

DIARY

Book 194

June 4 - June 8, 1939

	Book	Page
Appointments and Resignations		
Duffield suggests to HMJr the possibility of his calling Upham to take Gaston's former place - 6/8/39.....	194	394

Bank of America

Attorney General tells Foley FDR asked him to look into case while he was on West Coast; got reports that case was ruining the movie industry and the banking situation; if Treasury is right, Attorney General proposes to go ahead full speed — if not, he plans to reexamine entire case - 6/5/39.....		69
a) HMJr discusses with Murphy.....		75
Battery Bridge, New York City		
Walter Binger consults HMJr concerning - 6/8/39.....		397
Berle, Adolph A.		
See Business Conditions: Loans to Small Business		
Binger, Walter		
See Battery Bridge, New York City		
Business Conditions		
Recovery Program:		
Conference at HMJr's home with White on program that can be offered FDR insuring some measure of recovery during 1940 - 6/4/39.....		1,5
a) HMJr advises self-liquidating projects (extension of housing program; toll roads, tunnels, and bridge projects; extension of foreign loans to promote foreign trade; extension of Food Stamp Plan; extension of self-help cooperatives)		
b) Note in HMJr's own handwriting: tells "Missy" to tell FDR that he is working on "small recovery program".....		2
Conference; present: HMJr, Milo Perkins, Viner, Gaston, and White - 6/5/39.....		34
a) Slowness in establishing Food Stamp Plan discussed		
1) Bell reports at 9:30 meeting that majority of stamps are coming back through the banks instead of through the wholesalers and retailers - 6/5/39.....		64
b) Lonigan report on recent trip to Boston and free milk plan there - 6/7/39.....		327

Business Conditions - (Continued)

Recovery Program:

	Book	Page
Fiscal and Monetary Advisory Board: Meeting of Board - 6/6/39.....	194	87
a) Memorandum attached: "*****general opinion among Administration officials and technicians on or cooperating with Fiscal and Monetary Advisory Board that there is little, if any, prospect for marked recovery during next two years"; program of Board follows.....		197
1) HMJr reports to Treasury group that FDR "likes enormously"; wants program ready for Congress not later than July 1; great secrecy urged - 6/6/39....		238
Mead bill: Treasury group recommends - 6/6/39.....		249
Viner memorandum suggesting changes in wording, et cetera - 6/6/39.....		250
Eccles' testimony before Senate Committee on Banking and Currency - 6/6/39.....		252
a) Eccles reported to have promised, during testimony considering Mead bill, that he would return later and testify on what he considers adequate recovery program ***** thereby getting his suggestions before Congress regardless of what happens to his suggestions within the Administration - 6/7/39.....		317
Williams (John H.) resumé of bill - 6/6/39.....		255
Conference of 9:30 group, Delano, Upham, Lindow, Kades, and O'Connell - 6/7/39.....		278
HMJr confers with Senator Mead concerning bill - 6/7/39.....		312
Loans to Small Business - Berle, Adolph A.:		
Haas memorandum on Berle plan for a system of capital credit banks - 6/5/39.....		16
Williams (John H.) comment on Berle plan - 6/5/39....		264
Haas memorandum on situation for week ending 6/3/39....		23

China

HMJr asks that arrangements be made to bring Keeshin to Washington for conference - 6/7/39.....		356
Butterworth reports on flood of imports into China in recent weeks necessitating unpegging of the exchange so that Chinese dollar might find new level - 6/8/39		382
Commodity Credit Corporation		
HMJr recommends to FDR restoration of capital which must be maintained at \$100 million - 6/7/39.....		366
a) Report of appraisal of assets and liabilities as of - 3/31/39 attached		

Czechoslovakia

For discussion of balances on deposit in London,  
See War Conditions

- D -

Duffield, Eugene S.  
See Appointments and Resignations

Book Page

- F -

Federal Home Loan Bank bill  
FDR asks Fahey and HLMjr to confer - 6/6/39..... 194 232  
Financing, Government  
6/15/39:  
Announcement of offering - 6/5/39..... 44  
a) Review of Government market for two-week period,  
May 22 through June 3..... 49  
Closing of books - 6/7/39..... 86  
Jesse Jones sells bonds in San Francisco (\$71 million  
California Toll Bridge\*\*\*\*) without notifying  
Treasury and so bond market has "gone sour" - 6/8/39 384  
(For letter, see Book 195, page 2)  
(For Jones' answer and explanation, see Book 198,  
page 362)  
Haas memorandum: "No new money (net) raised by security  
issues, 1933-38, except through United States obligations"-  
6/5/39..... 84  
Fiscal and Monetary Advisory Board  
See Business Conditions: Recovery Program  
France  
See Stabilization: Gold

