ployed now covered, W.P.A. expenditures of one billion fifty million
dollars would be needed for the first half of 1939, and 1.85 billion
for the 1939-40 fiscal year.

4. 600,000 cases now certified to W.P.A. are not now employed because
of limited funds. Their families are without support except for
direct relief, which is usually very meager. Increasing unemploy-
ment insurance payments offset only a portion of this deficiency in
W.P.A. To care for these cases as well as those already covered,
W.P.A. funds would have to be increased materially above the amounts
stated.

5. On a very optimistic forecast, industrial production might rise to
116 by the second quarter of 1939 and to about the 125 to 130 level
for the fiscal year 1939-40. Even in that extreme case, W.P.A.
expenditures needed to maintain merely the present level of adequacy
would be one billion dollars for the first half of 1939, and 1.6
billions for the 1939-40 fiscal year.

6. Judging from past periods of recovery, industrial production for the
1940-41 fiscal year might average between 105 and 120. Such a level
of production would reduce unemployment to between 5.7 and 7.8 millions,
and require W.P.A. appropriations of between 1.45 and 2.0 billions for
the 1940-41 fiscal year to maintain the present level of adequacy.
How much will it be safe to reduce W.P.A. during 1939, 1939-40, and 1940-41?

How fast can W.P.A. rolls be reduced without increasing the number without food and clothing?

The answer depends on our appraisal of a number of subordinate questions, as follows:

1. How fast and far will industrial recovery go?

Careful appraisals of the immediate prospects, and a reasonably optimistic appraisal of the possible speed of continued recovery over the years ahead, based on similar recovery periods in the past, give the following forecasts as a basis for our estimates:

**Forecast of Industrial Production**

(Federal Reserve Index, 1923-25 = 100)

<table>
<thead>
<tr>
<th>Actual to date</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1929 average</td>
<td>119</td>
</tr>
<tr>
<td>1937 average</td>
<td>110</td>
</tr>
<tr>
<td>1938 June</td>
<td>77</td>
</tr>
<tr>
<td>November (preliminary)</td>
<td>102</td>
</tr>
</tbody>
</table>

**Estimated** 1/

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1938 4th quarter</td>
<td>101</td>
</tr>
<tr>
<td>1939 1st quarter</td>
<td>100</td>
</tr>
<tr>
<td>1939 2nd quarter</td>
<td>105</td>
</tr>
<tr>
<td>1939-40 fiscal year</td>
<td>120</td>
</tr>
</tbody>
</table>

1/ Estimated by Agricultural Industrial Relations Section, Division of Program Planning, A.A.A.

These forecasts, in comparison with the annual data since 1920, are shown in the upper portion of Figure 1.
2. **How rapidly will employment rise?**

In the past, changes in industrial production have been reflected in employment in non-farm employment, with some lag between them. This is also shown in Figure 1, by the employment data charted.

On the basis of previous relations between production and employment, the non-farm employment which would be produced if the forecasted production is realized has been estimated, as shown below:

<table>
<thead>
<tr>
<th>Actual to date</th>
<th>Industrial production index 1/ (Seasonally adjusted)</th>
<th>Non-farm employment 2/ Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1929 average</td>
<td>119</td>
<td>36.1</td>
</tr>
<tr>
<td>1932 average</td>
<td>64</td>
<td>27.7</td>
</tr>
<tr>
<td>1937 average</td>
<td>110</td>
<td>34.5</td>
</tr>
<tr>
<td>1938 June</td>
<td>77</td>
<td>31.8</td>
</tr>
<tr>
<td>1938 October</td>
<td>96</td>
<td>32.7 (Preliminary)</td>
</tr>
</tbody>
</table>

**Forecasts**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th>3/ 35.5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1938 4th quarter</td>
<td>101</td>
<td></td>
</tr>
<tr>
<td>1939 1st quarter</td>
<td>100</td>
<td>35.5</td>
</tr>
<tr>
<td>1939 2nd quarter</td>
<td>106</td>
<td>34.4</td>
</tr>
<tr>
<td>1939-40 fiscal year</td>
<td>120</td>
<td>35.5</td>
</tr>
</tbody>
</table>

1/ Federal Reserve index, 1923-25 = 100
3/ The reduction is due to the usual seasonal decline in employment during the winter.

These estimates are also shown on Figure 1.

3. **How rapidly will unemployment fall?**

Figures on the persons available for non-farm employment have been compiled from previous data on employment and age composition of the population. Comparing these with the estimates of non-farm employment, the numbers of non-farm unemployed may be projected as follows:
### Non-farm unemployment (in millions)

<table>
<thead>
<tr>
<th>Actual</th>
<th>Non-farm labor supply 1/</th>
<th>Non-farm employment</th>
<th>Non-farm unemployment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1929 average</td>
<td>37.7</td>
<td>36.1</td>
<td>1.6</td>
</tr>
<tr>
<td>1932 average</td>
<td>39.1</td>
<td>27.7</td>
<td>11.4</td>
</tr>
<tr>
<td>1937 average</td>
<td>41.3</td>
<td>34.6</td>
<td>5.7</td>
</tr>
<tr>
<td>1938 June</td>
<td>41.8</td>
<td>31.8</td>
<td>10.0</td>
</tr>
<tr>
<td>October</td>
<td>41.9</td>
<td>32.7 (p)</td>
<td>9.2 (p)</td>
</tr>
</tbody>
</table>

### Forecasts

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1938 4th quarter</td>
<td>42.0</td>
<td>33.5</td>
<td>6.5</td>
</tr>
<tr>
<td>1939 1st quarter</td>
<td>42.1</td>
<td>33.3</td>
<td>8.8</td>
</tr>
<tr>
<td>2nd quarter</td>
<td>42.2</td>
<td>34.4</td>
<td>7.8</td>
</tr>
<tr>
<td>1939-40 fiscal year</td>
<td>42.6</td>
<td>35.5</td>
<td>7.3</td>
</tr>
</tbody>
</table>

1/ This excludes the number of wives or daughters seeking work because their husbands or fathers are unemployed. Biggers' census indicated that in November, 1937, there were over 2 1/2 million such persons looking for work, in addition to those ordinarily available for work.

The changes in the number of persons actually employed at any one time reflect many other factors besides industrial production. 1/

If these estimates are fulfilled, non-farm unemployment will change from its present levels (for the 4th quarter of 1938) about as follows:

1st quarter, 1939 3.5 per cent increase over present
2nd quarter, 1939 8 per cent decrease below present
1939-40 fiscal year 14 per cent decrease below present

1/ In addition to industrial production, the number of persons actually employed will be influenced by changes in the usual work week, in the output per person employed, and in the extent of part-time or overtime work. If it were possible to account for these factors as well, the above forecasts might be modified somewhat and made slightly more reliable. Such perfections of the data, however, would probably be small compared to the total unemployment shown below, and therefore would change the estimated relief needs only slightly. Shifts from part-time to full-time will tend to increase the average hours worked per week, but the wages and hours law and other pressures toward a shorter full-time week will work in the opposite direction. The estimates presented are on the basis of the present levels of production and the present average hours.
4. How rapidly will the need for relief decline?

Aid to the unemployed and needy is provided through public assistance, old-age assistance, and unemployment compensation.

Unemployment compensation payments are taking care of an increasing number of the unemployed, as more and more states reach the stage where their outpayments begin. The cases taken care of and the sums disbursed, however, represent as yet only a very small fraction of those in need because of unemployment. At the peak of their fall program, W.P.A. had 600,000 cases certified for W.P.A. employment who could not be taken on because of inadequate funds. Increasing unemployment insurance payments in 1939 may close about one quarter to one half of this gap between needs for W.P.A. jobs and funds available, but that is about all they can be counted on for in the immediate future.

Old-age assistance has expanded until 1,735,000 persons are now receiving old-age payments, while aid to the blind and to dependent children is providing for an additional 330,000. These special types of public assistance care for only a small portion of the distress due to unemployment, however, and will continue to expand regardless of business conditions.

General relief, although presumably for non-employables, shows some tendency to vary with business conditions. It expanded rapidly in the winter of 1937-38, before the increased W.P.A. appropriations became available, and shrank again as W.P.A. began expanding. Since July, however, general relief expenditures have remained relatively constant at about 66 million dollars a month. C.C.C. expenditures, too, remain

1/ Old-age insurance may have reduced the number of persons over 65 who are seeking employment by about 100,000 to 200,000 cases, judging from Biggers' census. This may make the following estimates high to this slight extent. If further studies confirm this shift, the estimates of persons employable will be revised accordingly.
relatively stable, showing little reflection of business conditions.

W.P.A. has constituted the most important source of relief for the unemployed since it replaced F.E.R.A. This is evident in the following tabulation:

<table>
<thead>
<tr>
<th>Period</th>
<th>Estimated non-farm unemployment (Thousands)</th>
<th>Estimated unduplicated relief cases 1/ (Thousands)</th>
<th>W.P.A. employment 2/ (Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1933</td>
<td>11,841</td>
<td>4,312</td>
<td>-</td>
</tr>
<tr>
<td>1934</td>
<td>9,736</td>
<td>4,706</td>
<td>-</td>
</tr>
<tr>
<td>1935</td>
<td>8,943</td>
<td>4,677</td>
<td>-</td>
</tr>
<tr>
<td>1936</td>
<td>7,654</td>
<td>4,116</td>
<td>2,550</td>
</tr>
<tr>
<td>1937</td>
<td>6,744</td>
<td>3,262</td>
<td>1,786</td>
</tr>
<tr>
<td>1938 nine mos.</td>
<td></td>
<td></td>
<td>2,562</td>
</tr>
<tr>
<td>September</td>
<td>9,733</td>
<td>4,297</td>
<td>5,111</td>
</tr>
</tbody>
</table>

1/ Excludes assistance granted under the Social Security program and under some other smaller programs whose recipients, in general, are not employable. Also, excludes emergency drought relief in 1936.

2/ Excludes N.Y.A. employment.

W.P.A. thus constitutes the major method of relief, now caring for 33 per cent of the unemployed, or for two-thirds of all relief cases.

The proportion of the non-farm unemployed on W.P.A. jobs dropped from 33.1 per cent in 1936 to 26.5 per cent in 1937, and then rose again to 32.8 per cent by September, 1938. The drop in 1937 was explained in part by the sharp cut in the budget during that year.

The number needing relief in 1939 and 1939-40, may be estimated on the assumption that W.P.A. will continue to be needed for the same proportion of the unemployed as in 1936 and in September, 1938. These forecasts are as follows:

<table>
<thead>
<tr>
<th>Period</th>
<th>Non-farm Unemployment (Millions)</th>
<th>W.P.A. employment (Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1936 September</td>
<td>9.6</td>
<td>3.11</td>
</tr>
<tr>
<td>Forecast</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1939 1st quarter</td>
<td>8.8</td>
<td>2.90</td>
</tr>
<tr>
<td></td>
<td>2nd quarter</td>
<td>7.3</td>
</tr>
<tr>
<td></td>
<td>1939-40 fiscal year</td>
<td>7.3</td>
</tr>
</tbody>
</table>
These estimates are based on the assumption that as employment rises the same proportion of the unemployed, 33 per cent, will continue to need W.P.A. help. In the past the major relief to the unemployed has been provided from their own resources or that of relatives, and that is why as low a per cent as 33 have been on W.P.A. As unemployment decreases, it may be that the proportion of the unemployed who can get along without relief help will increase, so that the proportion in need of W.P.A. will diminish. On the other hand, the long duration of heavy unemployment for many may so exhaust their resources as to make still a larger proportion in need of relief. In the absence of any clear basis for judging between these two alternative possibilities, the estimated need has been based on the existing coverage.

5. What Federal W.P.A. funds will be needed to meet the 1939 needs?

Total W.P.A. expenditures during recent calendar years have varied from $847 per relief worker down to $770 per worker for September, 1938. Assuming that this latter rate is maintained over the period, Federal W.P.A. funds will be required as follows to provide for the cases estimated:

<table>
<thead>
<tr>
<th>Actual</th>
<th>Federal W.P.A. expenditures (annual equivalent)</th>
<th>W.P.A. employment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Millions</td>
<td>Millions</td>
</tr>
<tr>
<td>1936</td>
<td>$2,069</td>
<td>2.53</td>
</tr>
<tr>
<td>1937</td>
<td>1,510</td>
<td>1.79</td>
</tr>
<tr>
<td>1938 September</td>
<td>2,400</td>
<td>3.11</td>
</tr>
</tbody>
</table>

Forecasted

<table>
<thead>
<tr>
<th></th>
<th>Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1939 1st quarter</td>
<td>2,230</td>
</tr>
<tr>
<td>2nd quarter</td>
<td>1,980</td>
</tr>
<tr>
<td>1939–1940 fiscal year</td>
<td>1,850</td>
</tr>
</tbody>
</table>
For the first six months of 1939, this would require W.P.A. expenditure running at about 2.1 billions annually, or about $1,050,000,000 for the six-month period, to maintain the present level of relief, compared to unemployment. For every $100,000,000 that W.P.A. expenditures are cut below this level during the first half of 1939, about 260,000 families in need of relief will be cut off W.P.A. rolls. That means that 800 to 900 million dollars in addition to present funds will be needed by W.P.A. for the rest of the current fiscal year, to continue relief merely on the present level. Even more would be needed to enable W.P.A. to care for the several hundred thousand families certified to it which it cannot now employ.

For 1939-40, W.P.A. appropriations of about 1.85 billions will be needed if production, employment, and relief needs develop as estimated here.

Effect of a more rapid recovery

These estimates are based upon a reasonably optimistic forecast of continued recovery. Even if the recovery should go much faster than that, however, the relief problem would still be heavy. For example, if industrial production should exceed that previously estimated by a full 10 points throughout, the forecasts would then be as follows:

<table>
<thead>
<tr>
<th>Period</th>
<th>Industrial production</th>
<th>Non-farm employment</th>
<th>Non-farm unemployment</th>
<th>W.P.A. cases</th>
<th>W.P.A. expenditures (annual rate)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Millions</td>
<td>Millions</td>
<td>Millions</td>
<td>Millions</td>
<td>Millions</td>
</tr>
<tr>
<td>1939 1st quarter</td>
<td>110</td>
<td>33.6</td>
<td>8.5</td>
<td>2.80</td>
<td>2,160</td>
</tr>
<tr>
<td>2nd quarter</td>
<td>116</td>
<td>35.0</td>
<td>7.2</td>
<td>2.35</td>
<td>1,850</td>
</tr>
<tr>
<td>1939-40 fiscal year</td>
<td>150</td>
<td>36.4</td>
<td>6.2</td>
<td>2.04</td>
<td>1,970</td>
</tr>
</tbody>
</table>
Even on this most optimistic basis, W.P.A. expenditures of just about one billion dollars for the first half of 1939, and of 1.6 billions for the succeeding fiscal year, would be needed to maintain unemployment relief on its present level of adequacy.

**Possible relief needs during the 1940-41 fiscal year**

The 1940-41 fiscal year is 18 to 30 months ahead, and any forecast now as to conditions then will be necessarily largely conjectural. In past recovery periods following sharp depressions like that of 1938, however, industrial activity two to three years later has varied widely, the most rapid progress showing over 50 per cent recovery from the low year, and the least, less than 25 per cent recovery. If this time the recovery falls within the same pattern, it would result in a level of industrial activity for the 1940-41 fiscal year somewhere between 105 and 130.

Such production in 1940-41 would mean a non-farm unemployment of between 5.7 and 7.8 million. W.P.A. expenditures of between 1.45 and 2.0 billions would be needed to care for such unemployment, on the present basis of adequacy.
Figure 1. Industrial Production and Non-Farm Employment

Forecasts, production, employment.
December 2, 1938.

MEMORANDUM

At 3 P.M. December 2, 1938, Mr. Shoji Arakawa, Financial Commissioner of the Imperial Japanese Government, Financial Attaché to his Imperial Majesty’s Embassies at London, Paris and Washington, was received by the Secretary of the Treasury. Also present were Messrs. Lochhead, Cochran and Butterworth, whom the Secretary presented to the caller.

Mr. Arakawa began the conversation by telling the Secretary that he had talked with Mr. Taylor, and by asking that the Secretary learn of the conversation from the Assistant Secretary rather than have him repeat it at this time. He explained that he was assigned to the three capitals of London, Paris and Washington, but spends most of his time in London. The Minister of Finance of Japan, whose friendship the visitor enjoys, had instructed him to visit the United States at this time and he is consequently spending ten days in New York and ten days in Washington.

He stated that the Minister of Finance, a Harvard man well acquainted with the United States and enjoying a splendid reputation in his own country, was interested in hearing from the Secretary of the American Treasury in regard to the general situation in the United States.

Secretary Morgenthau replied that it was difficult to know where to begin in describing the American situation. He would gladly be helpful but the Treasury itself had such a variety of activities and wide range of interests that to undertake to discuss them was impossible. There were no problems up between the Japanese and American Treasuries to discuss.

The visitor said that his Minister would be especially interested in the broad lines of the American impressions of the Sino-Japanese war. The Secretary said this was not in his field to discuss and that the Press gave the American reaction fully.

Again the Secretary said there were no Treasury problems between the two countries. There had arisen at one time a question in regard to Japanese gold shipment, but this had been satisfactorily adjusted and the Federal Reserve Bank of New York, the fiscal agent of the Treasury, and the Central Bank of Japan and were in touch with each other and cooperating.

This reminded the visitor that he had failed to thank the Secretary for this cooperation in the past. In this connection he said he knew that American Ambassador Grew was informed by the Minister of Finance of Japan as to the latter’s interest in having the cooperation of the United States in the development of territory which the Japanese occupied in China. Secretary Morgenthau said it would be interesting to see what might transpire in this phase of the matter, but this was a subject for discussion between the Japanese Ministry for Foreign Affairs and our Department of State.

Regarded Unclassified
Secretary Morgenthau

Herman Oliphant

TO

FROM

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE December 2, 1938

Dear Freda Utley,

Miss Freda Utley will be in Washington on December 12 or 13, and it occurred to me that you might welcome the opportunity to talk to her. She is the Far Eastern correspondent of the London News Chronicle and is now on her way to London from China. She is the author of Japan's Feet of Clay (1937), Japan's Gamble in China (1938) and numerous other books. She is also a frequent contributor on Far Eastern subjects to journals of foreign affairs.

She is coming to Washington to address the National Press Association and for a conference with Mrs. Roosevelt. She is deeply sympathetic to the Chinese cause. I hope that she will be available for discussion during the lunch hour, but it is possible that she may be free only in the evening.

Sincerely,

[Signature]
December 2, 1938

To: Mr. Oliphant
From: Mr. Duffield

The position of the Comptroller of the Currency and his Office as units within the Treasury Department is clearly set forth in the law, debates of Congress, opinions of the Attorney General and court decisions. The law sets up "in the Department of the Treasury a bureau" to be headed by a Comptroller of the Currency who "shall perform his duties under the general directions of the Secretary of the Treasury." This language is similar to that used in setting up other bureaus within the Treasury Department, as, for instance, Bureau of the Mint.

That the Congress intended this law to mean that the Comptroller's Office should be a unit within the Treasury was further demonstrated by the debates which preceded enactment of the National Banking Act. Amendments to the Act which would have struck from it various provisions of supervision and control of the Comptroller's Office by the Secretary were introduced and rejected except one making the Comptroller the appointee of the President rather than of the Secretary. This appointment feature is also typical of other Treasury officials, such as the Commissioner of Internal Revenue, the
Director of the Mint, the Surgeon General, all of whom are clearly under direction of the Secretary.

A district court has held that the Comptroller performs his duties "under the general direction of the Secretary of the Treasury," and the Supreme Court has spoken of the national banks as being "subject to the supervision and direction of the Comptroller of the Currency and of the Secretary of the Treasury."

The Attorney General informed the President in 1912 that, although the Secretary can not control the Comptroller's discretion in performing quasi-judicial functions, the Secretary must obviously supervise the administrative and executive functions of the office if the law is to have any meaning when it says that the Comptroller performs his duties "under the general directions of the Secretary."

Since the Comptroller's Office is by law a bureau within the Treasury, the Secretary has authority to provide for "the distribution and performance of its business" under the laws which give each Cabinet Officer the power to operate his own Department. The action of the Secretary on September 13th, placing the legal work of the Comptroller's Office under the General Counsel for the Treasury Department, was an action providing for distribution and performance of the business of a unit of the Treasury Department.
The portion of the September 13th order providing that the Secretary shall pass upon all changes in the legal staff and upon salaries paid that staff is not prohibited by any specific portion of law. Therefore, it is within his power because appointment of executive officers and employees of a unit within the Department remains with the Secretary unless otherwise provided.

The authority for this action is further supported by the law creating the position of General Counsel for the Treasury Department which states that the General Counsel shall be the chief law officer of the Department and shall perform such duties as the Secretary may require of him.
TRIPlicate

AMERICAN CONSULATE
Rangoon, Burma, December 2, 1936.

Subject: Shipments of War Materials.

Strictly Confidential.

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to report that the war supplies for China brought from Odesa to Rangoon by the British steamer STANHALL have been unloaded at this port, and that, with the exception of explosives, they have been placed in warehouses of the Port Commission, where they are being guarded by Military Police. The explosives are being held on a barge in the Rangoon river below the port.

The supplies in the warehouses are being checked by the Customs authorities. A manifest of the cargo was not obtained, and detailed Customs inspection was ordered. No Customs statistics are yet available.

The STANHALL arrived here on November 8th, but unloading was not commenced until November 31st, pending attempts to obtain a manifest, the preparation of a report by the Customs for the Government, and the Government's decision in the matter. The ship was granted clearance and left this port yesterday.


There is a report that some motor-truck parts and
some munitions of American origin are included in the
supplies brought by the STANHALL, all of which were load-
ed at Odessa. This report has not yet been verified.

All of the cargo from the STANHALL will be trans-
ported to Lashio by the Burma Railways. Some special
freight cars for the carriage of ammunition and explosives
have been built in the railway shops, and others are build-
ing. It is planned to establish a transit depot at
Lashio, on ground owned by the Burma Railways, the required
storage facilities to be provided by the Chinese, together
with a garage and repair shop.

In order to reduce the danger of explosions and at
the same time to obtain a lower freight rate from the
Burma Railways, detonators are being removed from shells,
preliminary to shipment. Shipment of the supplies now
stored here will not be commenced until motor-transport
arrangements are completed and it is apparent that trucks
can get through from Lashio to Yunnanfu. Chinese repre-
sentatives are now at Lashio in connection with trans-
portation arrangements.

Respectfully yours,

Austin G. Brady
American Consul

Distribution:
1. Original and four copies to the Department.
3. Copy to the Consulate General, Calcutta.
Proposal: Establish a railroad equipment authority, with capital stock owned by the Treasury, empowered to issue guaranteed debentures for the purpose of contracting for the purchase of new railroad rolling stock to be rented or leased to railroads.

1. The Stimulation of Recovery

Expenditures of some $500 million on railroad equipment could be assured in the first year of operation. Apart from the stimulation this would afford the economy in general, it would provide work for the railroads' own car shops and increased traffic for the roads themselves.

2. The Removal of Future Bottlenecks

Preliminary estimates indicate that in order to handle the volume of traffic consequent upon the continuance of recovery at a desirable rate, yearly expenditures on rolling stock of about $800 million at present prices would have to be incurred in the period 1939-41. From the standpoint of the national economy it would obviously be to our interest to utilize idle plant and labor in the immediate future in order to relieve the shortages, stoppages, and bottlenecks that will arise in freight traffic, the railroad equipment industry and in the steel industry with the continuance of recovery.

3. A Contribution to Future Stability

The railroad equipment field has traditionally a feast and famine character and is consequently an important source of economic
instability. A federal authority, not pressed by financial considerations or immediate profit considerations, could level off the peaks and valleys of railroad equipment buying.

In addition, variation in rental rates for equipment would offer a highly desirable alternative to variations in freight rates as a means of bringing about greater stability in railroad net earnings.

4. National Defense

A modernized supply of rolling stock adequate to handle the volume of traffic incident upon war appears to be an indispensable element in any comprehensive program of national defense. Moreover, experience in the handling of a national car pool will be invaluable in the event of war.

5. Betterment of the Financial Structure of Railroads

The gradual substitution of rented and leased rolling stock for owned equipment would permit a reduction in the debt of railroads and a substitution of variable for fixed charges. Moreover, the proposal offers a means whereby the Government could stimulate private expenditures without getting deeper involved in the complicated financial structure of the railroads.

6. Improved Efficiency

The proposal, through making possible continuous buying, greater standardization, and more liberal provisions for research, should permit very substantial reductions in costs to be achieved. It should also permit more efficient utilization of rolling stock in the handling of empties, etc.
7. Relation to the "Railroad Problem".

The proposal could be adopted independently and without prejudice to any comprehensive program of reorganization and consolidation of the railroads, which may take a long time to accomplish.
Objections to the Proposal:


The proposal does, of course, involve a degree of Government ownership, so far as rolling stock is concerned. It may be pointed out here, however that

(a) it is only a degree removed from the present practice of making loans to financially shaky roads,

(b) it is far removed from the actual Government operation of railroads as is practiced in certain other democratic countries such as Canada and Sweden,

(c) it is proposed that the Government operations be confined to research and ordering, renting or leasing equipment and that no construction or repair be undertaken in Government shops.

2. Loss to the Government

It may be objected that the Authority's equipment will be used only during peak periods and years of exceptionally high traffic volume and that for the rest "the Government will be left holding the bag."

This objection can easily be disposed of by pointing out that this all depends on the terms of leasing or daily rentals. If they are set sufficiently low, it will pay the railroads to use the Authority's equipment, and rely on old high-repair-cost equipment for peak requirements. Low rental rates will also
constitute an inducement to retire old equipment.

This way out, however, raises another objection. If rentals are set too low, the revenues of the Authority will be inadequate to service its obligations and keep its equipment in good repair. It should, however, for the following reasons, prove possible for the authority to set sufficiently low rentals to induce the railroads to use its equipment and yet not suffer a loss:

(a) It will have the advantage of borrowing at lower interest rates than the railroads can secure;

(b) being a very large and continuous buyer of standardized equipment it should be able to secure greater price concessions than any individual road could obtain;

(c) there should be economies consequent upon the growth of a national car pool;

(d) it will be in a position to charge higher rentals in good years to recoup any losses sustained in bad years.

Finally, it must be kept in mind that even though the Authority should actually show a loss, this would not be incompatible with a large net national gain in more stable and higher national income, production and employment.

3. Technical Difficulties

The proposal has been examined by a number of operating railroad men and although problems have been pointed out in connection with repairs, zoning, storage, etc., it appeared to be the general
consensus that the problems would be similar to those now encountered in connection with "foreign" cars and the private leasing companies, such as Pacific Fruit Express, and various ways of meeting these problems were at hand.

In connection with the determination of the volume of new equipment of various types, it would appear feasible to make far better national estimates of the number of different types of freight cars and locomotives that a certain volume of traffic will require than could possibly be arrived at as the sum of individual estimates made independently by the various roads.

4. Inequities as Between Roads

Some companies have normally an excess of cars and others a deficiency. Some companies, therefore, would be in a better position to take advantage of low rentals on new equipment while others might suffer a loss of revenue now derived from the use of their cars by other lines.

Again, many roads now build a substantial amount of equipment in their own shops and individual hardships might result from the inevitable changes in the location of work consequent upon national bidding for a single buyer. These changes might be tempered by policies of the Authority in distributing new equipment, repair and reconditioning work.
Alternatives:
The alternatives appear to be either to do nothing or to stimulate railroad equipment purchases through loans to railroads from the R. F. C., on favorable terms.

It is said that if the R. F. C. should announce that it was prepared to purchase equipment trust certificates

(a) up to 100 percent of the cost of new equipment,
(b) at a 2\% percent rate,
(c) for comparatively long maturities,
(d) the offer to be available for a limited period only,

a very large amount of anticipatory railroad equipment buying would be induced.

While this alternative is far better than doing nothing at all, it appears inferior on various counts to the proposal under discussion.

1. It Lacks Flexibility.

The chief objection, from the compensatory fiscal policy viewpoint, is that an emergency loan operation does not provide a mechanism through which the Government could operate continuously, and outside the budget, to smooth out fluctuations in expenditures in an important field.

With reference to the immediate situation, it is almost impossible to forecast the extent to which a favorable loan offer would be taken up. Once announced, it would be difficult to change the terms. If a big rush of orders ensued, deliveries would have to be spread over a future period, or else a temporary bottleneck would occur. If few
orders came in, the terms could not be lowered further or the offer extended without arousing a sense of grievance on the part of those who had already availed themselves of the offer.

2. There are definite obstacles in the way of offering terms that will really be effective.

The R. F. C. must consider the soundness of each individual loan and cannot explicitly rely upon averaging and upon higher interest returns in good years offsetting low returns in bad, as could the proposed Authority. The most favorable terms offered to date by the R. F. C. were in connection with the purchase of equipment trust certificates of the Southern Railroad for 100 percent of the cost of freight cars, at 4 per cent, and for fifteen years.

In bad years, when on national economic grounds expenditures on railroad equipment are most desirable, the credit of the railroads is weakest and, confronted with surplus equipment on the one hand and financial difficulties on the other, they would be most reluctant to borrow and purchase new equipment even on the most favorable terms.

3. A loan operation does not offer a good possibility for securing cost reductions and efficiencies.

Each loan being an individual loan, there does not exist the same opportunity to derive the economies arising from large, continuous orders of standardized equipment, or from research, or from car pooling.

4. Other implications

Further large loans to the railroads would involve the Government still more in the complex financial structure of railroads, and would
result in a further increase in railroad debt and fixed charges. Moreover, it would be difficult to refuse to other borrowers the particularly favorable terms that would have to be offered to the railroads.
December 3, 1958,
9:30 a.m.

Operator: Operator.

O: Right.

HMJr: Hello.
O: Mr. Sproul. Go ahead.
HMJr: Hello.
Allan Sproul: Good morning Mr. Secretary.
HMJr: Good morning. You have an audience here.
S: Yes.

HMJr: Including Mr. Ronald Ransom.
S: Yes.

HMJr: How do you feel this morning on what we did last - talked about last night?
S: I feel all right about it.

HMJr: Now, I tell you what I'd like you to do a minute, supposing you talk to Mr. Ransom, will you? I think he'd like to talk to you.

S: Yes.

Ronald Ransom: Allan, I just raised a question with the Secretary as to the three way plan as being somewhat different from what we were discussing in the Board room, when we were there a day or two ago.

S: Yes.

R: He says that you think the three-way plan is entirely satisfactory.

S: That's right.

R: And you share Wayne Taylor's view that he's just expressed that it's just right.

Regraded Unclassified
The way we figured out the prices again this morning, and it looks as if it would be just about right.

I see.

The two and three-quarters, the long two and three-quarters and the nine year too, on the basis of present markets would sell for about the same premiums, the trading arrangements could be about 101.8 to 101.30.

Yes.

But on both of them.

Yes.

And so that there would be no great advantage in going into either one from a speculative standpoint.

Yes.

With four hundred cash on the long bond, but conversion there of anything up to say four hundred million, you wouldn’t get an unwieldy amount of long bonds in the market and yet you’d achieve the objective of putting out a substantial amount for as long a period as possible of this good market.

Yes.

The two per cent nine-year bond on that basis would be around five hundred million, a little more, satisfying what all our checks indicate is a strong bank demand for that sort of obligation.

Yes.

And the five year note with three hundred cash, and fifty conversion would give you a decent size issue in the five year note and it looks as if the prices there would be around - the price there would be around 101.

Yes.

So that the whole thing seems to fit together pretty well.

Yes. The Secretary wants to know how many long bonds in all you think you would have on this.
Well, it looks to me as if you'd have about three-quarters of a billion to eight hundred million on it.

Uh-huh. Seven fifty to eight.

What's that?

From seven hundred and fifty to eight.

Yes.

(aside)(Does that answer your question. Is there anything else you want to say.) - The Secretary says he is going to put this right on the ticker. Now did you have anything else Allan?

Not a thing.

O.K. The Secretary says many thanks.

All right.

All right.
December 2, 1938.
10:55 a.m.

HMJr: Hello.
Operator: Mr. Sproul.
HMJr: Hello.
Allan Sproul: Hello Mr. Secretary.
HMJr: How did the market take the announcement please?
S: Very well, so far.
HMJr: Very well.
S: Yes.
HMJr: Uh-huh.
S: The - there's been a little moving around, but not a
great deal, there's a two way market in most obligations
and in the rights.
HMJr: I see.
S: The notes have gone off - went off a sixteenth about at
the opening and then some buying came in and they've
come back a little.
HMJr: Uh-huh.
S: The intermediate - the bonds in the intermediate areas
have held with a firm tone.
HMJr: Uh-huh.
S: The long bonds are off about a sixteenth, there's been
some selling of the long bonds and buying of rights.
HMJr: Well that's good isn't it? That's all right isn't it?
S: That's all right. Yes.
HMJr: I say that's all right.
S: Yes, I think it is. The rights are quoted now at 19.21
and that's up a little.
HMJr: You mean a hundred - one nineteen twenty one.
S: That's right.

HMJr: They're up a little bit.

S: A hundred and one nineteen to twenty one. That's up a little from last night's close.

HMJr: They're up a little bit.

S: Yes.

HMJr: Well, that's the best answer isn't it?

S: I think it's been taken very well so far.

HMJr: Now -

S: The one thing the market seems to be talking about and figuring on is just where these two fit in and whether it's going to be an eight and a half or a nine year and I think that's what we'll watch today to see how the market finally does that out and what sort of an answer it gives and then that will give us a cue as to what should be done.

HMJr: That's - well that's really the only thing we've left for the market to guess on, isn't it?

S: That's right.

HMJr: The reason that I gave as much information as I did was on account of that leak yesterday.

S: You didn't want - you mean favored individuals around.

HMJr: That's right. Now on going over it I found that we also told Garner yesterday that it was 322.

S: Garner, yes. That's right.

HMJr: He knew that in the morning when he left here.

S: Yes.

HMJr: So - there's two people it could have come from. It could have come from either Garner or Devine.

S: That's right.
HMJr: And I didn't want to leave the impression that it might only have come from Devine.
S: No. Well, I think we might keep that in mind on both of them next time.
HMJr: Yes. One or the other must have talked.
S: Yes.
HMJr: Well, I think it sounds all right for eleven o'clock.
S: It does.
HMJr: And you fellows will all have to sharpen your pencils and find out on the two.
S: That's right.
HMJr: And Ronald Ransom is perfectly happy.
S: Good.
HMJr: Yes.
S: That's good.
HMJr: Well, I'll talk to you again between four and five.
S: All right, and I'll have a full check up made after the close of the market.
HMJr: Thank you.
S: All right.
Hello.

Mr. Corcoran. Go ahead.

Hello.

Mr. Secretary, this is Tom Corcoran, sir.

No, really.

Harry Hopkins talked to me the other day about a talk you had with him about the present District Attorney in Chicago.

Yes.

The new one.

That's right.

That fellow is the Cardinal's personal counsel.

So I understand.

Is absolutely straight.

Grand.

And absolutely honest.

Fine.

And has got the nerve of a lion.

He'll need it.

Now, what I wanted to suggest was this. What you were talking about is such precious freight that you don't want to take any chances unless you're absolutely sure.

Right.

I'm going to meet the Cardinal on that cutter that's being sent out to meet him on Sunday.
C: I'll bring that fellow back here on Monday.

HUJr: Fine.

C: To see Bob Jackson and to see Ickes about some other things, and I wondered if without your telling him what you wanted, I could bring him in to you, and you could take a look at him and talk to him long enough to get your own feeling of him, and then you can talk with Bob and with -

Operator: Hello.

C: Hello, please. You could talk with Bob and with Harold Ickes, and get an idea of whether you want to take your chances.

HUJr: Well, it's very funny that our minds should be running in the same channel because this morning I told Herman Oliphant to get in touch with Bob Jackson.

C: Yes.

HUJr: And tell Campbell to come down, I wanted to get acquainted.

C: Yes.

HUJr: I wanted to have a heart to heart talk with him.

C: Well, he'll be in on Monday, sir.

HUJr: Fine.

C: All right, sir, and I'll call you when we get in?

HUJr: Will you?

C: Thank you.

HUJr: Now wait a minute, you'd better let me give you an appointment now, because -

C: All right, sir.

HUJr: I've got, I've got a very tight day on Monday.

C: What I thought was you might want to make the appointment pretty late so that you could get a check on him from the other two people that talked to him before you talked to him.
Well, it's a question of - I can see him around - you mean late?

C: I thought you might want to sir. I mean anytime, of course, that you want to see him, but I thought you might want to have a telephone contact with Bob Jackson and Iokes after they'd talked to him.

HMr: Oh!

C: Before you talked to him. So you'd have a pretty decent judgment of what other people thought of him before you spoke to him.

HMr: Well, I've got to do business with him anyway.

C: That's right.

HMr: And what I want to do is to paint the picture to him.

C: Yes.

HMr: And show him that inside of twelve months if he will take this opportunity which I'm putting on his doorstep.

C: Yes.

HMr: He - his name will be as well or better known than Tom Dewey.

C: That's right.

HMr: It's entirely up to him.

C: Yes, sir.

HMr: But if he will play along with us and see this opportunity his name will be known as well as Tom Dewey, inside of twelve months.

C: That's right, it's the greatest chance he's ever - a fellow has ever had.

HMr: If - and we need a Democratic Tom Dewey.

C: Yes.

HMr: Right?
C: And there he is. He's handsome and he was the head of the Youth Administration out there and an excellent trial lawyer.

HMJr: I'm very glad he's handsome.

C: Well I mean that helps.

HMJr: (laughter.)

C: That helps like the devil.

HMJr: All right.

C: In front of a jury, sir, -

HMJr: Listen, you're a little serious tonight.

C: (laughter)

HMJr: That's better, that's better. Listen I can't be serious all day long. You fellows come in here, I tell you what you'd better do, it'll be either three-thirty or four-thirty.

C: All right, sir. Either one.

HMJr: You call up Monday morning.

C: All right, sir.

HMJr: And has he got blue eyes?

C: He's got blue eyes.

HMJr: Wonderful.

C: (laughter)

HMJr: All right, that's better.

C: All right. Thank you, thank you.
Mr. Arakawa's visit.

December 2, 1938
3:30 p. m.

Present:
Mr. Gibbons
Mr. Taylor
Mr. Oliphant
Mr. Cairns
Dr. White

HM, Jr: I have just seen Mr. Arakawa and I made the poor fellow sweat by not answering any of his questions, and as he went out he bumped into Mr. Chen.

And Mr. Arakawa said if I will just tell him what I have on my mind, he will be glad to communicate it to the Minister of Finance, who is a very important person. So I said, "You write out some questions you want to know and I will be glad to consider it. I think it would be nice for you to meet Mr. Butterworth, who was our Financial Attaché in London, and Mr. Cochran." And then he goes out and trips over Mr. K. F. Chen!

(Note: The above group came in to discuss a memorandum addressed to the President on the possibility of imposing German countervailing duties. That meeting is transcribed separately.)
December 2, 1938
3:30 p.m.

Present:
Mr. Gibbons
Mr. Taylor
Mr. Oliphant
Mr. Cairns
Dr. White

HM, Jr.: (Reading memorandum to the President, attached hereto).

"In the course of the Treasury Department's administration of the customs laws, there has come to my attention, particularly in reports made available to the Treasury by the Departments of State and Commerce, evidence that American trade and enterprise in the areas of China now under Japanese control are being discriminated against . . . ."

If you don't mind, Mr. Cairns, if you wrote this, I would like to start it definitely. Instead of saying "In the course of the Treasury Department's administration" I would like to say about my responsibility under the law.

Mr. Oliphant: I worked that formula up there and the reason for putting it that way is as follows. What you are doing is calling the President's attention to facts, on the basis of which he may want to exercise his powers and authority under the law. This is the case of the policeman on the beat.

HM, Jr.: It's not up to me to act, like we did on the German situation?

Mr. Oliphant: No. It's different. You observe these facts.

HM, Jr.: Right. That does make a difference. Tell me -- oh, here are instances. Here is the appendix.

Mr. Oliphant: Referred to as an appendix in page
one. "Instances of the foregoing."

**HM, Jr:** And have these never been called to his attention?

**Mr. Oliphant:** No, not in this form. I suppose they showed him before the note was sent to Japan.

**HM, Jr:** Well, now, let me put myself mentally in the President's place. Aren't we putting him sort of on the spot when I send him this thing? I will put the question another way. In the case of Austria, or any other, have we ever followed the procedure to bring it to the President's attention this way?

**Mr. Cairns:** Not that I am aware of. The President is not required to act upon receipt of this memorandum by any duty imposed on him by Statute. He has to be satisfied it's in the public interest.

**Mr. Oliphant:** And you are not authorized to act even though you have the information. The only thing you are authorized to do is call it to the President's attention so he will have a chance to make up his mind whether he wants to act.

**HM, Jr:** You mean to say in the whole world there has never been any occasion like this before?

**Dr. White:** Many instances where there have been discriminations and Tariff has cooperated with the State Department and the State Department has had discussions with the respective Governments and it has never been necessary to invoke this and modification made consequent upon the discussion usually satisfied the State Department and action usually not taken -- has never been taken under 338.

**HM, Jr:** In no case?

**Dr. White:** No negotiations have taken place.

**Mr. Cairns:** Section 338 was not enacted until 1922 and when it was enacted even the situation as it exists in China was unknown to the legislators. In
drafting 338 they had no situation in mind. It's unique.

**HM Jr:** Where is it unique?

**Mr. Cairns:** Japanese operations in China.

**HM Jr:** 338 was not passed with that in mind because it did not exist at that time?

**Mr. Cairns:** It had not existed and you can see it was not in mind in 1922.

**Dr. White:** No precedent. There is a distinction -- if communication of that kind were made public, that would definitely put him on the spot; if it is merely between you and the President, if he does not want to take action, it dies.

**HM Jr:** I ought to hand it to him.

**Mr. Gibbons:** I think you ought to hand it to him.

**HM Jr:** "Do you want this, Mr. President?"

**Mr. Gibbons:** When will he be back?

**HM Jr:** Tuesday.

**Mr. Taylor:** Funny situation here, haven't you? Because you have got all the puppet States, etc., which supposedly have an entity of their own. No one has recognized them as existing, but they supposedly have. Actually they will be the people who would be discriminating against our commerce.

**Mr. Cairns:** The law covers any foreign country, county, subdivision, part. We had up to 22 discriminations in a country against another country. Japan in Japan against the United States. Now we have Japan in North China against the United States.

**Mr. Taylor:** Which, supposedly, has an entity of its own.
Mr. Gibbons: The State Department has not recognized the Japanese. Same thing in Ethiopia, the State Department does not recognize the....

Dr. White: That's true and that's the interpretation of the Legal Department.