- G -

Germany  
See War Conditions  
Giannini, Amadeo P.  
See Bank of America  
Gold  
See Stabilization  
Great Britain  
See War Conditions: Czechoslovakia  
See Stabilization: Gold

- I -

Italy  
See War Conditions

- J -

Johnson, Olin (former Governor, South Carolina)  
James Rowe asks Treasury to place in one of tax units -  
6/7/39..... 277  
a) Discussed at 9:30 meeting - 6/8/39..... 387

Mead bill  
 See Business Conditions

Morgan, J. P.  
 Tax refund claimed since 1933: Hanes reports settlement involving about \$1 million to go to eleven people is to be recommended by Bureau of Internal Revenue - 6/7/39..... 194 364

Moses, Robert  
 See Triborough Bridge, New York City

Recovery Program  
 See Business Conditions

Refugees  
 SS ST. LOUIS with 900 refugees aboard:  
 a) HMJr discusses with Hull - 6/5/39..... 79,229  
 b) HMJr consults Coast Guard as to position of boat - 6/6/39..... 234  
 c) Welles tells HMJr Butler Wright will confer with President of Cuba tonight - 6/7/39..... 350

Rural Electrification Administration  
 Effect on program of normal fiscal 1940 appropriation and a substantially larger appropriation discussed by FDR and HMJr - 6/6/39..... 237

Silver  
 See Spain

Spain  
 Jesse Jones asks HMJr for resumé of silver purchases in connection with visit of Franco's Ambassador - 6/7/39 344

Stabilization  
 Gold: HMJr reports to FDR purchases by France and England since December 5, 1938 - 6/6/39..... 321

Surplus Commodities  
 Wheat: Hanes memorandum on export sales, et cetera - 5/29 through 6/6/39..... 325

- T -

	Book	Page
Tennessee Valley Authority		
Norris amendment attached to bill to amend second Liberty Bond Act discussed at 9:30 meeting - 6/5/39	194	53
a) Entire matter of purchase of Commonwealth-Southern discussed		
b) Senator Pope tells HMJr of urgency of case; HMJr states that FDR is writing letter to Doughton approving bill for \$100 million - 6/6/39.....		222
1) HMJr tells Doughton letter was left at White House an hour ago.....		227
Transamerica		
See Bank of America		
Triborough Bridge, New York City		
HMJr asks Robert Moses to send representative to Washington so that plans may be finally settled - 6/7/39.....		342
Conference concerning conflict between bridge and New York Customs House rights - 6/8/39.....		400
a) Letter from HMJr to Secretary of War following conference attached - 6/8/39.....		413

- U -

Upham, Cyril B.  
    See Appointments and Resignations

- W -

War Conditions

Czechoslovakia: American Embassy, London, reports on statement made by Chancellor of Exchequer in House of Commons regarding Czechoslovakia gold balances in London - 6/5/39.....		203
a) Bank of England, when holding gold balances to the order of Bank for International Settlements, does not know whether it holds in fact absolute property of Bank for International Settlements or whether it is in whole or in part for the accounts of others		
b) British Government is legally precluded by terms of 1930 and 1936 protocols from taking any step ***** to prevent Bank of England from obeying instructions given it by its customer, the Bank for International Settlements		
Great Britain: Purchase by British subjects of foreign securities is discouraged by Chancellor of Exchequer - 6/6/39.....		215, 218

- W - (Continued)

	Book	Page
War Conditions - (Continued)		
Italian-German economic agreement: American Embassy, Berlin, reports on provisions for increasing supplies of German raw materials to Italy - 6/6/39	194	213
"Views of Interdepartmental Committee on strategic materials regarding approval of bill S. 572".....		7
a) Hull will present at Cabinet		
Wheat		
See Surplus Commodities		

Sunday June 4, 1939

(Dictated Monday, June 5)

Had Harry White at the house from 5 to 7. Laid out what I considered a good recovery program.