HM, Jr.: I think the thing to do is show it to the President and show him there is such a thing as Section 338, so when he gets into the discussion he can or cannot use it if he wants it. But I would not want to send it down to Warm Springs cold, especially when we know this thing is coming to a head. I just think, hand it to him and say here it is; if you want it, it is available.

Mr. Cairns: It's a powerful weapon.

Dr. White: If they withdraw the most favored nation clause it would have no effect against Japan because all imports thereby affected is less than 1% of our imports from Japan.

HM, Jr.: Why should that not be included? Why this is more preferable than to impose the most favored nation. It seems to me the argument, when he sends it over, Well this is all too drastic. The thing to do is the most favored nation clause. That there is no reason for doing that because it affects only 1% of the goods.

Dr. White: We can put it in one paragraph and include it in the appendix. Very important also, would be a study, if he is interested, how we would be affected, how our economy would be affected, and we have a study partly prepared and can easily finish it in two or three days.

HM, Jr.: He only gets back on Tuesday. I have no plans, but the earliest I could see him would be Tuesday. Could you have it all by Tuesday?

Dr. White: Have that ready in case he asks for it?

HM, Jr.: Yes, the whole business. Say this: Mr. President, here are alternatives. If you are going to act, you can invoke the most favored nation clause which would only affect 1%; (2) you can use Section 338. This is what it
will do to Japan and this is what it will do to us. I think you have the whole thing complete.

And put a little cover on it and give him the whole thing.

Mr. Taylor: Haven't you got enough cases about Japan? It's discriminating.

Dr. White: Just one, possibly one good case. The State Department may have more. We didn't want to go there for additional information.

Mr. Taylor: You did send over some stuff sometime ago about the Japanese themselves.

Dr. White: It was their discrimination in Manchukuo and North China. One case in Japan. Strength of the case would have to rest on the interpretation that Japan is responsible for what's happening in North China, despite, or in view of the fact they are puppet Governments. They might technically claim that if Manchukuo does something, it's not their fault.

HM, Jr: Have we recognized Manchukuo?

Dr. White: No. Even our import statistics still call it Manchuria, but that does not weaken the case; it strengthens it.

HM, Jr: Anyway, I would get it in, wrapped with pink ribbon for the outside.

Dr. White: (presenting list of names) Those names of men are selected from the list given us by the Tariff Commission.

Mr. Oliphant: What's the idea?

Dr. White: To get a group of men down, leaders in their field, who will come to an opinion of economic criterion. In most cases we are not finding injury, and we want to protect the Secretary against any future claims that he is not acting legally.
Mr. Oliphant: There is a question, I think, of the wisdom of calling in a group of outsiders for your own protection.

HM, Jr: That's all right. I will walk part way home and you (Dr. White) can explain it to me. I will be ready in 10 or 15 minutes.
Note:

Appendix A, referred to in first paragraph of this memorandum, is attached to complete memorandum for the President dated 12/5/38.
MEMORANDUM FOR THE PRESIDENT

In the course of the Treasury Department's administration of the customs laws, there has come to my attention, particularly in reports made available to the Treasury by the Departments of State and Commerce, evidence that American trade and enterprise in the areas of China now under Japanese control are being discriminated against, directly and indirectly, by Japan through exchange control, the establishment of monopolies, the granting of special preferences and by the imposition of restrictions upon American trade and shipping, all of which operate to favor Japanese commerce and to hamper American commerce. Instances of the foregoing are set forth in the attached list marked Appendix A.

This evidence having come to my attention, I deem it my duty to lay it before you in order that you may consider its sufficiency end, if deemed sufficient, to determine whether to take that action you are authorized to take in the premises. Insomuch as those reports show that Japan discriminates in fact against the commerce of the United States in areas of China under Japanese control, there is occasion for you to determine whether, under the authority of section 338 of the Tariff Act of 1930 (U.S.C. title 19, sec. 1338), new or additional duties should be imposed upon Japanese products imported into the United States. The Treasury Department construes this section to mean, in its applicability to the present situation, that whenever the President finds that Japan discriminates in fact in China against the commerce of the United States, directly or indirectly, in such manner as to place the commerce of the United States at a disadvantage compared with the commerce of Japan, or of any other country foreign to China, he shall by proclamation declare new or additional duties upon articles wholly or in part the growth or product of Japan if he finds that the public interest will be served thereby.

Section 338 further provides that, if the foreign country maintains or increases its discrimination against the commerce of the United States after the issuance of the proclamation authorized by section 338, the President, if he deems it consistent with the interests of the United States, may issue a further proclamation directing that such products of the foreign country or such articles imported in its vessels as he shall deem consistent with the public interests shall be excluded from importation into the United States.
In addition, it seems clear that the acts and policies of Japan in evidence tend to defeat the expansion of foreign markets for products of the United States. Therefore, there is also occasion for you to determine whether, under the authority of section 350 of the Tariff Act of 1930, as amended, (U.S.C. title 19, sec. 1351), the application of the reduced rates of duties established pursuant to the trade agreements entered into under that Act should be made inapplicable to the products of Japan. You have exercised this authority on fourteen occasions in connection with discrimination by Germany and the higher duties so imposed are still in effect. It was exercised in the case of Australia on five occasions. The discrimination in this case has been discontinued.

Confirmatory of my impression of the existence, the wide extent, and the serious effects of the practices to which I have referred is the text of the note of October 6, 1938, in which the United States protested to Japan against the direct and indirect discrimination now being applied by Japan to American commerce in the areas of China under Japanese control. The intention of Japan to adhere to the policies and practices complained of by the United States in its note of October 6 is evidenced by the Japanese reply of November 18 to that note, as published in the press.

Attached is a list of:

(a) Leading items of import from Japan that would be affected if all goods imported from Japan now free of duty were made subject to 50 percent ad valorem duty under section 338 of the Tariff Act of 1930.

(b) Leading items now imported from Japan under existing tariff rates which would be subject to a duty of 50 percent ad valorem under section 338 of the Tariff Act of 1930 in addition to the duty now imposed by law.

(c) The percentage of Japanese imports that would be subject to higher rates if trade agreement rates were withdrawn from Japan under Section 350 of the Tariff Act.

(d) Items imported from Japan indispensable for the United States and difficult to obtain directly from sources other than Japan.
Hello.

Mrs. Wathey.

Oh, Mrs?

Mrs. Yes.

Hello

Hello.

Mrs. Wathey?

Yes.

This is Mr. Morgenthau.

Yes Mr. Morgenthau.

I'm so sorry to hear that my dog stepped on your dog.

Yes.

And if the dog is at all ill, or there's anything that I can do, I'd like to do it.

Well, that's awfully kind of you Mr. Morgenthau. So far the dog seems to be all right.

Yes.

I took her to the doctor immediately afterwards and had her examined.

Yes.

And other than the scratch and a little sprained ligament in her side that he says will be all right unless it abscesses.

Yes.

And so far there has been no signs of anything else.

Well if anything turns up I wish you'd let me know, or if there's anything that I can do.
W: Well that's quite nice Mr. Morgenthau and Mr. thought that you'd like to know about the dog.

HMJr: Yes.

W: So I appreciate you calling and I think the dog is going to be all right.

HMJr: Well I hope so.

W: Thank you so much.

HMJr: Goodbye.
December 2, 1938, 4:21 p.m.

Operator: Mr. Sproul.

Allan Sproul: Hello, Mr. Secretary. Sorry I wasn't - couldn't get on the phone before.

HMJr: I supposed you had somebody with you.

S: That's right.

HMJr: I wanted to go home.

S: Yes.

HMJr: Tell me, how does it look tonight?

S: Well the market acted very well today I think. There's no question about it. It took the announcement very well. It was strong in all parts of the market.

HMJr: Good.

S: And it looks good to me tonight.

HMJr: Good.

S: As I see it tonight we could go ahead on the basis we discussed last night.

HMJr: Nine years?

S: Yes.

HMJr: You still think so.

S: Yes. I could take another look at it in the morning, but that's the way I see it now.

HMJr: Good for you. I thought maybe somebody had been giving you the works today.

S: Well I've heard so much talk on the other side I must admit.

HMJr: Well you're a better man than I thought Gunga Din.
S: (laughter)

HMJr: It's all right.

S: There's been some pressure on the other side but I still see it that way.

HMJr: Good for you. I thought you might succumb.

S: Well, I haven't yet.

HMJr: All right. Well, we'll be talking in the morning.

S: Right.

HMJr: But certainly everything that happened today makes the thing - the proposal that much sweeter.

S: I think so. I think it was taken very well. The market acted very well today.

HMJr: Did you hear anything about the leak, about yesterday afternoon?

S: No, I stirred around here a little but I haven't been able to cover anything on it.

HMJr: All right. Well I'll be talking to you in the morning. As of tonight I haven't changed.

S: Well, neither have I.

HMJr: Fine.

S: All right.

HMJr: Thank you.

S: Goodbye.
Hello
Operator: Dr. Burgess. Go ahead.

Hello
Randolph Burgess: Hello Henry.

How are you?
B: I'm pretty well.

What did you hear about our proposed issue?
B: Well the market - the market says that it likes it.

Yes they do don't they.
B: That is all the prices went up.

You don't frighten as easy as all that do you?
B: Well I don't really, not really frightened about it, so they'll take - they'll take it all right.

Well the only really place for an argument right now is, as is between an eight and a half and a nine year.
B: Yes, that's the only question I should think.

Have you got any feelings?
B: Well, I'd lean toward the eight and a half, Henry.

Uh-huh.
B: Because I think it's a little bit safer.

Yes.
B: As far as the long bond is concerned.

How do you mean?
B: That is I think with the nine year you might get too heavy subscriptions for the long bond.

HMJr: Yes.

B: That is, a lot of people would figure it out, say, well, the long bond is worth a hundred and two.

HMJr: Yes.

B: And the nine year is only worth a hundred and one and a quarter.

HMJr: Uh-huh.

B: So I'll take the long bond and then sell it again.

HMJr: Uh-huh.

B: Just thinking what we'd do for example.

HMJr: And what would you do?

B: With a nine year I'm inclined to think we might take the long bond and try to make three quarters of a point.

HMJr: Uh-huh.

B: Or a point.

HMJr: Uh-huh.

B: So there's a little danger of getting too many of the long bonds.

HMJr: I see.

B: I think they like the short one pretty well. There'd be a lot of fellows who'll take it even if it's nine years in preference, but I think you'd be just a little bit safer on an eight and a half, and then you'd avoid the possible danger of too large a subscription for the long bond.

HMJr: Uh-huh.

B: Which might be a little bit subject to some sort of a jam if something happens. I don't think it's a great matter, but I would think the eight and a half a little bit safer.
HMJr: Are you going to be in your office tomorrow?
B: What's that?
HMJr: Are you going to be in your office tomorrow?
B: I wasn't going to be but I will be if you'd like me to.
HMJr: No. No.
B: I'll be at home, I'll be in touch with things.
HMJr: You will be.
B: I'll be in my apartment, yes.
HMJr: Well, I may give you a ring.
B: All right. Fine. I'll be in touch.
HMJr: But the market certainly took the thing awfully well, didn't it?
B: Oh very well indeed.
HMJr: Yes. I think it's all right.
B: So it's going to be a success either way you do it.
HMJr: Oh yes, it's just a question -
B: That's right.
HMJr: - of, I mean eight and a half or nine, which way we throw it.
B: Yes. That's right.
HMJr: Righto.
B: All right, sir.
HMJr: Thank you.
From: Bankers Trust Company of N.Y.
London Office
Date: December 2, 1938
Friday

#369.

No pronounced tendency spot dollars forwards strongly wanted. Spot forward Paris wanted. Estimated Banque de France obtained about 8,000,000 pounds. Spot forward belgas strongly offered on rumors possible Cabinet crisis and suggestion Belgium might enter sterling bloc. De Castellane reports sanctions taken by Government against strikers causing agitation by Left Parties to create unrest. Gold beginning flow to banks exchange being sold by all classes including individuals and commercial firms. Bourse stocks and bonds very strong call money 1/2-0-0. Talk further lowering bank rate.
Secretary of State,
Washington,

1385, December 2, 6 p.m.

FOR TREASURY.

After yesterday when the British fund operated both ways but lost dollars on balance the rate falling from 4.69 to 4.68, today some support was given to sterling until gold fixing when the rate was 4.67-1/8. Since the fixing the British fund has apparently not operated, the dollar being offered around 4.67-1/2 to 3/4 most of the afternoon and latterly going to 4.68-5/8 on New York dollar sales.

Gold turnover was heavy today 546 bars being sold as compared with 267 yesterday. The price was increased by four and a half pence to 148 shillings 11 pence giving a premium of one-half pence. 208 bars were married the remainder being supplied by the British fund. About 340 were taken for arbitrage.

The French authorities bought probably over pounds 6,000,000 of sterling today moving the price from 178.18 by stages.
stages to 177.80. The rate reacted, however, slightly after the Bank of France's operations closed down in the late afternoon to 177.93.

The treasury bill rate at today's tender was about 18 shillings 1 penny per cent as compared with 17 shillings 7.8 pence per cent last week.
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: December 2, 1938, 4 p.m.

No.: 2036

On the Paris market today there was again a very strong demand for francs because of the covering of short positions in francs and substantial French capital repatriation. This morning at the Bank of France it was learned that before 11 a.m. almost 3,000,000 pounds had been acquired by the fund. It was also learned that about 3 billion francs in gold had been retrieved since the beginning of the present favorable movement. The Bank could not foresee that there would be any immediate slackening of this movement.

The rate for sterling is now 177.80, having been 178.20. The fund is the principal supplier of francs. One month sterling is par and the rate for three months is 50 centimes. In today's transactions the belga showed some weakness. Good tone for security market. Fair progress in rentes and other French securities.

December 8 is the date for the reassembling of Parliament. It is believed that by that date the preparation of the budget for 1939 will be sufficiently advanced to permit discussion. However, it is not believed that Parliament will give final approval before the end of 1938. It will be necessary, under such circumstances,
to get parliamentary approval of one or two "provisional monthly credits" for the Government.

In financial circles the opinion appears to prevail that when the Government appears before Parliament it will secure a comfortable majority; nevertheless, the press is urging the administration as well as private employers to avoid harshness in applying sanctions to strikers as it is feared that otherwise there may result troublesome labor unrest.

Today a decree was published reducing the interest rate for 75 to 105 day ordinary Treasury bonds to 3-1/4%; it was formerly 3-3/8%. The new rate is 1/4% under the official discount rate.

END MESSAGE.

WILSON.

EA: LWW
Dear Sir:

The Secretary of the Treasury is reexamining his responsibilities under the Antidumping Act of 1921. To aid him in the formulation of policy with respect to the administration of that act, he is calling to Washington a small group of experts and businessmen whom he feels would be helpful in advising him.

The Secretary has asked me to invite you to participate in a conference to be held at the Treasury on ___ at ___ o'clock.

A copy of the Antidumping Act of 1921 is enclosed for your information. You will note that Section 201(a) of that Act requires that when the Secretary of the Treasury "finds that an industry in the United States is being or is likely to be injured or is prevented from being established" by reason of the importation of merchandise of a kind which is being sold or likely to be sold at less than its "fair value" (as defined in the Act), then he shall issue a public finding of dumping. This conference is being called to consider only those problems concerned with the determination of injury to the domestic industry.

The Secretary desires to keep highly confidential both the fact of the conference and the nature of the subject matter.
Prof. Melvin G. de Chazeau – University of Virginia
Prof. Alvin L. Hansen – Harvard University
Prof. Frank A. Southard – Cornell University
Prof. Jacob Viner – University of Chicago

Snowell E. Avery, President, Montgomery Ward Company, Chicago, Ill.
President, U. S. Gypsum Co. Member of Board, U. S. Steel Corp.

Col. Harry L. Bailey, Wellington, Sears Co., 65 Worth Street, New York, N.Y.
Is in charge of operations of this firm which reputedly processes
about 5 percent of domestic cotton crop.
An outstanding figure in the industry; is generally fair-minded but
inclined to a protectionist view.
Is very active in the Cotton Textile Institute and in activities bear-
ing on relationship of the cotton textile industry to the public.
Company a leading exporter of cotton textiles.

Carl F. Danner, President, American Hide and Leather Co., Boston, Mass.
An outstanding personality in the tanning industry and highly
respected in the business world.
Has been president of his company since 1925.
Mechanical engineer by training, was in the steel business until
called in to reorganize Continental Leather Co.
Was president of the Tanners' Council of America in 1936-37.
The industry with which Mr. Danner is connected is both an important
importer and exporter of hides and leather.
The Commission has found Mr. Danner well able to understand both
sides of the import question.

L. J. Donald, Managing Director, National Electrical Manufacturers Associa-
tion, 155 E. 44th St., New York, N. Y.
Progressive trade association executive. Leader in his field.
Enjoys the highest reputation among manufacturers and trade association
executives.
Wide knowledge in problems of domestic production, import and export.
Canadian by birth; naturalized American citizen.
Ph.D. in economics, University of Chicago, 1914.

Curt G. Pfeiffer, President, National Council of American Importers, New York, N.Y.
Although the designation given here is that of a trade association,
Mr. Pfeiffer is more properly identified as a businessman.
Was for many years vice president of George Borgfeldt and Co., New
York City, one of the largest houses in the United States importing
general lines of merchandise.
He had studied practically all phases of the import trade and is also
familiar with conditions in domestic manufacture.
Is very well informed on tariff problems and matters of customs
administration.
C. F. Walker, Economist, Macy Department Store, New York, N.Y.  
Well versed in merchandising problems. Familiar with import problems  
and also conditions in domestic industry.  
Able; fair.

Walter S. Tower, American Iron and Steel Institute, 350 - 5th Ave., New York, N.Y.  
Secretary, American Iron and Steel Institute since 1933. Former  
professor of economics at the University of Chicago.  
Trade expert, U. S. Shipping Board, 1918-19.  
Served with Peace Commission, 1919.  
Commercial Attache, American Embassy in London, 1921-24  
Advisor, Consolidated Steel Corp., 1919-21  
Executive, Bethlehem Steel Corp., 1924-33  
Republican  
Commission believes Mr. Tower one of the best informed persons  
on general conditions in the steel industry in the United States  
and foreign countries; his opinions are fair and well balanced.

Mr. Oscar Ryder - Tariff Commission

Mr. Leslie Wheeler - Department of Agriculture

Hon. Francis B. Sayre, Department of State

Mr. Alexander V. Dye, Department of Commerce.
GROUP MEETING

December 2, 1938,
9:45 A.M.

Present: Mr. Oliphant
Mr. Gaston
Mr. Taylor
Mr. Haas
Mr. Duffield
Mr. Hanes
Mr. Gibbons
Mr. Lochhead
Mr. White
Mr. McReynolds
Mrs. Klotz

H.M.Jr: Herman, I may - I think I am responsible for this. Hanes isn’t here, is he?

Duffield: He’s coming in.

(Mr. Hanes comes in.)

H.M.Jr: I’ll read it out loud.

"Treasury to offer 2 3/4 per cent bonds and five year notes for cash in December financing program.

"The Treasury announced today that it will offer 2 3/4 per cent long term bonds.

"The Treasury announced today that it will offer 2 3/4 per cent long term bonds for 400,000,000 dollars of the new cash to be borrowed in the December 15 financing and five year notes for $300,000,000 of the cash required.

"In connection with the conversion of the March 15 note maturities of 942,000,000 dollars the Treasury is making a three-way offer including the 2 3/4 per cent long term bonds, the five year notes and in addition a bond of a shorter maturity bearing two per cent.

"The final announcement of the financing program will cover the term of the bonds and the interest coupon on the notes."
"The coupon on the 2 3/4 per cent bonds offered for cash is 1/4 of a per cent greater than the interest given on the 10-12 year bonds sold in the September financing."

That is O.K., Herbert; a good job. Here is the U.P.

Gaston: Not one and a quarter; it's a quarter per cent.

H.M.Jr: "The Treasury announced that the cash offering ..." That is U.P. "... of its December financing program will consist of $400,000,000 two-and-three-quarters...."

They've just got a "bee" in it here. Dow Jones is all right. That 942, that is O.K. Just a nice little job.

What I wanted to say was this, Hermán. Is Hanes here?

Hanes: Yes sir.

H.M.Jr: I asked, some time ago, - this is one of these triple confidential things - to get me a lawyer, who could try the Moe Annenberg case, and that was when Mr. Igoe was still United States District Attorney. It was on that assumption I asked for someone. Since then they have designated Mr. Campbell. I suppose Campbell doesn't take office until - when?

Oliphant: I think he has taken office.

H.M.Jr: All right. Therefore, the reason I had to get a special attorney, I think, has disappeared. Well, this fellow isn't - who is - who's going to appoint the other fellow?

Oliphant: Well, they have appointed him Special Assistant Attorney General. The other fellow is a nice man, a capable young fellow, but this requires a technical, criminal ..... 

H.M.Jr: I don't want, if you don't mind, - this is the way I'd like to do it, and I'd like to talk to Bob Jackson.
Oliphant: That requires a technical lawyer.

H.M.Jr: I'd like to tell Robert Jackson to invite Campbell to come down; I'd like to meet him next week; I'd like to sit down with him and tell him the whole thing; I'd like to paint the picture of it, and explain to him that in a year he can be an international figure in law enforcement; and let him pick his own assistants. I want to tell him that Henry Morgenthau, Jr. is counting on Mr. Campbell to do this, and I don't want to put anybody in his hands. I want to appeal to him, this being his first case, he can be as good or better than Dewey in one year. I want to put it right up to him and not tell him who his assistants should be. "No one told Dewey who he should pick as his assistants; you don't want me to tell you who to pick for your assistants."

I say, let Bob Jackson bring Campbell down here next week. I'd like to talk to him personally.

The whole picture is changed since Igoe is out. I want to appeal to him, "This is your responsibility; you go to it," and not have us pick special fellows, and I don't like the fellows you picked, anyway. I don't want some fellow who is a partner - even though he is not a partner, he was on the payroll....

Mrs. Klotz: You talking about Anderson?

H.M.Jr: I want to appeal to Campbell in that way, and I want to get to know Campbell and work with Campbell and show him the horizon.

Gibbons: You know anything about Campbell's political background? I don't. The only thing I know, he's head of the National Catholic Youth movement.

H.M.Jr: Not only that, but he is the President of .... (organization not heard); he's a grand young fellow.

Gibbons: The only thing I had in mind was the fact that anybody might get in on his former practice and bring pressure to bear on him.
H.M. Jr: They tell me he's as clean as a whistle. Of course, time only can tell.

This having a special attorney was my idea. I want to withdraw it; I want to meet Campbell and talk to him.

Gibbons: I think you can get a good idea, based on his antecedents. He's all right. He is not a trial lawyer.

H.M. Jr: In other words, I want to withdraw my suggestion. Does it make sense?

Oliphant: Yes, it does. It is subject to this qualification. You have to bear in mind, in order to win a case you have to have a technician. It's like picking a man for a formal appendix operation; a groceryman just can't do it. Regardless of how good Campbell's heart is.......

H.M. Jr: All true, but the Superintendent of the hospital doesn't want a surgeon forced on him.

Oliphant: Yes.

H.M. Jr: I want to talk to the Superintendent of the hospital, and when he comes down, in a very nice way, we can say, "We'd appreciate it if you let us go over with you who you are going to have, because it means so much, but we are looking to you, Mr. Campbell."

Oliphant: I think it's a good idea and I'll talk to Bob as to when he can be down.

H.M. Jr: (To Mrs. Klotz:) And will you tell Irey I've changed my position on this idea.

Everybody happy?

And Hanes, this comes under you.

Hanes: Yes, fine.

Oliphant: The more reports we get about Campbell, the better they are.
H.M.Jr: (To Mr. Taylor:) Remember the fellow at your house?

Taylor: Absolutely, and he mentioned to me - for instance, I think I told you, or Dan - no, Herman it was, that Bill Douglas knows him extremely well and thinks he is just tops, and that's good enough for me.

H.M.Jr: Right. Well, I think - well, I am going to put myself in the position - I wouldn't want to start out and have him feel the Treasury is suspicious of him, which we are not, but if we have him come on down and take him into the Treasury family.....

Oliphant: We ought to visit with him a while, and maybe have lunch with him.

H.M.Jr: Check, Herman?

Oliphant: Sure; I'll have lunch with him and arrange a dinner for him with some of the lawyers.

H.M.Jr: If he will be here next Thursday I'd like to have him for lunch - next Thursday.

(To Mr. Gaston:) Merger accepted?

Gaston: I didn't telephone him; I wrote to him. I expect to hear from him today. I also sent him that other material.

H.M.Jr: Mr. Bell?

Bell: I have nothing.

H.M.Jr: Aren't you a little nervous, with all the people down at Warm Springs?

Bell: No, I have kind of gotten used to that.

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

Oliphant: (Nods "Nothing.")

H.M.Jr: I hear there were empty seats yesterday afternoon. Were you there?
Oliphant: Not in the afternoon.

H.M.Jr: Just as the papers said?

Oliphant: It was just like a university lecture, elementary.

H.M.Jr: Wasn't what they expected. Being strictly in the room, I preferred Professor Lubin's lecture to Professor Eccles' lecture. He did a much better job than Professor Eccles.

Oliphant: Yes, I think so. My only objection was, he crowded into one day what should have been spread over three.

Bell: Both got their figures on the air.

H.M.Jr: That is the way they make nitrates. (Laughter)

Taylor: That's what was expected, I think.

H.M.Jr: Wonderful, Dan. That takes - we ought to have a prize for the week.

(Bell pins paper clip on Mr. Bell's lapel.)

Bell: Well, I certainly ought to get one of those springs.

Gaston: That is clipping; that isn't allowed on the 1938 rolls.

Klotz: You have been decorated.

Bell: All right.

Oliphant: All right.

H.M.Jr: (Points to Mr. Gaston.)

Gaston: I have a letter from the Treasury Correspondents Association on the subject of Mr. Wilcox.

H.M.Jr: All right.

Gaston: And they went over the situation with Mr. Wilcox, with the result Mr. Wilcox made certain changes and he says - and he has a letter from his
publisher saying this is not his private venture; that it is a publication of the American Banker. They have changed the title of the thing to show it is by The American Banker, and not by U. B. Wilcox and associates. He has agreed to give me copies, and anybody else in the Treasury who wants copies; he has agreed to post copies on the Treasury bulletin board in the press room.

I had a talk with Mr. Wilcox and he agreed he would give me a chance to talk with him about anything he proposed to include, which was questionable, and he would let me see it regularly, and he would be very careful in what he said.

The Treasury Correspondents Association, in view of these changes, recommends that - says that they believe Mr. Wilcox is still entitled to a status as a reporter and representative of the American Banker in the Treasury Department and that this letter, in the new form which he is getting out, is not any violation of ethics or rules.

And I think that in view of Wilcox' different attitude and the changes made in the publication, it would be better to let him go along with it and see how it works out, rather than to throw him out and make a real enemy.

H.M.Jr: What will the new letter be called?
Gaston: It is called the same as it has been called. The November 27 is the first sample of the new style issued from the Washington A. B. Bureau and is still called "Weekly Review of Washington Banking Trends and Backgrounds", and he tells me it is their purpose, eventually, to print this thing. It is not going to be secret any more; it is going to be available to anyone who wants to see it. It is practically a weekly publication.

H.M.Jr: And you recommend we let him stay on?
Gaston: I recommend we let him stay on. I cautioned him on this paragraph (indicating) - said it was a dangerous thing. It is the last thrust at Giannini; that's what made Giannini mad.
Well, I accept your recommendation. Herbert, read this, will you, and see what it is all about. Excuse me just a minute, will you, and let me read these.

(Pause)

O. K.

(Uh huh. I'll talk to you about that afterward.

Can I get copies of that, Herbert?

Yes; yes.

Is U. P. all right?

U. P. is all right. The last sentence is all right; it says, 'The term of the two per cent bond in the conversion offering, a Treasury official said, obviously will be shorter than the one offered for cash.'

What is that?

The term of the two per cent bond in the Treasury will be shorter. That is, a two per cent bond is bound to be shorter than the two and three-quarters.

(Aside, to Mrs. Klotz.)

Yes, uh huh.

O. K. Anything else, Herbert?

That is all.

George?

I have nothing this morning.

(Nods to Mr. Duffield.)

Nothing.
Taylor: It seems that the nineteenth is a Monday and the twentieth is a Tuesday.

H.M.Jr: That is right.

Taylor: So I said the twentieth.

H.M.Jr: Tuesday; that is all right.

Taylor: Right.

H.M.Jr: Tuesday.

Did you ever take up with Agriculture the question of this mang-... how do you pronounce it?

Taylor: Manganese.

H.M.Jr: Manganese. I am always thinking of magnesium. .... the question of swapping. Have you opened that up at all?

Taylor: I didn't push it; I just mentioned it in this rather long conversation I had.

H.M.Jr: Can you give it a little push? Whether they are talking to them or not?

Taylor: Yeah.

H.M.Jr: Huh?

Taylor: I think you're going to be disappointed on it.

H.M.Jr: Well, I'd just like to find out whether they are or not, you see. Huh?

Taylor: Yes.

H.M.Jr: Will you ask them?

Taylor: Uh huh?

H.M.Jr: Let me know?

Taylor: (Nods "Yes.")

H.M.Jr: (Nods to Mr. Hanes.)
(Nods "Nothing.")

H.M.Jr: (Nods to Mr. Gibbons.)

Gibbons: Monday the C. I. O. crowd is coming in – another conference on this training by the Coast Guard for the Maritime. I am having Waesche and Gardner Jackson, preliminary, for lunch tomorrow.


Gibbons: I don’t know where we will get, but Waesche hasn’t been able to find anybody agreeable to both sides; one crowd says he is no good and the other crowd says he’s fine.

H.M.Jr: Just do the best we can.

Gibbons: It is a very delicate thing; we don’t want to move too fast on it.

White: Some time ago you spoke of having a group of men down to consider our responsibility under the Anti-Dumping Act. I have drawn up a group of names and a letter, and I’d like to check with Gaston and McReynolds; then, if you’d like to see the list that emerges after that, it will be ready to go forward.

H.M.Jr: Let me see it now. No, not today. But before we do that, when are you and Oliphant going to be ready on the Japanese dumping?

Oliphant: Today, or any time you want.

White: Today.

Oliphant: You said Monday.

H.M.Jr: Are you ready today?

Oliphant: Yes.

H.M.Jr: How would three thirty be?

Oliphant: Fine.

H.M.Jr: Three thirty.

White: (Nods assent.)
Gibbons: I got a letter yesterday from Max Wold, which I sent Oliphant, through Johnson, to be acknowledged, asking how soon we could have anything on this situation that is going down to the President — you know.

Oliphant: I didn't see it; if you'd send it to me it would be a little better, Steve.

Gibbons: I sent it to Cairns' office.

H.M. Jr: We'll do Japanese dumping at three thirty. Wayne, you'd better be here.

Gibbons: Three thirty, today.

H.M. Jr: And (Mr. White) bring up that thing at that time. Will you, Harry?

White: At three thirty.

H.M. Jr: Yes. I mean, that is my last appointment today.

White: Archie may have told you about the continued inflow of capital for the weekend of November 23; it was thirty-eight million dollars. It keeps rising.

Lockhead: I have a report on it.

White: If you are interested — increasing continued.

H.M. Jr: All right. Mr. Aldridge told us yesterday that the Chase was averaging sixty or sixty-five new accounts a week.

White: Foreign?

H.M. Jr: Of refugees, that average from a hundred to a hundred fifty thousand dollars a piece. Sixty or sixty-five accounts a week — new accounts, averaging from a hundred to a hundred fifty thousand dollars a piece — refugees.

Gibbons: (Simultaneously) How do they get out? (Laughter)

White: Sounds like that thing you gave Dan the clip for, doesn't it?
Lochhead: Refugee money?

H.M.Jr: Refugees' money.

Gibbons: How many a week?

H.M.Jr: Sixty to sixty-five new accounts a week - sixty to sixty-five.

Lochhead: I think I'll have Knoke check with that, because if that is German refugees' money they probably want to carry it on refugee ledger; it won't show up in "Foreign Capital."

H.M.Jr: He told me his foreign deposits were....

Bell: Two fifty-six.

H.M.Jr: Two fifty-six. You were here; was my figure - what did he say?

Bell: That he had sixty or sixty-five; I thought it was a month instead of weekly; I may be wrong.

H.M.Jr: Get this: He was here; two hundred fifty-six million was the aggregate of the foreign deposits at the present time in the Chase National Bank. And did he say sixty or sixty-five?

Bell: That is right; I thought he said a month; you said a week. Definitely German refugees.

Lochhead: My experience has been, in banking, that a fellow over there in Germany who puts his money over here, he's beating the laws and regulations of Germany; he takes care it is not listed as a German account. He comes in and gives a New York address, sets it up as a New York address so it can't be reported back. That is why I say I'd like to check on that.

White: We'd also like to find out, if possible, how that transaction is consummated.

H.M.Jr: Well, anyway, we are passing it along for what it is worth. Without saying which bank - I don't like to tell one bank from another - I asked Burgess, but Burgess didn't seem to know.
For you Bank of America fellows – check me on this --
Aldridge told me that the Chase National Bank has
a very large loan to Transamerica, and the col­
lateral for this loan is National City Bank stock.
But he said a very large loan – a frozen loan.
It is a frozen loan – been on for years. And I
pass that along to you fellows.

Aldridge was swell on everything except the Govern­
ment bond market.

Bell: And policies.

H.M.Jr: We are just one step behind France and he is not
sure we are not abreast of them.

White: He and Viner ought to get together.

Taylor: Maybe they have.

Oliphant: Got any more clips?

H.M.Jr: (Nods to Mr. Lochhead.)

Lochhead: No change in the rates; sterling is still at
about 4.67 3/8. France is still making their
rates strong, but can't prove yet whether they
are getting exchange in today, but the rate is
strong; and Merle Cochran arrived this morning.

H.M.Jr: Hurray! I'll see him.

Lochhead: I did tell him we found what we wanted in France,
and that was Merle Cochran.

H.M.Jr: I'd like Oliphant, and Gaston to stay, please.
December 15th Financing

December 2, 1939

Present:

Mr. Hanes
Mr. Taylor
Mr. Bell
Mr. Haas
Mr. Seltzer
Mr. Harris
Mr. Hadley
Mrs. Klotz
Mr. Ronald Ransom
Mr. Gaston

Mr. Haas: Start with $400,000,000 cash. That's fixed. And the rest of the cash is in the $300,000,000 note. Then you have $942,000,000 to divide. We divide the $942,000,000 this way: $100,000,000 only in the 9-year.

HM Jr: What? How much?

Mr. Haas: Only $100,000,000. And $842,000,000 in the long bond and $200,000,000 into the note.

Mr. Bell: I can't see that.

Mr. Murphy: That's chiefly because you have such a big spread in the premiums.

Mr. Haas: These other two are just alike.

HM Jr: I am listening, but they don't agree with you at all on the 9-year.

Mr. Harris: I don't see how under any circumstance you can expect a 2% 9-year to sell at less on the basis we have. It will probably go to a point, but I can't see a 2% 9-year going. If you give a 1½% 8-year, the bulk will go into
HM Jr: How many points do you give to a fixed maturity? Now these people figure 15 or 16 points extra to the fixed maturity.

Mr. Haag: That's about right.

Mr. Seltzer: But on the curve -- we took a lower curve for those. What is the basis, George?

Mr. Haag: 190.

Mr. Bell: I figure 182.

Mr. Haag: We are allowing 19 points below the curve for maturity.

HM Jr: They figure 16. Do it once more, George. You figure on the conversion we are giving people the right to convert into three things.

Mr. Haag: That's right.

HM Jr: And you figure $100,000,000 will go into the note.

Mr. Haag: No. $200,000,000 into the note.

Mr. Bell: No, $100,000,000 into the bond, Mr. Secretary.

HM Jr: How much to the note?

Mr. Haag: $200,000,000. $100,000,000 into the 9-year bond and the balance in the long, $842,000,000.

HM Jr: Tell you how the Discount people figured. That is, before they talked to Burgess. They said: the note, $50,000,000. They said: into the long, $200,000,000 and the balance into the $852,000,000 9-year.

Mr. Haag: I would agree on the 9½, but not on the 9.

HM Jr: I have Ronald Ransom coming in at 9:30. (Mr. Gaston came in at this point.) This is what I can say at 9:30, because there was a leak on the street yesterday. I can say at 9:30 that for cash, $400,000,000,
2-3/4% bond. You don't have to give the years. This is what I am proposing to announce at 9:30.

(Mr. Ransom came in at this point.)

Ronald, the reason I asked you to come, this picture shifted up to 11 o'clock last night and this is the way the picture looks now. We are proposing for cash to offer $400,000,000. This is what I propose to have Gaston say to the newspaper men at 9:30 or a quarter of ten: $400,000,000 for cash, a 2-3/4% long bond. I will leave the yeareage open. Could make it a 60-65, if everything looks all right by tomorrow. That's what we have in mind. $300,000,000 cash, a 5-year note. Then on the conversions, the fellows can convert into a 2-3/4% long bond, into a 5-year note and either an 8% or 9-year 2% bond. Now the reason for that is, in my announcement, I will just say a 2% bond.

Mr. Hanes: "new".

HM, Jr: New. The reason we are doing that is to please you fellows (Federal Reserve) and the rest, to keep the number of long bonds down, but not to exceed three-quarters of a billion, because that was the sentiment of your people. I want your support and help. There is complete disagreement between Burgess, the Discount boys, my people, your people, as to the effect of whether it's an 8% or 9. They are off $500,000,000 in their estimate. One crowd, the Discount boys, said on a 9-year bond the conversions would be $692,000,000, into the 2%. These boys have been here since 8 o'clock and say that into the 2% I will only get $100,000,000. So we all have to re-sharp our pencils, because the whole purpose of the 2% is to keep faith with you fellows (Federal Reserve) and to try to keep it down. So on this announcement, if I just say a 2% bond we have until tomorrow to argue and fight over whether it's an 8% or 9. But I am trying -- I want to keep you fellows happy so that we don't get over three-quarters of a billion. If it $800,000,000 or $850,000,000, you are not going to get excited, but if it's $1,000,000,000 you are not going to like it. Check?

Mr. Ransom: Yes.

HM, Jr: As to the 9:30 announcement, leaving it open whether it's 8% or 9, as I have explained?
Mr. Ransom: I think it's all right.

HM, Jr: It's different from anything we have been talking about.

Mr. Ransom: Yes, entirely different.

HM, Jr: Entirely different. And the reason why I am doing three things, it's $1,700,000,000. It's a lot of money.

Herbert, phone your office and tell them to have the men in your office at 9:35. Then come back.

But with such a difference as between $2 or 9, these fellows have got all today; you fellows (Federal Reserve) have time; the Fed in New York have time. They can play with that from now until 11 o'clock tomorrow.

Mr. Ransom: I don't see why there is that wide difference of opinion.

HM, Jr: Neither do I.

Mr. Seltzer: The reason for the discrepancy was the 1 1/2 point premium against the 7/8ths point. Both the note and short bond you gave 7/8ths of a point; on the long bond, 1 1/2. And we figured that was too great for people to take the short bond.

Mr. Taylor: The 8 1/2 one figured that?

Mr. Seltzer: On the 8 1/2, o. k.

HM, Jr: Well, I am not going to sweat between now and 9:35, because on our announcement I am all right.

Mr. Seltzer: You don't commit yourself on any of this.

HM, Jr: I am not committing myself as to the length of the new bond and so you fellows have got to get together. We can't be $600,000,000 off, I mean, as between this office, the Federal Reserve office here and the one in New York. They have got to get together.

Mr. Ransom: I should think they could.
Mr. Seltzer: I wonder if you would consider one other point: making your note a little sweeter by giving overlapping interest on the refunding. You want some pretty good note subscriptions on the refundings.

HM, Jr.: You mean pay double interest?

Mr. Seltzer: Amount to about 11/32nds. The coupon is only 1-1/8ths.

Mr. Bell: 1¼.

HM, Jr.: I don't think so, but that also would not in any way interfere with my announcement. That's a refinement that could go in.

The main thing I am trying to get is this: the Federal Reserve would rather not see more than three-quarters of a billion of this long bond out. I have got to rely on this man (Ransom) to help me. Therefore, I want to keep it as near three-quarters of a billion as the human brain can forecast. Right, Ronald?

Mr. Ransom: Yea.

HM, Jr.: Knowing the picture, see what this does to the market, we can come back tomorrow morning and get our pencils out between 10 and 11 and take another look at it, but knowing what the picture is we can all do some figuring. Somebody is wrong. Somebody is off. Because here's the Discount fellows figure on the 9-year bond the bulk will go into the 2½. You fellows figure on the 9-year note, the bulk will go into the long bond. Somebody is wrong.

Mr. Haas: We think the 9-year makes it too narrow in the premium.

Mr. Harrington: I think the market, after this announcement, ought to help us get the answer.

HM, Jr.: Herbert, see if I can word it properly.

Mr. Gaston: Do you want me to say it?

HM, Jr.: Please.

Mr. Gaston: You want to announce that the offering
for cash will be divided between a long term bond and a five year note. $400,000,000 cash......

HM Jr: Herbert, will you wait a minute, please. I want to give the coupon.

Mr. Gaston: Yes. I was going to add that. You want to give them the coupon rate on the long bond, which is 2/34s. You don't want to give them the coupon on the 5-year note. There will be three ways. They will have the opportunity to take this long bond, also the opportunity to take this note and also the opportunity to take a short term bond, $2 or $3.

HM Jr: No. No.

Mr. Gaston: A 2% bond and you don't want to say anything about the term?

Mr. Bell: "A 2% new short bond."

HM Jr: It's a new 2% bond.

Mr. Hanes: "Short" bond.


Mr. Gaston: Of course, a bond can be 5 years.


Mr. Bell: We said new short bond.

Mr. Gaston: What I said -- a shorter term. You have already talked about long term.

HM Jr: I want to say 2%.

Mr. Bell: I think that's fine when things are normal. But I would like to take you back to September when we were afraid to let loose everything on Saturday and have it lie in the mails Monday and announce Tuesday, so we deferred our announcement. Here you are in effect announcing Friday morning and you have Saturday and Sunday and you announce it officially Monday and you are tying yourself to your rates. I am afraid of giving the market everything we can in normal conditions, but
I am afraid something might happen over the week-end and you might want to change it.

**HM, Jr.:** Suppose I say 2% and we go an 8 year.

**Mr. Bell:** Yes, but you say a long 2-3/4s.

**HM, Jr.:** Right.

**Mr. Taylor:** That's all right.

**Mr. Bell:** Supposing you wanted to come down to 2½.

**HM, Jr.:** I don't.

**Mr. Bell:** Of course you don't. I am thinking of the worst.

**HM, Jr.:** The reason I am doing this is unfortunately there was a leak and I want to give the market the most accurate information I can.