My program would, first, be planned to take care of the people in the lower one-third and, second, would at no place compete with private capital and, third, would be self-liquidating. I had in mind a slum clearance under U. S. H. A.; highways and bridges and tunnels.

Having put White on notice to bring along all self-liquidating projects which had been suggested during the past year, he suggested a corporation to buy land for farm tenants; loans to South America and China; debt settlement agreement with Russia and then a loan to Russia.

I suggested an exchange of cotton for manganese from Russia; going ahead and organizing a corporation which would sell bonds against the already existing utility projects. Projects which would not be self-liquidating, but would take care of the lower one-third: start self-help cooperatives in all cities and country towns, where possible, with grants from W.P.A., patterned after Washington and Richmond; make the Department of Agriculture give us a schedule for expansion of food tickets for surplus food so this would cover the whole of the United States within the next three months. And, lastly, suggested an informal Board which would be a social service and work planning Board.

Harry was most enthusiastic and said his friends would not believe that I was going to suggest a program. The thing totals to some \$4,000,000,000.

In starting out I said I did not want to get into a discussion with him as to compensatory budget or pools of unused savings, etc., but that this was my program and I would like to have him help me develop it.

For the first time Harry told me Eccles has a program which I gather contains recommendations for increasing payments to the Old Age, etc.

At 8:15 I had the following telephone conversation

with Miss Le Hand:

Sunday 8:15 P.M.

2

Called Missy said F & M  
Cunn had sent Pres. memo.  
that we had a swell new  
program, that I felt it  
would have an excellent  
chance if put in force  
to give us a prosperous  
year in 1940.

That I understood he  
was leaving me for

lunch Tues. If he could  
have this group Tues. afternoon.  
Some of the suggestions  
called for legislation. Therefore  
please ask the Pres when  
he saw the leaders Monday  
A.M. Please not to close  
the door until he saw us.  
I said I considered our  
program very important.  
Please to give this  
message to the Pres.  
Wm B.

WASHINGTON, D. C.  
2211 THIRTIETH STREET

At 8:30 we had Edna Lonigan at the house to tell her to get busy to give White the figures on how many people there are that could be reached with the self-help cooperatives. She said without checking she thought there would be about a million.

2211 THIRTIETH STREET  
WASHINGTON, D. C.

Shim clearance 800. million

High way bridges  
tunnels 800 million

Farm Security  
tenant purchases farm 300,  
sell their own debentures

Five power projects  
and sell debentures.

Louis to S. America 500

1. Have social service and work  
 Planning Board. ~~Heads~~  
~~of the~~

---

Self liquidating projects.

FABRICATED BY THE

C. P. HITCHCOCK

4

1. Start self help under W. P. #.  
patterned after Washington and  
Richmond in all industrial  
centers
2. get a schedule for covering  
U.S. with food tickets and  
particularly milk.
3. Extend U.S. Housing.

Conference at Secretary's Home, June 4, 1939, at 5 p.m.  
Secretary, Mr. White present.

The Secretary said it was his opinion that it was essential to have a program prepared that the President would attempt to have adopted by Congress as soon as possible. The program should be one which would insure some measure of recovery during 1940.

He stated that any measures adopted should adhere to three principles: (1) they should be for the most part self-liquidating in character; (2) they should be projects which do not compete with private enterprise; (3) they should be projects designed so far as possible to increase the standard of living of the lowest income groups.

He said that the field ought to be thoroughly explored for the purpose of developing as broad a program as possible of self-liquidating projects. Such a program, he thought, should include at least (1) extension of the U.S. housing program; (2) toll roads, tunnels, and bridge projects; (3) extension of foreign loans for the purpose of promoting foreign trade.

He expressed the view that we should investigate the possibilities for projects similar to Greenbelt and the possibility of the Florida ship canal were it placed on a toll basis. He also expressed himself emphatically against the idea of restriction of production while millions remained undernourished, underclad and underhoused.

As part of the program to be adopted, though admittedly not of a self-liquidating basis, he proposed to urge the extension of the Food Stamp Plan to all communities in the United States and to expand the number of commodities that could be purchased under this plan to include cotton textiles, and dairy products.

He also proposed to extend on a nation-wide basis the self-help cooperative schemes now successfully operated in Washington and Richmond. These last two proposals he felt had much to recommend them both as a means of increasing the demand for surplus products, and as a way of assisting those persons whom the New Deal claimed to take care of but, in fact, neglected to do so.

The Secretary felt that these two latter projects, while not complying with the three principles enumerated above, would be supported by a great many people who were opposed to general spending programs and he felt likewise that the self-liquidating projects would be supported by many people who were opposed to government spending projects.

He stressed the urgency of the task and planned to have a program prepared for a special meeting of the Fiscal and Monetary Advisory Board which was to be held at his office on the following Tuesday (June 6th).

Mrs. Morgenthau later joined the discussion and expressed herself as being strongly in favor of the Secretary's idea.



IN REPLY ADDRESS  
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AND REFER TO FILE NO.

TREASURY DEPARTMENT  
PROCUREMENT DIVISION  
WASHINGTON

BK 194  
House  
—  
200

June 5, 1939

MEMORANDUM FOR MR. *Secy* ~~McKENNELLIS~~

As a matter of possible interest to the Secretary, there is attached hereto a strictly confidential memorandum prepared as a result of the meeting on May 31st of the Interdepartmental Committee on Strategic Materials, together with a copy of a letter of the same date addressed by the Secretary of State to the President, all of which is self-explanatory.

H. E. Collins  
Assistant Director of Procurement

*Secy of State will  
bring up at Cabinet.*

June 1, 1939.

THE VIEWS OF THE INTERDEPARTMENTAL COMMITTEE  
ON STRATEGIC MATERIALS REGARDING APPROVAL OF  
THE BILL S. 572

1. The materials to be acquired are vital not only for the actual operations of our military forces but for the conduct of our ordinary economic life.

2. Without the proposed reserves, our own independence of policy would be seriously hampered (particularly with regard to maintaining a neutral position toward a widespread international conflict), our industry would be crippled, at least to some extent, and our ability to prosecute a war, should we become engaged, would be greatly lessened.

3. Our experience during the World War illustrates the problems to be faced:

(a) At the outbreak of the War practically all of the belligerents and a number of neutral countries embargoed exports of essential materials, including those normally exported to the world market. Henceforth exports were allowed only under strict control and in such manner as to best serve the national interests of the supplying countries.

(b) In

-2-

(b) In most instances the supply of raw materials for export was greatly curtailed because of national requirements for such materials and because of the commandeering of capital, plant, labor, and transportation for immediate wartime requirements.

(c) Even where materials were available for export, the shortage of shipping and the extreme dangers of certain trade routes further curtailed the supply available to other nations.

(d) In many cases raw material supplies were strictly controlled, and actually curtailed even to neutrals, as a result of efforts of the belligerents to prevent supplies from reaching the enemy.

(e) In other cases neutrals and belligerents alike were forced to make concessions on any number of points of controversy in order to reach agreements for the supply of necessary materials.

(f) Because of all of these difficulties, prices of strategic raw materials soared to unheard of heights. For instance, tungsten, which sold for \$7.50 per unit in 1913, reached \$93 in 1916. High-grade manganese was \$37.50 per ton early in 1914 and reached \$400 in 1917. Chromite, which ranged between \$7 and \$12 per ton prior to the War, reached \$80 in 1918.

(g) Even

(g) Even at these exorbitant prices adequate supplies could not be secured from abroad. Desperate efforts were made, therefore, to encourage domestic production wherever possible. Prices were allowed to rise without check as a means of encouraging such production, and the impression was given that the Government would pay any amount to secure certain materials. Any number of plants were brought into existence that could not continue operation after the War, and as a result of the Government's policy of encouragement, hundreds of domestic concerns filed suit following the War for real or alleged losses, both in operations and capital investment; in payment of such claims appropriations of approximately \$11,000,000 were made between 1919 and 1939, and the end is not yet.

(h) With all of these efforts still there was a serious shortage of some materials. In the case of manganese, for instance, it was impossible to secure a sufficient amount of high-grade ore to supply the requirements of the steel industry and as a result the specifications for ferro-manganese had to be lowered from the standard grade, 80 percent manganese, to a very unsatisfactory 70 percent grade.

(i) after

-4-

(i) After the United States entered the War, the War Industries Board commandeered all available supplies of a number of materials and restricted their use wholly or chiefly to the manufacture of munitions or war equipment. In a few cases even these efforts were ineffective and an actual famine of supplies was in prospect as the War ended.