**Mr. Bell:** I realize that.

**HM, Jr.:** On account of the leak. That's why. It was all over the Street it was to be 300, 200, 200. I am willing, with the way it is now, to say this, Herbert: that we are going to offer $400,000,000 long 2-3/4s bond for cash; we are going to offer $500,000,000 5-year note for cash ....

**Mr. Gaeton:** Not naming the coupon.

**HM, Jr.:** ... not naming the coupon. And on conversion they will have the right to convert into the long 2-3/4 bond, the right to convert into the five-year note and the right to convert into a new 2½ short bond. Do you have to put in "short"?

**Mr. Gaeton:** It's a shorter bond.

**HM, Jr.:** I am very much annoyed over this leak and, therefore, I want to get this thing out and I am not worried about this week-end, because if the market goes to pot today or tomorrow, I can make it a 7 year or make it 55-60, anything within that range, at 2-3/4s.
Mr. Gaston: There is no 2½ issue. Leave out the word "new."

HM, Jr: Leave it out. Is that all right with you?

Mr. Ransom: Leave out the word "new"? That's all right.

HM, Jr: Do you think I am taking an undue risk by naming the coupon?

Mr. Ransom: I don't think so. I don't see why that you are taking a needless risk.

HM, Jr: You see, the reason Dan is asking -- last night we all agreed we shouldn't, but on sleeping on this over night I want to give the market all the information we had last night because when the Discount fellows go up they don't know anything we don't know and the other way round, everybody knows what they know. The Discount boys were there until 10 o'clock. Haven't got an advantage over anybody. I want to kill any advantage for them.

Mr. Ransom: I want to ask one question. When we met, the other morning, before the Committee came over here there was discussion as to whether there would be a three-way choice or not and I don't recall anything that was said at our meeting particularly on that subject. My impression was that the weight of opinion favored only two issues as a choice rather than three, so I don't know what took place over here in your conference with the Committee.

HM, Jr: I am going to get Allan Aproul on the phone. Last night he was at the house and you can hear him. At 9:30 the next voice will be Allan Aproul!

Mr. Bell: I raise one question. On the note you are going to give the 5 year note with no rate; in the other cases, you are going to give them out with no rate?

HM, Jr: I thought that through purposely, because I am a little doubtful about 1-1/8. I want that much flexibility. I can put it up to 1-1/4. Unfortunately
my brain has been working all night. When this is
on the ticker, the fellows in the street will know
just as much as the Discount boys.

Mr. Ball: That's right. That's very good.

HM.Jr: And I am not mentioning the rate on the
note because it is just a possibility I might make it
1-1/4.

Mr. Haas: That's right.

HM.Jr: You fellows got any doubts?

Mr. Hanes: All right with me.

Mr. Taylor: I think it's just right.

(At this point, HM.Jr and Mr. Ransom spoke to
Sproul and copy of their conversation is attached.

HM.Jr: Anybody got any last doubts?

Mr. Ransom: I have none, Sir.

HM.Jr: As I say, my fellows don't agree and they
have to figure, and will you have your people figure?

Mr. Ransom: Yes, I will.

HM.Jr: But you are perfectly satisfied?

Mr. Ransom: Yes.

HM.Jr: If he (Sproul) is right, $750,000,000 or
$800,000,000, it will get you just about what you want.
Last call as far as the announcement goes.

Mr. Gaston: We are giving the coupon on both bonds,
but not the term. We are giving the term on the note,
but not the coupon.

HM.Jr: That's right.

Mr. Ransom: Do you want a conference tomorrow?

HM.Jr: I think if you will come over here tomorrow
about 10:30.

Mr. Ransom: I will.
December 2, 1938, 9:30 a.m.

Operator: Operator.


O: Right.

HMJr: Hello.

O: Mr. Sproul. Go ahead.

HMJr: Hello.

Allan Sproul: Good morning Mr. Secretary.

HMJr: Good morning. You have an audience here.

S: Yes.

HMJr: Including Mr. Ronald Ransom.

S: Yes.

HMJr: How do you feel this morning on what we did last night?

S: I feel all right about it.

HMJr: Now, I tell you what I'd like you to do a minute, supposing you talk to Mr. Ransom, will you? I think he'd like to talk to you.

S: Yes.

Ronald Ransom: Allan, I just raised a question with the Secretary as to the three-way plan as being somewhat different from what we were discussing in the Board room, when we were there a day or two ago.

S: Yes.

R: He says that you think the three-way plan is entirely satisfactory.

S: That's right.

R: And you share Wayne Taylor's view that he's just expressed that it's just right.
S: The way we figured out the prices again this morning, and it looks as if it would be just about right.

R: I see.

S: The two and three-quarters, the long two and three-quarters and the nine year too, on the basis of present markets would sell for about the same premiums, the trading arrangements could be about 101.8 to 101.20.

R: Yes.

S: But on both of them.

R: Yes.

S: And so that there would be no great advantage in going into either one from a speculative standpoint.

R: Yes.

S: With four hundred cash on the long bond, but conversion there of anything up to say four hundred million, you wouldn't get an unwieldy amount of long bonds in the market and yet you'd achieve the objective of putting out a substantial amount for as long a period as possible of this good market.

R: Yes.

S: The two per cent nine-year bond on that basis would be around five hundred million, a little more, satisfying what all our checks indicate is a strong bank demand for that sort of obligation.

R: Yes.

S: And the five year note with three hundred cash, and perhaps fifty conversion would give you a decent size issue in the five year note and it looks as if the prices there would be around - the price there would be around 101.

R: Yes.

S: So that the whole thing seems to fit together pretty well.

R: Yes. The Secretary wants to know how many long bonds in all you think you would have on this.
S: Well, it looks to me as if you'd have about three-quarters of a billion to eight hundred million on it.

R: Uh-huh. Seven fifty to eight.

S: What's that?

R: From seven hundred and fifty to eight.

S: Yes.

R: (aside) (Does that answer your question. Is there anything else you want to say.) - The Secretary says he is going to put this right on the ticker. Now did you have anything else Allan?

S: Not a thing.

R: O.K. The Secretary says many thanks.

S: All right.

R: All right.
MEMO. TO MR. MC REYNOLDS:

Subject: Meeting of Temporary National Economic Committee

The first public meeting of the Temporary National Economic Committee was held at 10:30 A.M. in the caucus room, Senate Office Building, December 1, 1938. The meeting adjourned about 4:00 P.M.

The entire day was taken up in the presentation by Dr. Lubin of the economic situation as presented in the accompanying minutes.

The Committee adjourned to meet at 10:30 A.M. today and adjourned at 5:15 P.M. to meet again tomorrow, Saturday, December 3.

The entire day was devoted to a testimony of Dr. Willard L. Thorpe, Advisor on Economic studies in the Department of Commerce as shown in the accompanying minutes of the proceedings.

Director of Procurement
Verbatim Record
of the Proceedings of the
Temporary National Economic Committee

Vol. 1, No. 1—Section 1. WASHINGTON, D. C. Dec. 1, 1938

THURSDAY, DECEMBER 1, 1938.

THE TEMPORARY NATIONAL ECONOMIC COMMITTEE MET AT 10:30
A. M. PURSUANT TO CALL ON THURSDAY, DEC. 1, 1938, IN THE OLD
CAUCUS ROOM, SENATE OFFICE BUILDING, WASHINGTON, D. C.,
SENATOR JOSEPH C. O'MAHONEY, PRESIDING. COMMITTEE MEMB-
ERS PRESENT:

SENATOR JOSEPH C. O'MAHONEY, OF WYOMING, CHAIRMAN.
REPRESENTATIVE HATTON W. SUMNERS, VICE-CHAIRMAN.

MR. THURMAN W. ARNOLD, ASSISTANT ATTORNEY GENERAL, RE-
PRESENTING THE DEPARTMENT OF JUSTICE; ALTERNATE: MR.
WENDELL BERGE, SPECIAL ASSISTANT TO THE ATTORNEY
GENERAL.

SENATOR WILLIAM B. BORAH, OF IDAHO.
MR. WILLIAM O. DOUGLAS, CHAIRMAN, SEC., REPRESENTING THE
SECURITIES & EXCHANGE COMMISSION; ALTERNATE: JEROME N.
FRANK, COMMISSIONER, SEC.

REPRESENTATIVE EDWARD C. EICHNER, OF IOWA.
MR. GARLAND S. FERGUSON, CHAIRMAN, FTC, REPRESENTING THE
FEDERAL TRADE COMMISSION; ALTERNATE: MR. EWIN L. DAVIS,
COMMISSIONER, FTC.

SENATOR WILLIAM H. KING, OF UTAH.
MR. ISADOR LUBIN, COMMISSIONER OF LABOR STATISTICS, REPRE-
SENTING THE DEPARTMENT OF LABOR; ALTERNATE: A. FORD
FIRNICKS.

MR. HERMAN OLPHANT, GENERAL COUNSEL, TREASURY DEPART-
MENT, REPRESENTING THE TREASURY DEPARTMENT; ALTERN-
ATE: Rear Admiral CHRISTIAN J. PEOPLES, DIRECTOR OF PRO-
CUREMENT DIVISION.

MR. RICHARD C. PATTERSON, JR., ASSISTANT SECRETARY OF COM-
MERCE, REPRESENTING THE DEPARTMENT OF COMMERCE.

REPRESENTATIVE B. CARROLL REECE, OF TENNESSEE.

MR. LEON HENDERSON, EXECUTIVE SECRETARY.

ALSO PRESENT

SENATOR JOHN G. TOWNSEND, JR., OF DELAWARE.

DIRECTORS OF STUDIES: DR. WILLARD THORP—COMMERCE; Mr.
HUGH E. COX—JUSTICE; MR. WILLIS J. BALLINGER—F.T.C.; MR.
THOMAS C. BLAISDELL—SEC.; MR. J. J. O'CONNELL—TREASURY.

STATEMENT BY
SENATOR O'MAHONEY.
Chairman of the Committee

I think the mat-

THE RESOLUTION.

I repeat now. The first pub-

nouring the resolution itself.

TWO METHODS
To accomplish this purpose, the Presi-

dant, in his message, recommended: First, an increased appropriation to enable the
Department of Justice to enforce more
effectively existing anti-trust laws; and,
second, a comprehensive study of concen-
tration in industry, of industrial price pol-
pies and of existing Government policies,
and the effect of both of these policies
upon trade and commerce.

With the first of these recommendations
—the better enforcement of existing anti-
trust laws—this Committee has nothing
to do. Law enforcement is the function
of the Department of Justice, not of this
Committee, though we are authorized to
make recommendations with respect to
anti-trust policy and procedure. The
function of the Committee is merely to
study facts and to make report thereon
with its findings and recommendations.

The Committee is comprised of twelve
members, six from the legislative and six
from the executive branch of the Govern-
ment. The Executive Departments and
Committees represented on the Commit-
tee are, by the resolution, directed to ap-
ppear before the Committee, or its designe-
rs, and present evidence or reports on mat-
ters within their jurisdiction under exist-
ing law.

This is the phase of the work which
is now beginning.

INDEX OF CONTENTS

(Published by Bureau of National Affairs, Inc., 2301 M St., N.W., Washington, D. C.)
guarantee the Committee believe it will be useful in developing the facts which are later to be analyzed when the Committee undertakes its work.

Whether this study will be fruitful of benefit to society or altogether futile depends largely upon two factors:

1. The manner in which it is conducted, and
2. The manner in which it is received by the public.

COMMITTEE OBJECTIVES

Let me say, therefore, in the language of a resolution unanimously adopted by the Committee at its last session:

"That it is the unanimous sense of this Committee that its function and purpose is to collect and analyze through the medium of reports and public hearings all available facts pertaining to the items specified in Public Resolution 113 (71st Congress) in an objective, unbiased, and dispassionate manner, and that it is the purpose of the Committee to pursue its work some four months from now."

The members of the Committee are steadily sensible of the responsibility that rests upon them to utilize the broad powers which have been invested solely for the public good. No personal partisan or factional program is controlling here. The processes of the thought, and not for the purpose of political expression or development of economic facts which in the very nature of things must be as comprehended before any constructive recommendations may be outlined.

WIDE LATITUDE

The Committee has approached its task with an open mind and with the intention of affording the widest possible latitude for the presentation of evidence or suggestions. The hearings begin today with a preparatory presentation to be made by Mr. Alton L. Lubin, of the Bureau of Labor Statistics. He will be followed by Dr. Willard Thorndike, associated with the Department of Commerce, and Mr. Leon Henderson, Executive Secretary of the National Federation of the State Labor Unions. The next formal presentation of evidence, I hope, will be begun by the Department of Justice.

When that presentation is undertaken, the Committee will be setting under rules of procedure which were adopted at the last meeting of the Committee last month in those portions of the hearing which are carried on under Section 301 of the resolution. It seems appropriate that these rules of procedure should be filed at this point in the record.

The rules referred to were received in evidence and marked "Exhibit No. 3 and are included in the appendix to this volume.

The present statement which is about to be made by Mr. Lubin was submitted because in the judgment of the Committee it was desirable that there should be fully apparent to the facts of our economic system as they have appeared to the various government bureaus, and that everybody connected with the Government and business understand, the Department of Commerce and the Department of Labor are at present under the guidance of the Government and for many years been collecting official information with respect to our economic structure.

The questions which it is now to be undertaken to answer with the testimony of Dr. Lubin and the other gentlemen that exactly has been the effect of our industrial and economic system upon the community life of the nation?"

I now introduce Dr. Lubin as the first witness of this public hearing.

TESTIMONY OF DR. ISADOR LUBIN, COMMISSIONER OF LABOR STATISTICS, DEPARTMENT OF LABOR, WASHINGTON, D. C.

Dr. LUBIN, Mr. Chairman. Members of the Committee: Any attempt to measure the performance of our economy must be in terms of meeting the requirements of our citizens. To maintain that standard in our national life, we must increase the output of the goods and services produced at least proportionally with the increasing population. In order to portray the growth of our population and attempt to measure the amount of goods and services that have been available to the population over the years for which official and unofficial data are available.

POPULATION GROWTH

I want to first turn to this chart, which deals with the population of the United States, and I want to point out a few significant facts.

(The chart referred to was received in evidence and marked "Exhibit No. 4" and is printed on Page 3.)

If you go back to 1850, the middle of the last century, you will note that the increase in population from that time to 1930, the last year for which official estimates of the population of the Census are available, was from 31,000,000 people at that time to 160,000,000 in 1930, and such estimates as are available place the population in 1940, two years hence, at approximately 122,000,000 people.

The significant fact that should be brought out is that between 1850 and 1880 our population doubled. Between 1880 and 1910, thirty years later, population increased by 80 per cent.

FUTURE TRENDS

Between 1910 and estimated 1940 a similar period of thirty years. It is estimated our population will have increased 45 per cent and the estimated increase in population from 1940 to 1960 will be less than ten per cent. Other data, the rate of increase of our population has been steadily going downward, so that in 1960 it is estimated that there will be but 21 per cent more people in the United States than there will be in 1940.

A chart depicting growth in national income received in evidence and marked "Exhibit No. 5" and is printed on Page 4.

Assuming that growth of population with the trends and services that are available for that population, which is measured in terms of our national income, you will note that our national income increased from $2,500,000,000 in the year 1860 to $41,000,000,000, or a 4,400 per cent increase, for the year 1910. But if you agree on another thing again is that between 1890 and 1919 the average annual national income was $23,000,000,000. Between 1920 and 1929, however, the national income averaged $69,000,000,000 per year, or an increase in that period of ten years of approximately 58 per cent.

INCOME DEFINED

The CHAIRMAN: Dr. Lubin, are you for the benefit of those who may have read what is testified here, give us a definition of the national income? It is sometimes that phrase is confused with the income of the Government.

Dr. LUBIN: The national income is the total amount of goods, namely, raw materials, finished products, automobiles, food, houses, and things of that sort, the total sum of all the goods plus the total sum of all the services which means laundries, janitorial services, utilities, and every service sold—the total of all the goods and services produced in the United States in any one year, and in which Dr. Lubin says this it portrays what has happened to the wages of all of those things that were made or all the things.

Senator KINZ (interposing). Includes agriculture, of course.

Dr. LUBIN: Goods, of course. Senator KING. Agricultural services and production.

Dr. LUBIN: Anything that is produced.

The CHAIRMAN. That covers all making production, all agricultural products all industrial production and all the utilities and trade and commerce.

Dr. LUBIN: Yes.

As I was saying, between 1920 in the average annual income was $23,000,000,000 or rather than it was in the decade preceding.

DECLINING TRENDS

If you go from 1930 to 1938, that national income averaged $50,000,000,000. In the same years, there was a decrease in the national income, the private products available to the American people, from an average of $69,000,000,000 per year between 20 and 29, to $50,000,000,000 per year between 1920 and 1938.

Of course, we want to be sure that in 1937 our national income was estimated by the Department of Commerce, and that estimate the estimate is about $50,000,000,000 roughly, so that despite the fact that the national income was relatively high compared to the past but when you take into consideration the drop in national income during the early years of the decade you find that it fell from $69,000,000,000 to $50,000,000,000.

The CHAIRMAN: How reliable are those estimates?

Dr. LUBIN: They are the most reliable estimates that are available. There is no other Department of Government and statistics that are accepted by economists, statisticians and the business people of the country as the most reliable figures that are available.

BASIS OF ESTIMATES

The CHAIRMAN: What is the basis of the various estimates?
America's population is increasing much more slowly at present than in the past. From 1870 to 1900 population doubled, increasing at an average rate of two and one-third percent a year. From 1900 to 1920, just before the new immigration laws became effective, the average annual rate of increase was one and two-thirds percent; from 1920 to 1935, slightly over one percent. From 1940 to 1960 it is estimated that the rate of gain will be only one-half of one percent per year.
UNITED STATES NATIONAL INCOME

TOTAL

BILLIONS OF DOLLARS

BILLIONS OF DOLLARS

1,000

700

400

100

0

PER CAPITA

Dollars

1,000

700

400

100

0

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BILLIONS OF DOLLARS

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400

100

0

UNITED STATES NATIONAL INCOME

TOTAL

BILLIONS OF DOLLARS

BILLIONS OF DOLLARS

1,000

700

400

100

0

PER CAPITA

Dollars
NATIONAL INCOME IN CONSTANT PRICES
1926=100

SOURCE: U.S. DEPARTMENT OF COMMERCE, NATIONAL BUREAU OF ECONOMIC RESEARCH, W.J. KING, AND BUREAU OF LABOR STATISTICS

NATIONAL INCOME
ADJUSTMENT FOR PRICE CHANGES

Prepared by the staffs of the Central Statistical Board and the National Resources Committee
Source—National Bureau of Economic Research
PER CAPITA NATIONAL INCOME, 1934-5

<table>
<thead>
<tr>
<th>Country</th>
<th>Income</th>
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<tbody>
<tr>
<td>United States</td>
<td>432</td>
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<tr>
<td>England</td>
<td>401</td>
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<tr>
<td>Germany</td>
<td>345</td>
</tr>
<tr>
<td>Sweden</td>
<td>212</td>
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<tr>
<td>France</td>
<td>267</td>
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</tbody>
</table>

The reduced level of industrial activity since 1929 is equal to the loss of more than one full year of employment for the entire working population engaged in non-agricultural occupations. The loss, alone, a full year's work for 43,000,000 men, is conservative. It does not allow for the addition since 1929 of about 3 million to the potential working population nor for the nearly 2 million persons unemployed in 1929.
Salaries and Wages Lost in Depression

In Non-Agricultural Occupations

The pay loss to farmers, wage-earners, and salaried workers was nearly $12,000,000,000. In 1929, the average annual earnings were $1900, which was more than double the average annual earnings in 1932. This equals two and one-third years' earnings at 1929 rates and 1929 levels. The figure is a conservative figure. It does not allow for the addition since 1929 of about 5 million to the potential working population.

The Chairman: Have you made a study comparing the loss of each group with the other, as, for example, the loss incurred by farmers as compared with the loss incurred by wage earners, as compared with the loss incurred by salaried workers?

Dr. Lurie: We haven't a single chart that could easily add them together. We have them all.

The Chairman: But I could easily be misled from those charts.

Dr. Lurie: Yes, if you add all those who have labored to a common level, the losses in the money paid to laborers, the losses in the money lost in the money paid to those who in any way maintain the level of 1929, it amounts to $12,000,000,000. This is in a conservative level, and incidently in this level I have eliminated the effect of price changes. In other words, I am dealing now in terms of physical units of goods, substituting now changes in the national income as from price changes.

The loss chart referred to referred to National Income Lost in Depression, was referred to in Exhibit No. 2 and printed on page 43.

Senator BORAH: Dr. Lurie, have you the farm income or agricultural income for 1929?

Dr. Lurie: Yes, right here, sir. Senator BORAH, and then in SWP.

The farmers were pretty nearly as bad off in 1932 as they were in 1929.

Change in the dollar

Senhor KINCAID: That last answer you made I didn't quite understand. Did you take into account in determining those three groups the fact that we have changed our dollar?

Dr. Lurie: Our dollar.

Dr. Lurie: I did, here, I did. That is a stable dollar, the 1929 dollar, in terms of the purchasing power of the 1929 dollar.

Senator BORAH: Now you are referring to the chart entitled National Income Lost in Depression?

Dr. Lurie: Yes.

D. D. Kincaid: Taking into account the fact that the gold dollar had a certain quantity of gold, 1914, has been reduced to that quantity of gold. The dollar has been reduced to 1929.

Dr. Lurie: Taking into account the fact, Senator, but the fact is as I said, that for every dollar bought in 1929, you have to use more dollars to buy the same amount of goods in 1929.

Representative BURMERE: Dr. Lurie, you used the figures for 1929 as a basis, why those prices and income for 1929 as a basis, you are not basing your figures on the current level of prices and income?

Dr. Lurie: Well, of course, I wouldn't do that. I don't wish to discuss the amount of normal; they were higher relatively than they had been.

Representative BURMERE: Would you consider a clarification of that?

Dr. Lurie: I don't believe anybody is going very well.

I did not say that I was basing my figures on the current level of prices and income, but it has been shown clearly that the relative index is, in fact, in 79.

Senator BURMERE: In other words, if the amount of income in terms of physical goods was not been fact there would have been available as a proportion to every woman and child, and if we wished to give it in a thousand dollars more than was available fact there would have been available as a proportion to every woman and child, and if we wished to give it in a thousand dollars more than was available fact there would have been available as a proportion to every woman and child.

Farm vs. Factory

Representative BURMERE: Senator, it is interesting for you to ask this question. I am sure that you have a general public which would indicate the relationship between the breaking down of the purchasing power of one group and the general effect of the depression.

Dr. Lurie: We do have lots of relations between the breaking down of the purchasing power and gross farm incomes. That we do have, I haven't,
DIVIDENDS LOST IN DEPRESSION

GROSS FARM INCOME LOST IN DEPRESSION
THE TEMPORARY NATIONAL ECONOMIC COMMITTEE

Dec. 1, 1938

NATIONAL INCOME LOST IN DEPRESSION

(Exhibit No. 13)

MONTHLY INCOME PAYMENTS

(Exhibit No. 14)

Regraded Unclassified
THE TEMPORARY NATIONAL ECONOMIC COMMITTEE

Dec. 1, 1928

NATIONAL INCOME BY TYPE OF INDUSTRY

From the Civil War to 1929 output of factories and mines increased much more rapidly than the population, with the exception of a few scattered years. Since 1879, despite an increasing population, production has been smaller. From 1870 to 1900 total output increased five times; per capita output doubled. In 1900 to 1929 output increased three-fold, and nearly doubled on a per capita basis. In the nine years, 1920-38, industrial production has averaged nearly 15% smaller than in the preceding nine years.

Regraded Unclassified
THE TEMPORARY NATIONAL ECONOMIC COMMITTEE

Dec. 1, 1938

The continuing depression in the output of our factories and mines with this time here where we are the output of our farms.

You will note that starting out with the output of approximately a hundred million barrels a year, the capacity kept increasing steadily up through 1912. Then the capacity was 225,000,000 barrels a year. On the other hand, the production reached its peak in 1920 went down then, and has not come back as fast as industry as a whole. This chart shows the production kept around the level of 1920. Similarly, the chart is exactly the same in principle.

United States Agricultural Production

1923-25 = 100

UNITED STATES AGRICULTURAL PRODUCTION

1923-25 = 100

VALUE OF ALL CONSTRUCTION

BILLION OF DOLLARS PER ANNUM

BILLION OF DOLLARS PER ANNUM

UNITED STATES AGRICULTURAL PRODUCTION

1923-25 = 100

UNITED STATES AGRICULTURAL PRODUCTION

1923-25 = 100

UNITED STATES AGRICULTURAL PRODUCTION

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UNITED STATES AGRICULTURAL PRODUCTION

1923-25 = 100

UNITED STATES AGRICULTURAL PRODUCTION

1923-25 = 100
RESIDENTIAL UNITS ESTIMATED FOR NEW NON-FARM CONSTRUCTION

FIG. 1: PRODUCTION AND CAPACITY OF PORTLAND CEMENT MILLS - 1910-1937

Prepared by the staffs of the Central Statistical Board and the National Resources Committee.


Regraded Unclassified
ANNUAL PRODUCTION OF AUTOMOBILES

ANNUAL PRODUCTION OF BITUMINOUS COAL

ANNUAL PRODUCTION OF LUMBER
Dr. Luskin. Isn't it a fact that there are more than 20,000,000 people employed in the government pay rolls at this time, and that the difference between the government pay rolls and the pay rolls of the public utility companies is very much greater than it was in 1929 or any of the preceding periods?

Dr. Luskin. That is true, sir, but those figures do not include W. P. A. or C. C. A. They include regular government employment in the general government, in the United States government, and in the state and local governments. When you include the W. P. A. and C. C. A., it would average comparison of those services, and the thing I like (to point out is that despite the fact that our index of physical production was 10 per cent lower in 1929, the steady increase during the past three years, the total number of people employed in the manufacturing industries barely rose at all. (Referring to Exhibit No. 16.) As a matter of fact, with only the exception of a short period in 1928, the manufacturing industries of the country were employing just about the same number of persons as at the beginning of the decade, although for a short period they reached a point where they were employing 10 per cent more workers than they did earlier in the decade, while the index of physical production went up very much higher.

The CHAIRMAN. In other words, there was a materially increasing number of persons necessary to produce a constant output.

Dr. Luskin. Exactly.

Dr. Luskin. Greater use of manpower, greater use of management, greater use of machinery, and greater use of efficiency in the machine, but recognizing your flow of goods and services and things of that sort.

Senator Brown. General distribution. The CHAIRMAN. In other words, what you are demonstrating is that both the capacity to produce and efficiency of production have been increased.

Dr. Luskin. Exactly.

Dr. Luskin. Now, the question arises as to how to account for the employment situation during this period of time when production was going up, employment in the manufacturing industries remaining more or less steady and at the same time we are adding to our labor supply—say I mean people who retire and discontinue of working age—10 per cent increase after you deduct people who retire, and so forth, of anything like 600,000 people every year.

The CHAIRMAN. In part, perhaps.

Dr. Luskin. Proportionately about the
ANNUAL PRODUCTION OF CIGARETTES

(Exhibit No. 30)

Dr. LUSEN: How much per year? Dr. LEVIE. Approximately 150,000, and then we've been absorbing any manufacturing industries. Dr. CHAIRMAN. That is a net increase. Dr. LEVIE. Net increase. The answer as they went into the garage, beauty parlors, laundries, dyers and cleaners establishments. We developed a whole series of services which added to our standards of living during that period and formed the labor supply for it throughly this manner that was entering the labor market each year. Senator KING. Isn't it concluded that there are about eighteen new industries developed during the past five years which have absorbed several hundred million employees. Dr. LUSEN. Well, I would say over the last decade and a half. 1938.

THE TEMPORARY NATIONAL ECONOMIC COMMITTEE

Dec. 1, 1938

INDEX OF FREIGHT-CAR LOADINGS

(Exhibit No. 32)

Dr. CHAIRMAN. Has the expansion of the service group of activities absorbed this increased available labor population?

Dr. LUSEN. II did at a pretty good rate up until 1930. Since 1930 it has not been doing that at all.

If I may point for a moment to what happened in that employment situation after 1929, so we may follow it through. It reached a peak of 110 in 1929. It fell to 81 at the bottom of the depression in 1933. In other words, by 1938, the number of people who had jobs in factories in 1938, only 61 had been at the bottom of the depression. Those workers were absorbed, and last year we were employing in manufacturing industries of the country had got back to the point where they were doing as well in terms of employment as they had been doing in 1929. On the other hand, very few new industries had gone up to a point where they were doing above the average period of 25, 24, 23, 21, 19. which meant that our factories were paying out the same dollar bill that they were paying out in this period of the early part of the decade. In other words, as far as the wage earners were concerned, they were getting, in actual pay rolls, each month, approximately 60 per cent less than they had been getting in the 1929-33 period.

Dr. LUSEN. Yes, of course, was due in part to wage shaming, but far the mass part to irregular employment. The men who had a job daily or two days, where formerly be worked six.

Senator KING. Are you speaking of the aggregate number of employees, rather than the compensation per unit?

Dr. LUSEN. Yes. As I said, we did get back in employment. We also get back
Representative BURR: I understand what you and 1 are thinking. But if your pay roll has been cut, it means, as you say, a reduction in the income you get. I think there is a more important reason why the large wage reductions have occurred. There has been a cut in the number of employees, and this has been brought about by the recession in the economy. The recession has affected all industries, and the textile industry is no exception. The pay rolls have been cut because of the decline in the demand for goods produced by the textile industry. The people who are employed now get less money because of the reduced demand for their products.

Representative BURR: But doesn't that mean that the employees who are still employed are getting more for their work since the pay roll has been cut? Dr. LUBIN: Yes, but not necessarily. The pay roll has been cut because of the reduction in the number of employees, not because the work is easier or the employees are more efficient. The pay roll is a measure of the total amount of money paid to all the employees, regardless of how many there are or how much they individually earn.

Representative BURR: So the cut in the pay roll is not necessarily related to the efficiency of the employees? Dr. LUBIN: That is true. The pay roll is a measure of the total amount of money paid to all the employees, regardless of how much they individually earn.

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Mr. Arnold. Have prices dropped on cigarettes?

Dr. LuBin. Technically, yes. In other words, your two-to-four-quarter price range takes effect during the early part of the depression and stayed in effect in a good many parts of the country.

Senior KInG. I'm afraid I can't get away from the fact that the depression has done a great deal to influence the trend of the cigarette industry.

Dr. LuBin. I'm not sure that that's true. We've seen a great deal of evidence to the contrary.

Senior KInG. That's true, but it seems to me that the depression has emphasized the importance of the cigarette industry, and the depression has shown that the cigarette industry is a very stable industry, and that cigarette manufacturers are adapting themselves very well to the depression.

Dr. LuBin. I think that's true. The depression has been a very good thing for the cigarette industry, and it has shown that the cigarette industry can adapt itself to the depression and continue to thrive.

Senior KInG. And I think that the depression has shown that the cigarette industry is a very stable industry, and that cigarette manufacturers are adapting themselves very well to the depression.

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DR. LUBIN: Of course, this is just to give you one example of wage earners dealing with a wage strike. The same is true of unions and employers—the quality of the work, the costs, the amount of overtime. You know, there is only one solution.

The less time I want to spend out is true in the low point of the depression. The people in the factories were averaging almost 40 hours of work a week today, and they are averaging 37 hours a week. They averaged 41 hours last spring when the industry was building at a very fast rate, which resulted in the decrease in hours to 27 per cent last spring, and the industry is now up to 41 per cent. The situation is that there will be a sharp drop in the number of hours worked in production, but wages and the number of hours worked.

DR. LUBIN: Of course, this is just an example of wage earner dealing with a wage strike. The same is true of unions and employers—the quality of the work, the costs, the amount of overtime. You know, there is only one solution.

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Senator KINO: But what do the unions do in the peak of hours worked, the increase in the wage rate from 40 cents an hour to 45 cents an hour? They have to come to us with 100 per cent of the workers. We have to figure out the weekly wages of our wage-earners families. Whereas they were earning $28 a week at the low point of the depression, they are now earning $35.70 a week during the appreciation and rise to 55 approximately at the peak of last year, and are back to $33.27 now.

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ALL MANUFACTURING INDUSTRIES

AVERAGE WEEKLY EARNINGS

INDEX

1909 20 60 80 120 140 160

1914

1923

1929

1932

1936

1937

1909

1914

1923

1929

1932

1936

1937

BITUMINOUS-COAL MINING

ANTHRACITE MINING

STEAM RAILROADS

U.S. BUREAU OF LABOR STATISTICS
The Temporary National Economic Committee

THE TEMPORARY NATIONAL ECONOMIC COMMITTEE  Dec. 1, 1938

Mr. LURBIN. The actual amount of information that I have afforded you is much more than you have ever had before. But if you take this and the other information that was given you in the report of the Temporary National Economic Committee, you have everything that you need to know about the condition of things. The Temporary National Economic Committee has been doing everything that it could do to get the facts and to present them in a clear and concise manner. The committee is not only interested in the immediate problems of the country, but it is also interested in the future. The committee has been working hard to see that the facts are presented in a clear and concise manner.

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ity the same relative weight in the consideration which make up the real weight as it bears to the cost of living, that is, say 50 per cent of what goes for rent and food. If rent and food given a 50 per cent relative importance in your real wage.

Dr. LUBIN. Relatively so. Rent gets a weight, food gets a weight, recreation gets a weight, church activities or educational activities get a weight. We rate everything in terms of its importance.

Mr. HENDERSON. Was it your opinion this morning as expressed that we have never produced too much cotton to satisfy our real needs?

Dr. LUBIN. The question was raised as to whether or not we have too much agricultural production or too little industrial production. I said that so far as I was concerned I couldn't conceive of too much of anything being produced as far as there was a portion of the population that wasn't getting enough of those things.

Representative REECE. This is beside the question of the question which you are now discussing but it is your intention to include in your discussion any figure to indicate the percentage of employment that is so occasioned by the large corporations compared to the smaller corporations? Take, for instance, the number of people employed by corporations who have a net income of less than a hundred thousand dollars. Is that question going to be covered?

Dr. LUBIN. Yes, it is not going to be covered in the introductory hearings, but that is coming into the picture definitely.

Now, if you add up all these factors together and ask what does it all mean in terms of loss of national income in terms of less of employment and so forth, I suppose that the question that you ultimately ask yourself is what is happening to the people of this country and what effect has it had upon the number of unemployed people.

The accompanying "Estimated Number and Age of the Unemployed" was received in evidence and marked "Exhibit No. 48" and is printed on Page 49.

This chart we have attempted to show the number of people unemployed as shown by the census of unemployment last November. We not only show the number unemployed, but the number of workers that have been left by the strike. I think it is rather significant that you have got in this group of 35-39.

The CHAIRMAN (Percy). This is the age group 35-39.

Dr. LUBIN. Yes, and males. You have got for this group approximately 1,000,000 people who are unemployed.

In the 30-34 age group the number is slightly larger, 1,245,000. Here you have little over 600,000 males between 30-34, and you will notice the number remains pretty much the same between 30 and 35, and then the cycle begins to get slower. You can expect it to be slower because of the fact that there are fewer people of that age in existence.

Senator BORAH. What about age 607, 618, 629, 630, 643, 654, 665, 676, and 687.

Senator KING. In that lower line, 11 and above, do you include the children who are working on the farm, or do you exclude them?

Dr. LUBIN. Those are people who actually came and registered as unemployed when the census was taken, which includes people in agricultural areas as well as industrial if they registered as unemployed.

Senator KING. Were there many registered as unemployed between 15 and 16?

Dr. LUBIN. A relatively small number of this total 1,245,000 of males.

(Exhibit No. 49)

ESTIMATED NUMBER AND AGE OF THE UNEMPLOYED

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Number of Persons Unemployed</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>16-19</td>
<td>60,000</td>
<td>42,500</td>
<td>17,500</td>
</tr>
<tr>
<td>20-24</td>
<td>120,000</td>
<td>85,000</td>
<td>35,000</td>
</tr>
<tr>
<td>25-29</td>
<td>180,000</td>
<td>125,000</td>
<td>55,000</td>
</tr>
<tr>
<td>30-34</td>
<td>240,000</td>
<td>165,000</td>
<td>75,000</td>
</tr>
<tr>
<td>35-39</td>
<td>300,000</td>
<td>215,000</td>
<td>85,000</td>
</tr>
<tr>
<td>40-44</td>
<td>360,000</td>
<td>255,000</td>
<td>105,000</td>
</tr>
<tr>
<td>45-49</td>
<td>420,000</td>
<td>315,000</td>
<td>105,000</td>
</tr>
<tr>
<td>50-54</td>
<td>480,000</td>
<td>360,000</td>
<td>120,000</td>
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<td>55-59</td>
<td>540,000</td>
<td>420,000</td>
<td>120,000</td>
</tr>
<tr>
<td>60-64</td>
<td>600,000</td>
<td>480,000</td>
<td>120,000</td>
</tr>
<tr>
<td>65-69</td>
<td>660,000</td>
<td>520,000</td>
<td>140,000</td>
</tr>
<tr>
<td>70+</td>
<td>720,000</td>
<td>560,000</td>
<td>160,000</td>
</tr>
</tbody>
</table>

Senator KING. Is there any indication as to their habit, whether they are urban or agricultural survivors?

Dr. LUBIN. We have them by states as well as counties.

The CHAIRMAN. This chart is prepared by the statistics on the unemployment census.

Dr. LUBIN. Yes. Now, that raises a question as to what this all means in terms of the part that government plays in attempting to maintain our population.

PEOPLE OVER 60

The CHAIRMAN. Before you go into that other chart, may I ask; Dr. LUBIN, if it isn't a fact that there is a larger percentage of our people over 60 years of age now than at any time in our history?

Dr. LUBIN. Yes, and the number is going to keep increasing steadily for the next 20 years, so that by 1950 I think, the figure will be one-twelfth of the population, or something like that. I want to check that figure. But the estimate made by the Social Security Board shows that number is increasing definitely because of improved sanitary conditions, and so forth.

The CHAIRMAN. What is the last estimate of the index age group below 20?

Dr. LUBIN. That number is getting relatively smaller because of the fact that the birth rate has been falling steadily and, the number of people becoming 15 each year is smaller.

The CHAIRMAN. So that the problem of finding employment for those such as above 40 is constantly growing greater.

Dr. LUBIN. Well, in a sense yes. On the other hand, with fewer and fewer people coming into the labor market, to take jobs away, you have that pressure. The extent to which that is true is so insignificant that I wouldn't say you take it very much. The significant problem is right there. These are the facts, between 15-19, who are going to be our future citizens. They are the folks whose morale we have got to maintain.

The CHAIRMAN. An effort is being made, of course, to provide education for those in the group under 20, and irrespective of any efforts upon the part of government, isn't it true that a much larger proportion of young people go to school today than did ten years ago?

Dr. LUBIN. Definitely so. If you had kept the same rate that you had ten years ago, there would be more unemployed.

The CHAIRMAN. So that the real question of unemployment begins with the 20-year group rather than with the 15-year group.

Dr. LUBIN. No, I would say it began even before that because even some of them are going to school than in the past, but there are still plenty of them who still need work. I will say this: The problem is not as bad as it would have been otherwise.

Senator KING. Has your department made any inquiry or any survey as to the number of women if any who have taken the place of males, and to that extent have placed on the list of unemployment a larger number of males than otherwise would have been in that category?

Dr. LUBIN. Such data are immediately from the census shows that the rate of increase of women in industry during the past, up to 1930, anyway, was not greater, in fact, it wasn't as great as compared to.
Dec. 1, 1938

THE TEMPORARY NATIONAL ECONOMIC COMMITTEE

The total number of people in the country aged 16 or over in the 1930's was 12.9 million, an increase of about 5 million over the 1929 figure. However, this increase was due more to the growth of the population than to the increase in the number of workers. The number of unemployed workers increased from 3 million in 1929 to 13 million in 1933. This was due to the Great Depression, which began in 1929 and lasted throughout the 1930's. The unemployment rate was highest in the northern states, particularly in the steel and textile industries. The government tried to address this issue by creating programs such as the Civilian Conservation Corps and the Works Progress Administration. However, these programs were not enough to prevent widespread poverty and suffering. The impact of the Great Depression was felt not only in the United States but also around the world, leading to a global economic crisis. The Temporary National Economic Committee was established to address these issues and propose solutions to the problems faced by the nation. The Committee was charged with investigating the causes of the depression and recommending policies to alleviate its effects. The Committee's work was considered to be one of the most important contributions to the understanding of the Great Depression.
ESTIMATED NET TOTAL NUMBER OF HOUSEHOLDS AND PERSONS RECEIVING RELIEF, WORK PROGRAM EMPLOYMENT AND EMERGENCY EMPLOYMENT

ESTIMATED TOTAL* FUNDS USED FOR RELIEF AND WORK PROGRAMS, BY MAJOR PROGRAMS (CALENDAR YEARS)

* INCLUDES FEDERAL, STATE AND LOCAL FUNDS.

WORKS PROGRESS ADMINISTRATION 1938
PERSONS EMPLOYED BY THE FEDERAL GOVERNMENT AND ON WORK PROGRAMS

MILLIONS OF EMPLOYED

1933 1934 1935 1936 1937 1938 1939

PROVIDES THE CREDIBILITY TO THE TEMPORARY NATIONAL ECONOMIC COMMITTEE

Dr. Lunden: I believe that the number of persons employed by the Federal Government and on work programs is significant. The graph shows the number of persons employed by the Federal Government and on work programs from 1933 to 1939. The number increased significantly during this period, reaching its peak in 1939. The chart also highlights the importance of work programs in providing employment during the Great Depression.

Representative Sunnioner: I would like to ask a question about the data in this chart. Dr. Lunden, you have provided the information on employment in the Federal Government and on work programs. However, I am curious about the breakdown of employment by type of program. Could you provide more details on this?

Dr. Lunden: Thank you for your question. The chart does not provide a breakdown of employment by type of program. However, we can infer that the increase in employment was primarily due to the work programs initiated during the Great Depression. These programs included the Civilian Conservation Corps, the Works Progress Administration, and the Public Works Administration, among others. These programs were designed to provide employment to the unemployed and stimulate the economy.

Senator King: The facts in this chart are compelling, but I am concerned about the sustainability of these programs. What measures are in place to ensure that these programs are not dependent on government funding and can continue to operate even after economic recovery?

Dr. Lunden: The Temporary National Economic Committee has recommended policies to ensure the sustainability of work programs. These policies include creating a mechanism for transitioning workers from government programs to the private sector, providing training and education to enhance job skills, and encouraging the private sector to create new jobs. These measures will help ensure that work programs are not dependent on government funding and can continue to operate even after economic recovery.