(j) Special problems were faced in cases where one nation controlled all or the major part of an essential material. For instance, the United States was forced to enter indirectly into a restrictive agreement with the Dutch quinine monopoly, and the United States and the other Allies were forced to depend chiefly on smuggling operations in the Soviet Union, after the Russian revolution in 1917, for essential supplies of platinum.

4. In the case of most materials, the supply situation of the United States has not improved since the World War. Domestic production is still insignificant or unsatisfactory in the case of such vital materials as manganese, chromite, and tin; there is still very little rubber available in this hemisphere and we have as substitutes only expensive synthetic materials with limited uses; we still must rely on the Netherlands and Netherlands

East

-5-

East Indies for quinine, on Russia for platinum, and on China (perhaps eventually Japan) for chromite and tungsten.

5. The United States is the only industrial nation of any consequence in the world which has not taken steps to create extensive reserve stocks of essential materials.

6. Purchase of reserve supplies at present prices might very well save the United States hundreds of millions of dollars in comparison with prices which are likely to develop in connection with a major war.

7. Purchases at this time would also tend to offset our present excess of exports and to check the undesirable further inflow of gold.

These are the considerations leading the Committee to advise approval of this legislation, and it recommends also that an appropriation be sought to carry out a major portion of the program promptly. It is the considered judgment of the Committee, after consultation with experts who have studied the matter, that \$25,000,000 could be used effectively for this purpose, and in the national interest, during the next fiscal year.

Members of the Interdepartmental Committee on Strategic  
Materials:

Herbert Feis, Chairman,  
Adviser on International  
Economic Affairs,  
Department of State.

Colonel Harry K. Rutherford, Director  
Planning Branch, Office of the Assistant  
Secretary of War.

Commander L. B. Scott, Office of Chief  
of Naval Operations, Navy Department.

Captain H. E. Collins, Assistant  
Director, Procurement Division,  
Treasury Department.

James W. Furness, Chief of Branch and  
Chief Engineer, Metal Economics  
Division, Bureau of Mines, Department  
of the Interior.

F. H. Rawls, Assistant Director,  
Bureau of Foreign and Domestic  
Commerce, Department of Commerce.

June 1, 1939.

My dear Mr. President:

I understand that in all likelihood the bill S. 572 providing for the acquisition by purchase of reserve stocks of strategic raw materials will be passed by Congress within the next few days and come to you for your consideration. I have already in response to the inquiry of the Bureau of the Budget expressed my view that this legislation is advisable, and understand that all other interested Government Departments have stated the same opinion.

The Interdepartmental Committee on Strategic Raw Materials at a meeting yesterday prepared a memorandum summarizing the supporting reasons for this legislation and at their request I am transmitting a copy of the report to you. I find it an excellent summary which brings out clearly the primary importance both of having legislation of this type passed and of authorizing prompt and adequate appropriations. I should be very glad to discuss this matter with you at your convenience or at Cabinet. I understand that the Secretaries of War, Navy, Commerce and Interior would also welcome the opportunity to join these discussions.

Faithfully yours,

The President,

The White House.

Prepared by Mr. Henry C. Murphy and  
Mr. Haas

14

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 5, 1939

*Supplied ?*  
15

TO Secretary Morgenthau  
FROM Mr. Haas *HA*  
Subject: Mr. Berle's Plan for a System of Capital Credit Banks

SUMMARY

(1) Mr. Berle proposes that a system of capital credit banks be created. These banks would secure their funds largely by the creation of bank deposits, and would use them to finance "worthy" projects at "any rate of interest which is necessary to get the business done".

(2) The proposed Public Works Finance Corporation is merely a special case of a capital credit bank, making loans only to public bodies. Its funds would be raised "primarily through the creation of reserve credit", and its loans would be mostly at nominal or extremely low rates of interest.

(3) The immediate effect of the creation of the Public Works Finance Corporation upon the fiscal position of the Federal Government would be that the deficit, insofar as it could be traced to public works expenditures, would cease to be considered as "deficit", but would be treated rather as "investment" and financed principally by the creation of bank deposits.

(4) Mr. Berle's proposal is based upon a sweeping acceptance of the "under-investment" explanation of the present depression, and a conviction that private industry will never again be able to supply the investment opportunities necessary for full employment.

(5) The difficulties of Mr. Berle's proposal are not so much in the realm of pure theory as in its practical application. These difficulties are so great, however, and the changes proposed in our economic system so sweeping, that it seems best to defer trying it out until we have thoroughly explored the possibility of securing recovery by less drastic means.

Secretary Morgenthau - 2

### I. What Mr. Berle Proposes

In his testimony before the TNEC, Mr. Berle proposed:

(1) That a bill be passed at this session creating a Public Works Finance Corporation "with suitably guarded re-discount privilege at the Federal Reserve Banks".

(2) That a bill be passed at this session to insure loans to small business.

(3) That the TNEC appoint a special subcommittee to study and report to the next Congress a bill providing for a system of capital credit banks.

The bill for insuring loans to small business (the Mead Bill) is the subject of a separate study, and will not be discussed in this memorandum. The proposed Public Works Finance Corporation is merely a special case of a "capital credit bank", making loans only to public bodies.

The only thing necessarily implied in the term "capital credit bank" is that the bank so designated should make loans for the purpose of financing the creation of fixed capital, such as public works, housing developments, or plant and machinery. The capital credit banks proposed by Mr. Berle differ fundamentally, however, from any such institutions, the creation of which has hitherto been seriously considered, both in the method by which it is proposed that they should raise their funds and in the criteria according to which it is proposed that they should lend them. These differences strike to the very roots of the system of private enterprise.

On the lending side, Mr. Berle believes that if the enterprise to be financed is a worthy one, the loan should be made at "any rate of interest which is necessary to get the business done". This rate, he states, would be almost nil in a nonprofit enterprise, and would range upward to commercial rates on "straight business propositions".

This completely reverses the orthodox concept of the proper relationship between the prevailing rate of interest and the advisability of undertaking any particular project. The orthodox concept is that if a project is able to earn the going rate of interest, it is "worthy".\* Mr. Berle turns this

\* A public project, which has no "earnings" to set against its interest cost, is considered to be "worthy" in the orthodox scheme of things if it is sufficiently desired by prevailing public opinion to justify borrowing for it at the going rate of interest.

Secretary Morgenthau - 3

on end and says that if a project is "worthy", it should be charged only as high a rate of interest as it is able to earn. The determination of which projects are "worthy" is thus left to the judgment of the group of economic planners in charge of the capital credit banks, rather than to the objective determination of the market -- such as it is!

The proposed capital credit banks would depart as far from orthodoxy on the borrowing side as on the lending side. Orthodox doctrine would prescribe that they should obtain their funds from savers through the issuance of interest-bearing debentures, or in exchange for bona fide time deposits; and Mr. Berle does, in fact, propose that a portion of their funds should be secured in this manner. A large portion of the funds would be secured, however, by the creation of demand deposits. Mr. Berle makes it particularly clear that most of the funds loaned to public bodies (including the Federal Government) would be so obtained.\* Put in its baldest terms, this means that the proposed capital credit banks would secure a large portion of their funds by a simple increase in the volume of the circulating medium.

As already noted, the proposed Public Works Finance Corporation is merely a special kind of a capital credit bank -- special in that its funds would be loaned entirely to public bodies (including the Federal Government). The immediate purport of the creation of this Corporation would be that the deficit of the Federal Government, insofar as it could be traced to public works expenditures, would cease to be considered as "deficit", and so financed by the issuance of interest-bearing debt. As much of it as could be traced to public works expenditures would instead be considered as "investment" and financed, in the final analysis, principally by the creation of bank deposits. A corresponding revolution would, of course, take place in State and Local finance.

II. The Reasoning Behind Mr. Berle's Proposal

Mr. Berle prefaces his case with the statement that the existing system of capital financing has broken down. This breakdown, he believes, is due to fundamental causes, reaching deep into the economic structure, and remediable only by

\* "The public and quasi-public functions of the bank would have to be financed primarily through the creation of reserve credit" -- Berle memorandum at p. 527 of the private print of the TNEC hearings.

sweeping changes along the lines which he proposes. Unless such changes are made, he believes that the situation is likely to grow worse instead of better, finally precipitating a change by "... the more violent processes which always occur when the country is in great stress".