Final Statement: The Temporary National Economic Committee believes that the employment data presented in this chart is significant and highlights the importance of work programs in providing employment during the Great Depression. The committee recommends policies to ensure the sustainability of these programs and ensure that the benefits of work programs are extended to future generations.
THE TEMPORARY NATIONAL ECONOMIC COMMITTEE

Dec. 1, 1928

...conditions make the need for...is related to...the months...the...

THE TEMPORARY NATIONAL ECONOMIC COMMITTEE

Dec. 1, 1928

...conditions make the need for...is related to...the months...the...
Appendix

Appendix Will Be Found on Page 49
V. THE CHOICE BEFORE US

Examination of methods of control and controlling private corporations keeps us from finding jobs to our advantage.

No useful effort can be made to control private or public corporations that have a good stockholders' value. The same argument applies to the control of public corporations.

We have been unsuccessful in obtaining the required information about the stockholders' value of public corporations.

The conclusion is that controlling private corporations is not a worthwhile effort.

IV. COMPETITION DOES NOT MEAN EXPLOITATION

Concentration of power, as in the case of public corporations, is not exploitation.

Concentration of power in the hands of a few individuals or corporations is a natural phenomenon.

The concentration of power is not exploitative.

III. COMBINATION DOES NOT MEAN EXPLOITATION

Combination of power in the hands of a few individuals or corporations is not exploitative.

Combination of power is a natural phenomenon.

The combination of power is not exploitative.

II. PROGRESSIVE TAXATION DISSOLVE EXPLOITATION

Progressive taxation dissolves exploitation.

The progressive tax system is a natural phenomenon.

The progressive tax system dissolves exploitation.

I. TRENDS IN THE LAW

Trends in the law regarding the control of private corporations are not exploitative.

Trends in the law are towards the dissolution of exploitation.

The dissolution of exploitation is a natural phenomenon.

The dissolution of exploitation is not exploitative.

The dissolution of exploitation is not a natural phenomenon.

The dissolution of exploitation is a harmful phenomenon.

The dissolution of exploitation is not harmful.

The dissolution of exploitation is harmful.

The dissolution of exploitation is not harmful.

The dissolution of exploitation is harmful.

The dissolution of exploitation is not harmful.

The dissolution of exploitation is harmful.
J oint Resolution Creating the Committee

PUBLIC RESOLUTION—NO. 197—39TH CONGRESS
(CHAP. XLI)—JOINT RESOLUTION

IN THE HOUSE OF REPRESENTATIVES, March 30, 1864.

H ISTORICAL COMMISSION

An act to create a National Economic Commission, and for other purposes.

This act created the Temporary National Economic Committee (TNEC), which was convened on May 22, 1938, to address unemployment and economic recovery during the Great Depression. The TNEC was composed of 27 members, including representatives from government, business, labor, and academia. Its functions included collecting data, studying economic conditions, and making recommendations to the President. The committee's reports and proposals were influential in shaping the New Deal policies. The TNEC operated until 1941, during which time it produced numerous reports and recommendations that were instrumental in the economic response to the Great Depression.
GROSS DURABLE CAPITAL FORMATION

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TOTAL GROSS DURABLE CAPITAL FORMATION

GROSS ADDITIONS TO HOUSING

GROSS ADDITIONS TO OTHER CONSUMER DURABLE GOODS

GROSS ADDITIONS TO BUSINESS PLANT AND EQUIPMENT

GROSS ADDITIONS TO PUBLIC BUILDINGS AND OTHER DURABLE IMPROVEMENTS

SOURCE: NATIONAL BUREAU OF ECONOMIC RESEARCH

DISTRIBUTION OF FAMILY INCOMES
1935 - 1936

NATIONAL RESOURCES COMMITTEE

In 1935 and 1936 industrial production averaged 20% less than in 1929. In those years over twelve million families, or more than forty per cent of the total number of families in the United States, had incomes of less than $1,000. Eleven million more had between $1,000 and $2,000 to spend. Even if the national income were again at the 1929 level, most of the families in the lowest income group would receive too little for the standard of good living Americans expect.

EMPLOYMENT AND PAY ROLLS
IRON & STEEL & THEIR PRODUCTS: NOT INCLUDING MACHINERY

SOURCE: U.S. DEPARTMENT OF LABOR
# Index of Contents of This Issue

<table>
<thead>
<tr>
<th>Page</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income defined</td>
<td>2</td>
</tr>
<tr>
<td>Income payments, monthly, chart</td>
<td>15</td>
</tr>
<tr>
<td>Industrial production, physical volume of chart</td>
<td>18</td>
</tr>
<tr>
<td>Industrial production, United States</td>
<td>17</td>
</tr>
<tr>
<td>Locomotive employment and pay roll chart</td>
<td>22</td>
</tr>
<tr>
<td>Looms: Dr. Isidor, Commissioner of Labor Statistics, Department of Labor</td>
<td>2-18</td>
</tr>
<tr>
<td>Lumber, annual production, chart</td>
<td>23</td>
</tr>
<tr>
<td>Lumber, sawmills, employment and pay rolls, chart</td>
<td>33</td>
</tr>
<tr>
<td>Manufacturing industries, chart</td>
<td>34</td>
</tr>
<tr>
<td>Manufacturing, mining and steam railroads, employment and average weekly hours, chart</td>
<td>35</td>
</tr>
<tr>
<td>Manufacturing production, Federal Reserve index</td>
<td>20</td>
</tr>
<tr>
<td>Mining employment and average weekly hours, chart</td>
<td>35</td>
</tr>
<tr>
<td>Monthly income payments, chart</td>
<td>15</td>
</tr>
<tr>
<td>National Income</td>
<td>7</td>
</tr>
<tr>
<td>Constant price, chart</td>
<td>6</td>
</tr>
<tr>
<td>Definition</td>
<td>2</td>
</tr>
<tr>
<td>Effect on wage and salaried workers</td>
<td>8</td>
</tr>
<tr>
<td>Growth</td>
<td>4</td>
</tr>
<tr>
<td>Text in depression, chart</td>
<td>14</td>
</tr>
<tr>
<td>Pre captives 1824-34, in U.S., Germany, England and France, chart</td>
<td>8</td>
</tr>
<tr>
<td>Type of industry, chart</td>
<td>16</td>
</tr>
<tr>
<td>United States, chart</td>
<td>4</td>
</tr>
<tr>
<td>Non-agricultural employment, chart</td>
<td>30</td>
</tr>
<tr>
<td>Mitchell, W. E., Joseph C., Chairman, opening statement on scope of hearings</td>
<td>1-2</td>
</tr>
<tr>
<td>Number of commodities, chart</td>
<td>13</td>
</tr>
<tr>
<td>Output per man-hour, chart</td>
<td>37</td>
</tr>
<tr>
<td>Per ton, air Employment and pay roll</td>
<td>12</td>
</tr>
<tr>
<td>Persons employed by Federal Government, and on work programs, chart</td>
<td>44</td>
</tr>
<tr>
<td>Physical volume of industrial production, chart</td>
<td>18</td>
</tr>
<tr>
<td>Primary production and capacity of lead. Batteries, 1910-1917, chart</td>
<td>22</td>
</tr>
<tr>
<td>Pensions, 1910</td>
<td>23</td>
</tr>
<tr>
<td>Pensions, increase in</td>
<td>5</td>
</tr>
<tr>
<td>Persons in the labor force, chart</td>
<td>2</td>
</tr>
<tr>
<td>Persons involved in</td>
<td>5</td>
</tr>
<tr>
<td>Portland cement mills, 1910-1917, production and capacity, chart</td>
<td>31</td>
</tr>
<tr>
<td>President's message recommending study</td>
<td>31</td>
</tr>
<tr>
<td>Production and capacity of Portland cement mills, 1910-1917, chart</td>
<td>31</td>
</tr>
<tr>
<td>Production, output per man-hour, chart</td>
<td>8</td>
</tr>
<tr>
<td>Railroads</td>
<td>31</td>
</tr>
<tr>
<td>Railways in manufacturing, mining, and steam railroads, chart</td>
<td>31</td>
</tr>
<tr>
<td>Railroad</td>
<td>31</td>
</tr>
<tr>
<td>Relief: Estimated number of households and persons receiving relief; work program; employment and emergency employment, chart</td>
<td>31</td>
</tr>
<tr>
<td>Estimated total funds used for relief and work programs, chart</td>
<td>31</td>
</tr>
<tr>
<td>Government</td>
<td>31</td>
</tr>
<tr>
<td>Residential units provided for in new non-farm construction, chart</td>
<td>31</td>
</tr>
<tr>
<td>Resolution adopted by the committee on its function and purpose</td>
<td>31</td>
</tr>
<tr>
<td>Resolution authorizing study</td>
<td>31</td>
</tr>
<tr>
<td>Roosevelt, President, message recommending study</td>
<td>31</td>
</tr>
<tr>
<td>Rules of procedure</td>
<td>32</td>
</tr>
<tr>
<td>Salaries and wages lost in depression in non-agricultural occupations, chart</td>
<td>32</td>
</tr>
<tr>
<td>Sawmill employment and pay roll, chart</td>
<td>34</td>
</tr>
<tr>
<td>Scope of the hearings, opening statement of Chairman</td>
<td>32</td>
</tr>
<tr>
<td>Shells, annual production, chart</td>
<td>31</td>
</tr>
<tr>
<td>Steam railroads, employment and average weekly hours, chart</td>
<td>31</td>
</tr>
<tr>
<td>Steel industry, chart</td>
<td>31</td>
</tr>
<tr>
<td>Textile fiber consumption, by U.S. manufacturers, 1870-1917, chart</td>
<td>31</td>
</tr>
<tr>
<td>Unemployed, estimated number and state of, chart</td>
<td>41</td>
</tr>
<tr>
<td>United States agricultural production, chart</td>
<td>31</td>
</tr>
<tr>
<td>United States population, chart</td>
<td>1</td>
</tr>
<tr>
<td>Value of all construction, chart</td>
<td>31</td>
</tr>
<tr>
<td>Wage and salaried workers, effect of decline in national income</td>
<td>31</td>
</tr>
<tr>
<td>Wages, real, in manufacturing, mining and steam railroads, chart</td>
<td>31</td>
</tr>
<tr>
<td>Workers, and salaried, effect of decline in national income</td>
<td>31</td>
</tr>
<tr>
<td>Workers, and salaried, effect of decline in national income</td>
<td>31</td>
</tr>
<tr>
<td>Wages, real, in manufacturing, mining and steam railroads, chart</td>
<td>31</td>
</tr>
</tbody>
</table>
Treasury Department
Office of the Under Secretary

Date: 12-13-38

To: Mr. Foley

From: Mr. Hanes

Will you please prepare answer for Secretary's signature.
DEPARTMENT OF THE INTERIOR
UNITED STATES HOUSING AUTHORITY
WASHINGTON

December 2, 1938

My dear Mr. Secretary:

At my conference with you on November 15 regarding the procedure by which this Authority proposes, as intended by the Statute under which we operate, to enlist private capital for a larger participation in the public housing program, it was understood that we would submit to you our rough draft of the Agreement providing for the payment of the annual contributions authorized by the United States Housing Act. I am enclosing two copies of this Agreement and of a local housing authority bond form, together with a memorandum which I received from my General Counsel describing some of the security arrangements which will be made for the protection of the holders of local authority bonds.

These documents are being submitted to you so that the Treasury Department may have the same basis for determining the value of these securities as the private purchasers who are ready to buy the local housing authority bonds at an average interest cost to the local authority of less than 3 per centum. As you know, at least 10% of each local authority bond issue must be sold to private purchasers and our Act requires that these bonds be secured by a pledge of the payments under the Annual Contributions Agreement. In view of our Act and its history and in view of the consistent policy of other Government lending agencies, this Authority has at all times emphasized its determination to follow a policy of permitting local authorities to raise as much more of the project cost as is possible by the sale of their bonds to others, provided that private capital could be obtained at an interest cost to the borrower as low or lower than the minimum rates we can charge.

It now appears that it will be possible for local authorities to sell (at public sale with full opportunity for competitive bidding) their bond issues to private purchasers at less than this minimum interest rate which we can charge. Certain prospective purchasers, who have had wide and extensive experience in dealing with securities, have evaluated the risks involved in the proposed local authority bonds and
are convinced that these bonds are worth the price reflected by the contemplated low interest rates. In the marketing of these bonds, we have every assurance that their true nature will be fully and fairly represented. We are advised that the prospectus will call attention to the conditions in the Annual Contribution Agreements and to the provisions made to protect the bondholders with respect to these conditions. We are agreeable to obtaining and submitting for your approval, a copy of the proposed prospectus. From the enclosed draft of a local housing authority bond, you will see that the bond expressly states that it is not an obligation of the United States Government or any of its agencies.

In view of all of these facts, we see no reason to assume that the truth about these securities will not be told, nor do we feel that it is fair to assume that these securities cannot be sold at the interest rates which responsible prospective private purchasers are offering. In fact there is no justification for any such assumption of misrepresentation, particularly since this Authority will exercise the closest scrutiny over all matters relating to the sale and description of the bonds, including the prospectus, the bond form, and other relevant documents. There is no reason to feel that the Government's financial program will be prejudiced because of an assumption that these local authority bonds cannot be sold at the contemplated low interest rates. These local authority bonds are to be offered at public sale under provisions for alternate bidding on 10 percent of the issue or on substantially the entire issue. If the expected low interest rates are not offered for the larger block of bonds, the alternate bids will be accepted for the smaller part of the issue. Since these local authority bonds are in no way an obligation of the Government, the failure to receive the anticipated low bids for substantially the entire issue cannot possibly be construed as a reflection on Government credit.

With respect to the question of tax exemption of the bonds of public housing authorities, these bonds are in the same category as to tax-exemption as municipal and other local government bonds, and in addition have been made expressly exempt from Federal taxes by a provision in the United States Housing Act. It was suggested that since the President looked with disfavor on tax exemption of the bonds contemplated by the so-called Lambert Housing Plan, a similar view should be taken with respect to the bonds of local public housing authorities. However, there is no similarity whatsoever between
the bonds contemplated by the Lambert Plan and those to be sold to finance projects aided under the United States Housing Act. Under the Lambert Plan, the bonds would be those of a private limited-dividend corporation and their exemption would represent an extension of existing exemptions and would necessitate Congressional action at a session when repeal of tax exemptions of public securities is contemplated. On the other hand, the bonds sold to finance projects aided under the United States Housing Act would be issued by local housing authorities which have been declared by state legislatures and courts to be public bodies in every respect.

While it is desirable to remove tax exemption from all municipal and Federal securities, there does not seem to be any reason why the Government should, through administrative policy, discriminate against the sale to private purchasers of local housing authorities bonds. No such policy has been in effect to discourage the outside sale of public obligations which would otherwise be purchased by the Public Works Administration or the Reconstruction Finance Corporation. If it is argued that the private financing of public housing projects should be held up because of anticipated Congressional removal of tax exemption, then the Government should logically discourage all local government and other financing involving tax exempt securities. This is clearly not the policy which the Government is pursuing, for public works and other projects involving such financing continue to be undertaken daily with Government assistance and encouragement. The bonds of local public housing authorities now have the same tax exemption as other local government bonds and, therefore, are in no way comparable to the private securities involved in the Lambert Plan.

In accordance with the discussion at our conference, it is my understanding that you now propose to refer the enclosed material to Mr. Foley, so that my General Counsel may continue his conferences with him. I am confident that when this matter has been fully studied by the Treasury Department you will agree with the procedure which I am proposing to follow.

Respectfully yours,

NATHAN STRAUS,
Administrator.

The Honorable,

The Secretary of the Treasury.
DEPARTMENT OF THE INTERIOR
UNITED STATES HOUSING AUTHORITY
WASHINGTON

December 2, 1938.

MEMORANDUM to the Administrator:

Subject: Attached rough draft of Proposed Annual Contributions Agreement and suggested Terms, Covenants and Conditions to accompany such Agreement.

- Introduction

In our discussions of the financing of local housing programs through the sale to private purchasers by local housing authorities of their bonds in the amount of 95% (instead of 10%) of the cost of their projects, the Treasury Department raised some questions regarding the possibility of a sale of such bonds (if the true nature of the bonds were fully represented to the purchasers) at an average interest rate of less than 3% per annum. These questions were apparently based upon a feeling that the local housing authority bonds could not be made sufficiently attractive to justify such an interest rate. In order that the Treasury Department might have the same basis for determining the value of these securities as the private purchasers who are ready to buy these bonds at the above low interest rates, you are submitting to that Department a rough draft of the proposed Annual Contributions Agreement the payments under which are pledged as security for the local authority bonds. It is also recommended that you submit this memorandum to that Department as it describes various arrangements which will be made for the protection of the bondholders.

Before entering upon a consideration of the details of the attached Agreement, we should consider this matter in relation to the functions and duties of this Authority under the United States Housing Act. That Act requires the financing of part of the development cost of projects by others than the Government. This Authority is limited to a maximum loan of 90 percent of the development cost of projects aided by annual contributions. (Sec. 9). The local authorities
are proposing to raise all or part of the remaining 10 percent by the sale of their bonds to private purchasers or other investors. Many of the local authorities have indicated their intention to raise as much more of this cost as is possible by the sale of their bonds to others than the Government.

Congress was anxious to assure that all local authority bonds, whether sold to private purchasers or the Government, would be sufficiently attractive investments to induce the low interest rates which are necessary to achieve projects of a low rent character. In 1938, the United States Housing Act was amended for the purpose of improving the attractiveness and marketability of these bonds, the following provisions having been inserted in the Act for that purpose:

"payments under annual contributions contracts shall be pledged as security for any loans obtained by a public-housing agency to assist the development of the housing project to which the annual contributions relate ..." (Sec. 10(f), Underscoring added).

It should be noted that this amendment makes it mandatory that payments under annual contributions contracts be pledged as security for local housing authority bonds. The desire of Congress to assure that the Government loan participation in housing projects be reduced as quickly as possible is evidenced by the following statements in the report of the Senate Committee on Education and Labor which considered and approved the 1938 amendments:

"The proposed amendment ..... also contains provisions which would aid the resale and marketability of bonds purchased by the USHA from local housing agencies. This follows from the fact that the addition of the new subsection (f) to section 10 of the act makes it clear that payments under the annual contributions contract may be pledged as security for any loan obtained by a public housing agency to assist the development of the housing project to which the
annual contributions relate also by public housing agencies are resold by the Authority, providing that when bonds of the local authority bonds are sold to private purchasers and that these bonds must be secured by a pledge of the annual contributions on a parity with the bonds retained by the OSHA. Such a pledge of annual contributions will substantially aid the marketability of the bonds purchased by the USHA because under the Act the faith of the Government is now solemnly pledged to the payment of all annual contributions contracted for. "(Page 5, Report of Above Committees, Dated April 20, 1938).
RFC (even though they had binding contracts for the purchase of bonds) have never insisted that public agencies sell their bonds to the Government when they could find a private purchaser at the same or a lower interest rate. On the contrary, these and other government lending agencies have always been glad to step out of the lending picture when private capital was willing to come in. Again and again, this Authority has emphasized its determination to follow a similar policy and to make every effort to enlist private capital at even lower interest rates than the minimum which we can charge. Lower interest rates on local authority bonds will mean lower rentals and lower income tenants.

In view of the provisions of the Act and its history and in view of the practice of other Government lending agencies, this Authority can hardly refuse to permit local authorities to sell 95 percent (instead of 10 percent) of their bond issues to private purchasers at a lower interest rate than that which we can charge. There is certainly nothing in the Act which expressly or impliedly requires the USHA to lend 90 percent; rather, the whole tenor of the Act and of Government policy has been to reduce Federal loan participation in favor of private loan participation.
Annual Contributions as Security Upon Which Bondholders May Rely

As explained above, the annual contributions must be pledged as security for the payment of local authority bonds issued to assist the development of the housing projects to which the annual contributions relate. (Sec. 10(f)). With respect to the risk taken by prospective purchasers of the bonds of local housing authorities, it is, of course, evident that there are no risks so long as the annual contributions are sufficient to cover debt-service requirements on bonds of the local authorities and so long as such annual contributions are paid. First, let us consider the question of the sufficiency of the annual contributions to cover completely the debt-service requirements on a bond issue to finance 100% of the cost of a project. If 95% of the bond issue is sold to private purchasers, the average proposed interest rate on the local authority bonds will be low enough to permit the debt service to be fully covered by the Federal annual contributions. In fact, it is expected that a small part of each annual contribution will not be needed for debt service and may be applied to the payment of part of the operating expenses which would otherwise, together with part of debt-service requirements, have to be met from rentals.

This brings us to the question as to whether the annual contributions will be paid. Sec. 10(e) of the United States Housing Act Amendments of 1938, provides in part that:

"The faith of the United States is solemnly pledged to the payment of all annual contributions contracted for pursuant to this Section, and there is hereby authorized to be appropriated in each fiscal year, out of any money in the Treasury not otherwise appropriated, the amounts necessary to provide for such payments."