These are strong words and grave consequences to impute merely to a deficiency in underwriting technique, and it is clear that Mr. Berle has something far more fundamental in mind. What he means is that we have been unable under our existing system for nearly ten years to attain a full employment of our material and human resources, that this unemployment is likely to increase yet further "during the next major downturn of the business cycle (due in any case within four or five years)", and that the people will finally lose patience with this impasse and seek to end it by a violent process of change which may ultimately sacrifice far more values than it gains.

The present chronic depression is, in this view, due primarily to a lack of adequate investment outlets for the funds which people insist upon saving. The savings are made from habit, irrespective of whether any profitable use for them is in sight or not; but, unless such outlets do appear, result only in unemployment. This unemployment, in the analysis of Keynes, creates business losses, which reduce the amount actually realized by the savers as a class to the aggregate amount of the net physical investment actually accomplished.

One of the reasons why the funds of savers -- and would-be savers -- fail to find an outlet in physical investment is that they demand an interest return at the going rate. If no interest, or only a very low rate of interest, were demanded, many projects would be feasible which are not under present conditions. Mr. Berle proposes to cut into the present impasse at just this point by having his capital credit banks loan money so that such projects -- if "worthy" -- could be undertaken at "any rate of interest which is necessary to get the business done". The employment created by such projects, plus the secondary employment created by the demand for consumption goods on the part of those benefitting from the projects in the first instance would, in theory at least, restore full prosperity in short order.

It is clear, however, that if the capital credit banks are to loan their funds at nominal rates of interest, they cannot very well borrow them at "the going rate". It is necessary, therefore, to inquire into what the going rate of interest is and how it happens to be determined.

According to Keynes, the going rate of interest is simply the price charged by owners of capital for foregoing liquidity. It would seem to follow from this that, if the capital credit banks cannot afford to or do not wish to pay the persons who supply their funds the "going" rate of interest -- that is, the going price for foregoing liquidity -- they must furnish them instead with a liquid instrument, with respect to which no such price would need to be paid. This is exactly what is proposed -- the liquid instrument being a demand deposit in a commercial bank.

It is an inevitable corollary of this that, as long as such a process continued, the aggregate supply of liquid instruments -- in this case bank deposits -- would continue to pile up, just as the supply of interest-bearing bonds would pile up if the financing were carried on by that means -- as in the case of the Federal deficit today. Such a piling up of bank deposits would, under orthodox doctrine, be considered highly inflationary.

It is argued by Mr. Berle, however, that no evil consequences would follow from a piling up of deposits in the present instance. As long as the deposits remained idle stores of value held by savers desirous merely of holding their savings in liquid form, they would naturally not be inflationary. This would be the case in the immediate future. To the extent, however, that such deposits should be used to purchase goods and services, the objective of the capital credit banks would be to that extent attained, and their operations could be correspondingly contracted. Should the spending of the deposits result in restoring full employment, the activities of the capital credit banks could be suspended altogether and the mechanism reversed -- converting bank deposits into interest-bearing debt -- in an amount sufficient to prevent an inflationary rise in the price level.

In any event, it is argued, an inflation is impossible as long as there is a substantial supply of unemployed labor and capital, since an increase of money expenditures under such conditions would have its primary effect in increasing the physical volume of production rather than in raising the price level.

### III. Some Difficulties

The difficulties in Mr. Berle's proposal are not so much in the pure theory as in its practical application. The difficulties of application are so great, however, and the changes proposed in our economic system so sweeping, that it is worth

Secretary Morgenthau - 6

while to consider whether the existing situation is really as desperate as Mr. Berle supposes, since, if it is not, the application of such a drastic remedy may be unnecessary.

It is Mr. Berle's fundamental premise that private enterprise, left to its own devices, will never be able to absorb in profitable investment the savings of the economy, and so permit full employment. This may or may not be the case. There is considerable reason, from theory and observation, for believing it to be so, but those who arrived at such a conclusion during past periods of protracted depression have been belied by subsequent experience. It seems best, therefore, to defer trying so drastic a plan based on this supposition until we have exhausted the possibility of securing recovery under the auspices of private enterprise as now organized.