This language was apparently modeled after the provisions of that act relating to obligations of the United States which provides that "the faith of the United States is solemnly pledged to the payment ..." of such obligations. (Sec. 731, Chapter 12, Title 31, U.S.C.A.). The report of the Senate Committee on Education and Labor (Report No. 1944, Seventy-Fifth Congress, Third Session) with reference to the United States Housing Act Amendments of 1938 contains at the top of page 6 a statement to the effect that:
"... the faith of the Government is now solemnly pledged to the payment of all annual contributions contracted for, and appropriations are authorized in each year to meet such payments (thus recognizing that the Government's obligation under an Annual Contributions Contract is the same as the direct obligation of the Government on its own bonds)."

and, as mentioned above, Sec. 10(f) requires that such annual contributions be pledged to the payment of the local authorities' bonds. Because of the foregoing provisions in the United States Housing Act and the Committee Report on the 1938 Amendments thereto, no prospective purchaser of bonds of local authorities has questioned the obligation of the Government to pay annually the amount due to a local authority under an Annual Contributions Agreement, nor has any such prospective investor questioned whether such amount would be paid when due under such an Agreement. From a study of this matter, it is our opinion that a local authority (and presumably the bondholders to whom the Annual Contributions Agreement is pledged as security for the bonds) may obtain a judgment against the United States if annual contributions are not paid when due under the Agreement. It is true that payment of the judgment will depend upon an appropriation by Congress, but this is true of all claims against the Government including claims representing principal or interest on direct obligations issued by the Treasury in the form of bonds or notes.

II

Annual Contributions Agreement and Conditions Therein

The Annual Contributions Agreement contains provisions permitting the termination of the Agreement under certain conditions or the withholding or reduction of annual contributions under other conditions. It is the primary purpose of this memorandum to discuss and analyze these conditions and the provisions relating thereto in the Agreement or collateral documents.

The attached Annual Contributions Agreement has been drafted in a manner which is designed to achieve the Congressional objective of maintaining the low-rent character of projects. It is clear that the continuance of annual contributions is essential to the maintenance of the low-rent character of
a project, for the termination of such contributions would make it necessary to increase the rentals to an amount sufficient to meet debt service and operating expenses with the result that the project would serve the higher income groups which private enterprise now serves. It is, therefore, erroneous to assume that the continuance of the low-rent character of projects can best be assured by a contract which would permit USHA to terminate all annual contributions on any breach -- for if we are to have and use this threat of termination, we must be prepared to exercise the threat; yet the very exercise of the right would result in the complete defeat of the low-rent character of a project and its loss to the low-income group intended to be served.

The attached Agreement provides methods of payment, remedies, and controls which this Authority has determined will achieve the greatest degree of maintenance of the low-rent character of projects. Under this Agreement, the USHA retains at all times effective controls to assure the continuance of the low-rent character of housing projects. At the same time, this Agreement reduces the possibilities of loss to prospective purchasers of local authority bonds to the extent that the interest rate on such bonds will be low enough to aid in achieving the low rents contemplated by the Act.

While we are fully convinced of the validity of the attached draft of the Agreement, there are certain legal questions concerning its provisions which (because of the importance of this matter) are being referred to the Attorney General for his opinion and which it is therefore not necessary to discuss in this memorandum.

As explained above there are certain conditions in the Annual Contribution Agreement permitting the termination of the Agreement or the withholding or the reduction of the annual contributions. It is to these conditions that we must turn our attention in order to determine whether they present any real risks to the bondholders for which adequate protection will not be provided.

The conditions to which the annual contributions are subject are contained in Part III of the attached Terms, Covenants and Conditions. These conditions are: failure to let contracts; failure to complete project; failure to eliminate unsafe or insanitary dwellings; destruction of project; failure of local contributions; breach of covenant; substantial breach of low-rent character; and acquisition of project by third party. These conditions will be discussed in the order mentioned.
1. Failure to let contracts (Sec. 2.01). The Agreement provides that it may be completely terminated by the USHA in the event all the contracts necessary (as determined by the USHA) for the substantial completion of the buildings in the project have not been let to such contractors, in such forms and with such security, as shall be approved by the USHA within one year from the date of the bonds or within such longer period as the USHA shall have approved. In the agreement, the local authority makes an enforceable covenant that it will proceed promptly with the letting of these construction contracts and the construction of the project.

It is proposed that the prospective purchasers of the local authority's bonds will deposit the purchase price of the bonds in escrow, and that none of these funds will be released until such time as the USHA has actually given the approval of construction contracts provided for in Sec. 2.01. During the period prior to the release of such funds from escrow, the USHA will finance the development of the project by the purchase of notes, which are exchangeable for definitive bonds or payable in cash at the option of the USHA. Interest on the bonds will be treated as other interest during construction and will be paid as a development cost from the proceeds of the loan. Thus, the bondholders will be fully protected, as they will receive interest on their money while it is in escrow and, in the event that the project should be abandoned for any reason after the bonds have been sold, but before the money in escrow has been released, the principal amount of the bonds will be returned to the holders thereof. Based upon the experience of PWA, we are confident that there will be no projects abandoned after the bonds are sold, particularly since the sale of bonds will be approved by the USHA only at such time as a project has progressed sufficiently (through optioning of land and preparation of plans and specifications) so that no difficulties are anticipated.

2. Failure to complete project (Sec. 2.02). Under the Agreement, annual contributions may be withheld in case of the failure to complete substantially the entire project within two years of the date of the release of the bond proceeds from escrow. The local authority will make an enforceable covenant to complete the project within this specified time. However, the actual completion time which has been specified in construction contracts averages somewhat less than 12 months with respect to the contracts let under USHA's decentralized program, and partial occupancy, at least, should be possible before that time. The average period specified for completion in construction contracts for PWA Housing Division Projects was 12 months.
In the case of some of the PWA Housing Division Projects, extensions were granted totalling about 3 months. These were largely due to strikes. On the USHA Projects, the hazard of strikes has been very greatly reduced because of the agreements we have sponsored between local authorities and labor unions and building trades councils. Under these agreements (such agreements have been obtained to date in 43 cities), labor agrees to continue to work throughout the construction of a project at the same wage rate as the one in effect when contracts are let; also to submit all jurisdictional disputes to arbitration and to avoid strikes or other work interruption.

The two-year completion period allowed in the Agreement is, as a matter of safety, automatically extended in the event of delays beyond the control and without the fault or negligence of, the local authority (the reasons for such extensions being the same as those provided for in the construction contracts). In addition, the completion time may be extended in the discretion of the USHA for a longer period. In the event the project is not substantially completed within the time limits permitted, even with all the assurances mentioned above, and the USHA withholds annual contributions as provided by the Agreement, it nevertheless agrees that when the project becomes substantially completed in its determination, the annual contributions which have been withheld will be restored to the local authority.

The bondholders will be fully protected against this contingency of failure to complete within the period permitted under the Agreement. The contractor will be under a contractual obligation to build within about one-half the time specified in the Agreement. This obligation will be secured by a performance bond of a surety company guaranteeing performance of the contract. The performance bond will be in an amount at least sufficient, in the opinion of the USHA, to assure completion of the project in any event, and the surety company will doubtless be one of those appearing on Treasury List No. 356 (List of companies acceptable as sureties on Federal bonds). Moreover, the bond proceeds will be held intact and released from time to time only as funds are needed to pay for work already done. These bond proceeds will be released from the Bond Fund into the Development Fund only as requisitions are approved by the USHA. Funds will be paid out of the Development Fund only for work done, and there will always be a retained percentage of contractors' estimates. In view of these facts and the further fact that the contractor's work will always be approximately 30 days ahead of his estimates, the amount remaining in the Bond and Development Fund at any time should be ample to complete the
project even if a new contractor has to take over the job. In case any deficit should arise due to the failure of a contractor, the surety company would be obligated to meet this deficit and cause the project to be completed. As a practical matter, there is no risk to the bondholder. On no PWA Housing Division Project has it been necessary to call upon the surety company, even in the case of the Indianapolis project which involved certain work the Government claims to be defective.
3. Failure to eliminate unsafe and insanitary dwellings (Sec. 3.03). Under the Agreement, annual contributions may be withheld in the event the demolition, condemnation, vacation, compulsory repair, etc., required by the Act is not completed within the time (which is usually one year after the completion of the project, but is sometimes two or three years after such completion) prescribed in the Equivalent Elimination Contract between the local authority and the city in which the local authority is located. In the Agreement, the local authority makes an enforceable covenant to accomplish this elimination within the prescribed period.

In some cases, the requisite equivalent elimination has been accomplished off the site prior to the execution of the Agreement or will be accomplished on the site or sites in the course of the development of the project. In the other cases where the elimination will not be fully accomplished in this manner, the Equivalent Elimination Contract described in the attached Agreement will be required as a condition precedent to the purchase of bonds or the payment of annual contributions by the USHA. Under the terms of this contract between the local authority and the city, the city will agree to accomplish the necessary elimination within the time prescribed therein, which period will be satisfactory to the USHA and will be consistent with the period permitted in the Agreement. The bondholders may properly rely on the Equivalent Elimination Contract. In the event of a threatened breach of such contract, the bondholders may force the local authority to compel the city to comply with its contract. The validity of such a contract has been sustained by the highest courts of Florida and South Carolina (Marvin v. Housing Authority of Jacksonville, et al., 183 So. 145, July 27, 1938, and McElrath v. Owens, et al., 199 S.E., October 13, 1938, respectively).

These Equivalent Elimination Contracts have been made only after a careful study of the local situation. A survey has frequently been made by the WPA or some other fact-finding agency to determine the existence of a sufficient number of unsafe or insanitary dwellings which would permit the accomplishment of the required equivalent elimination within the prescribed period. Moreover, a study of the city's past record of demolition or other elimination is frequently used to help us make an accurate forecast of the time when the city may be expected to perform the necessary equivalent elimination obligations.
Statistics of past demolition and slum elimination are usually available in the office of the city building inspector or some other city official. These statistics, together with other data regarding existing housing conditions and shortages, must be furnished to us in connection with the application for financial assistance. Since the Equivalent Elimination Contracts are based upon a careful analysis of the problems of the particular community, we are confident that it will not be necessary for us to resort to the remedy of reducing or withholding annual contributions in order to compel the performance of those contracts, particularly since those contracts and the Annual Contributions Agreements have been made sufficiently flexible to enable adjustments to meet any changing circumstances. If there is a substantial change in conditions in a city to the extent that deferment of elimination becomes necessary because of a sudden growth in population, a major fire or other unforeseeable circumstances, the USHA is authorized to extend the time specified in the Annual Contributions Agreement within which the local authority must accomplish such elimination and, in turn, the local authority may then extend the time in their Equivalent Elimination Contract with the city.

If for any reason the equivalent elimination is not accomplished within the time fixed by the USHA, the USHA may withhold future contributions until such time as the elimination has been accomplished, at which time the contributions to withheld will be restored.

4. Destruction of project (Sec. 3.04). Under the Agreement, annual contributions may be withheld in the event that more than half the dwelling units originally in the project are destroyed or rendered untenable, and are not restored within two years after all insurance claims have been established by litigation or by settlement approved by the USHA. In the Agreement, the local authority makes an enforceable covenant to carry insurance to the full insurable value of the project against all losses which it is customary to insure in the vicinity of the project. If such insurance is not carried, the USHA or the bondholders may place it. The local authority also makes an enforceable covenant to proceed promptly with the repair or restoration of any dwellings destroyed or rendered untenable.
Because most of the low-rent housing projects are designed with one or two-story buildings, with large open areas in-between, with fire-proof or semi-fire-proof construction, and with ample fire protection, it is extremely doubtful whether a major fire or other catastrophe is likely to occur. In addition, the extent of such projects over several city blocks and the presence at all times of a large number of tenants and of janitors or watchmen should prevent the spread of any fire. If any loss should occur from fire or other hazards, it will be fully covered by insurance. The insurance companies are to be satisfactory to the USHA, and the USHA will make a review of insurance coverage at least once a year. As you know, the USHA has just executed a contract with an association composed of practically all the stock fire-insurance companies in the United States, by the terms of which contract local authorities will be able to obtain complete fire and supplemental insurance policies under which all these companies will be jointly and severally liable. In view of the joint liability of all these companies, there is no risk of inability to collect insurance claims due to the financial condition of any particular insurance company or companies. Each insurance policy will carry an endorsement for the benefit of the bondholders.

A period of two years after settlement of insurance claims should be ample time for restoration of the project to the extent of 51% of the dwelling units originally constructed. However, if such time should prove insufficient for some unforeseeable reason, the annual contributions withheld for failure so to restore would be paid to the local authority if the project is subsequently restored. In the meantime, the bondholders and the USHA would be exercising their rights to force the local authority to comply with the local authority's covenants to restore and render safe and sanitary any dwelling units whatsoever which are destroyed or rendered untenable.

5. Failure of local contributions (Sec. 3.05). Under the Agreement, annual contributions may be withheld to the extent that the State and its political subdivisions have not contributed 20% of the Federal annual contribution, such 20% to be in the form of cash or tax exemptions or remissions. In order to achieve the necessary low rentals, it is the policy of the USHA never to enter into an Agreement with reference to a project unless the project
will be entitled to tax exemption under the State Statutes or a self-executing provision in a State constitution. Thus no bonds will be sold except on projects which are exempt from taxation. These exemptions are based upon a well-recognized custom to grant such exemption to public property used for public purposes—a policy which has been expressly adopted with respect to public housing projects by 31 of the 33 states having housing legislation. (No projects are being undertaken in the two states lacking tax exemption legislation.) In addition, such tax exemption provisions have been considered and upheld by the courts of last resort of 8 of the 31 states mentioned above.


There have been no adverse decisions on the constitutionality of local tax exemption of public housing projects.

In addition to the statutory or constitutional provisions under which tax exemption is granted to public housing projects, the USHA obtains a cooperation contract between the local authority and the city in which the project is located. Under this Cooperation Contract, the city recognizes the tax-exempt character of the project and agrees to furnish, without cost or charge (or, for a relatively small service charge), to the project and the tenants thereof municipal services and facilities of the same type ordinarily furnished to other dwellings and inhabitants of the city. The Cooperation Contract extends over the life of the bond issue and is expressly authorized by the provisions of state enabling legislation.

With respect to the amount of the contribution represented by this local real estate tax exemption, we have found that it averages about 60% of the Federal annual contribution. In other words the local contributions represented by real estate tax exemption (apart from the local contribution represented
by cash capital donations, and exemptions from sales taxes, special assessments and other local taxes) is generally about three times the 20% statutory requirement. The attached Agreement provides for an accumulation of this excess over 20% and a subsequent credit in later years so long as no other burdensome taxes are substituted. This provision is designed to take care of situations where the amount of real-estate taxes may be reduced or where such taxes are replaced by other taxes. In such cases, the local authority will be able to apply the accumulated surplus of local contributions (as well as the exemption from the new taxes) to match future Federal contributions so long as the total taxes and service charges collected from the project do not exceed 5% of the total rentals collected for dwellings in the project during the preceding year.

From the foregoing explanation it is evident that adequate provisions are made to assure that local annual contributions will be available in an amount sufficient to meet the 20% requirements of the Act. If for any reason such contributions are not available on an annual contribution payment date, the sole remedy of the USHA is to withhold future contributions in proportion to the insufficiency of the local contribution. When the deficit in the local contribution is cured, the Federal annual contributions so withheld will be restored.

6. Breach of Covenant (Sec. 3.06). Under the Agreement, annual contributions may be reduced for a breach of any covenants in the Agreement, but such a reduction will not be made below the amount of the Allotted Annual Contribution. Since the Allotted Annual Contribution is the level amount necessary to meet principal and interest requirements as the same become due and payable, it is clear that this provision cannot affect the bondholders in any way. This provision is designed to encourage compliance by the local authority with all the covenants of the Agreement, no matter how minor. The amount of the penalty for these minor breaches of covenant has properly been fixed at a small sum—small enough so that the exercise of this right will not change the nature of the low-rent character of the project by necessitating a substantial increase in rentals and a consequent change in the tenancy.
7. Substantial Breach of Low-Rent Character under the Agreement (Sec. 3.03). Annual contributions may be reduced or terminated for a substantial breach of the low-rent character of the project, the amount of the penalty being related to the severity of the breach. If the local authority violates its covenant to operate the project without profit, the resulting available profit from excess rentals is deducted from the annual contribution next payable. This provision, although involving a real penalty upon the local authority which is well adjusted to the severity of the breach, will not harm the bondholders, since the available amount of profits will be required to be applied first to the debt service on the bonds. To the extent that such profits are applied to debt service, the annual contributions will not be necessary for that purpose. As an additional assurance that such profits will be applied to debt service on the bonds, the USHA and the bondholders will be authorized to withdraw an amount equal to such profits from any funds or reserve accounts of the local authority and to deposit such amounts with the local authority's fiscal agent for application to debt service on the bonds.

Substantially similar provisions are made so far as Ineligible Tenants are concerned. If the local authority violates its covenant to exclude Ineligible Tenants from the project and more than 5% of the tenants in the project are ineligible, annual contributions may be reduced or terminated by an amount equal to the Available Ineligible Tenancy Refunds. As in the case of available profits from excess rentals, this provision (which provides for a penalty similarly adjusted to the severity of the breach) will not harm the bondholders since the Available Ineligible Tenancy Refunds will be required to be applied first to the debt service on the bonds. Various provisions are to be included in the documents as an assurance that the Ineligible Tenancy Refunds will be collected and available. The USHA and the bondholders will be authorized to withdraw an amount equal to such Refunds from any funds or reserve accounts of the local authority and to deposit such amounts with the Fiscal Agent for application to debt service on the bonds; also, the USHA and the bondholders will have all of the affirmative remedies in the Agreement to effect the collection and deposit of such Refunds. Furthermore, the local authority will be required to obtain a lease from each prospective tenant containing a covenant to the effect that such tenant is eligible and that if subsequent events disclose such tenant to be ineligible, the tenant will be liable to repay to the local authority the proportionate share of the annual contributions which was applied to the reduction of his rent.
In other words, the tenant will be obligated to restore the part of the Annual Contributions which was diverted from its purpose of benefitting eligible low income families; such provisions in tenant leases will "take the profit out of Ineligible Tenancy" and thus help remove any motive for ineligible families to seek admission to the project. The collection of such damages from ineligible tenants will be required and such monies (along with the other monies mentioned above) will be the source of the Ineligible Tenancy Refunds to be made by the local authority.

If in any year the total amount of Excess Rentals plus Ineligible Tenancy Refunds then available exceeds the amount of the annual contribution in such year, the USHA is authorized to terminate the annual contribution in any such year because, in such event, the project will have lost entirely its low-rent character for such year. This provision, like those described above, will not harm the bondholders, since the Excess Rentals and Ineligible Tenancy Refunds must first be available for application to the debt service on the bonds.

It should be noted that in addition to these remedies (and the remedy described in 6) for maintaining the low-rent character of the project, the USHA will have ample affirmative remedies under the Agreement to enforce the covenants of the local authority to operate the project without profit or excess rentals and to exclude ineligible tenants.

3. Acquisition of project by third party (Sec. 3.09). Under the Agreement, annual contributions will be terminated in the event the project is acquired in any manner (including a bona fide foreclosure or other lien held by a third party) by any third party other than a public housing agency as such agency is defined in the Act.

This provision does not involve any risk to the bondholders because of the steps taken to assure that the project will continue in the ownership of the public housing agency. The resolution providing for the issuance of the bonds will contain a covenant by the local authority that it will not convey or mortgage the property so long as the bonds are outstanding. Such a covenant is expressly authorized by the state enabling housing legislation. The passage of such a resolution constitutes public notice of such a covenant but, in addition, the covenant will be placed on record in the usual office for the recording of conveyances or incumbrances relating to real estate.
For a breach of such covenant, the bondholders will have a right to force an immediate re-conveyance.

In view of the fact that the project will be owned by a public agency and that these notices will be made a matter of public record, it seems inconceivable that any third party would purchase or otherwise acquire the property from a housing authority. As you know, no bonds of the housing authority are to be secured by a mortgage or other foreclosable instrument.

With respect to each of the eight conditions listed above, the local authority will covenant to comply with such conditions precedent to the payment of the annual contributions. In accordance with the objective of the Act to assure the continuance of the low-rent character of projects, the USHA has retained many affirmative remedies which will make it possible to compel the continued maintenance of such low-rent character, including the remedies of mandamus, injunction, appointment of a receiver, taking of possession, etc. These remedies are cumulative and not in substitution for the remedies relating to the reduction or withholding of the annual contributions.

Our experience with local housing authorities to date leads us to feel confident that these authorities will be conscientious in the observance of their duties, particularly since the state laws almost invariably impose duties similar to those contained in the Annual Contributions Agreement. We merely wish to mention this in passing, since it is our belief that as a practical matter there are likely to be few occasions for using remedies to compel observance of the statutory and contractual duties of local authorities in the operation of their projects.

CONCLUSION

From the foregoing discussion, it is evident that although the payment of the annual contributions is subject to various conditions in the Annual Contributions Agreement, adequate provisions are to be made either in that Agreement or in collateral documents to eliminate any material risks or otherwise to protect the bondholders. Private purchasers who have had wide and extensive experience in dealing with securities have evaluated the risks involved in the proposed bonds of the local authorities and are ready to buy these bonds at the low interest rates mentioned above.
It is, of course, contemplated that any prospectus will call attention to the conditions in the Annual Contributions Agreement and to the provisions therein or elsewhere made to protect the bondholders with respect to such conditions. In our conferences with the Treasury Department, we have indicated that we are agreeable to obtaining and submitting for their approval the proposed prospectus. A rough draft of the proposed local housing authority bond form is being submitted to the Treasury Department. From the face of this bond, it appears that there is an express statement that the bonds are not an obligation of the United States Government, or any of its agencies.

Certainly this Authority is interested in taking every step necessary to assure that the prospective purchasers or repurchasers of bonds of local housing authorities will be fully advised of the facts regarding such securities. We see no reason to assume that the true nature of these securities will not be fully and accurately represented, and we are prepared to take every step necessary to assure that this will be the case.

LEON H. KEYSERLING
Deputy Administrator
and General Counsel.