Apart from the question of the reality of the alleged necessity for trying it at the present time, however, the principal practical difficulties of Mr. Berle's plan appear to be as follows:

(1) The plan involves, as previously pointed out, an amount of "economic planning" hitherto unprecedented in this country. Under it, projects of almost all sorts would be undertaken, or not undertaken, in accordance with the judgment of the managers of the capital credit banks as to whether or not such projects were "worthy". The managers of the capital credit banks would be the most powerful persons in the country, and Mr. Berle's hope that the system could be kept out of politics is chimerical.

This objection is not insuperable. "Politics" is merely another way of expressing the democratic process, and has its good points as well as its bad ones. The allocation of projects under political auspices may be as good or better than that now had under the auspices of present day finance -- but we should in any event make the change with our eyes open.

(2) The Berle plan is probably incompatible with our existing fractional-reserve commercial banking system. As long as the capital credit banks co-existed with commercial banks operating under a fractional-reserve system, every dollar of bank deposits created in order to finance a corresponding amount of public works would make possible -- by piling up excess reserves -- a secondary expansion of six or seven times that amount. While the primary expansion might, with expert

Secretary Morgenthau - 7

control, be prevented from causing an inflationary rise in prices, the secondary expansion would almost certainly be disastrous.

The possibility of such a secondary expansion could be obviated by the adoption of the so-called "100 percent reserve system" for demand deposits, and the adoption of such a system would probably be necessary should we go very far along the route which Mr. Berle recommends. This objection is not fundamental, however, since the 100 percent reserve system has much to commend it upon other grounds; and, while radical, is not nearly as radical as Mr. Berle's proposal itself.

(3) Assuming that we are willing to accept the decisions of our political-economic planners on the allocation of our resources and have -- by the adoption of the 100 percent reserve system, or otherwise -- taken suitable steps to prevent any secondary expansion of bank deposits from arising on account of the operations of the capital credit banks, the supreme test of the Berle plan would be our ability to prevent the primary expansion itself from ultimately causing a disastrous inflation.

In theory, the primary expansion could be controlled and prevented from having any untoward effects. To do so, however, would require, not merely excellent judgment on the part of the money managers, but the courage and resolution to do very unpopular things and to do them promptly.

In the event of an incipient inflation, it would be necessary to prevent the further increase and, perhaps, cut down the existing supply of circulating medium. In order to accomplish this, it would be necessary, at the least, to increase sharply the quoted rates of interest on "worthy" projects, thereby dooming many of the most popular of them to be stillborn. If this were not sufficient, it would be necessary to convert as much of the circulating medium as might be necessary into interest-bearing debt, and finance the interest disbursement thereon from taxation. If these things were not done when full employment were attained and the price level commenced to rise, the plan would probably result in wildfire inflation. Whether or not these things would be done in the political environment existing at that time, no person can now say.

NATIONAL RESOURCES COMMITTEE  
NORTH INTERIOR BUILDING  
WASHINGTON

22

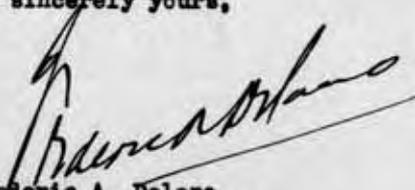
June 5, 1939.

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

My dear Mr. Secretary:

I am very sorry that the course of events changed the meeting of the Fiscal Advisory Committee which had been called this morning to another day, and fixed the meeting with The President for tomorrow, Tuesday; for I am leaving on the midnight train tonight to see my sister, Mrs. Forbes, sail at eleven o'clock tomorrow for Paris, and will return to Washington immediately. Under the circumstances, I must ask you to forgive my absence.

Very sincerely yours,



Frederic A. Delano  
Chairman, Advisory Committee

TREASURY DEPARTMENT

23

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE June 5, 1939

TO Secretary Morgenthau  
FROM Mr. Haas   
Subject: The Business Situation,  
Week ending June 3, 1939.



Conclusions

(1) Evidence is becoming more and more unmistakable that a pronounced rise in business activity is getting under way. Unless it should be upset by some new shock to business confidence, the present rise seems likely to develop into a substantial upturn within the next few months, and on a strong basic foundation. Unlike last year, it may be accompanied by rising commodity prices, since world demand is apparently increasing, and stocks of various basic commodities have been materially reduced.

(2) Further indications of an improving business trend include: (a) a rise of 1.6 points in the New York Times adjusted index; (b) a boom in cotton textile buying somewhat similar to that which initiated the 1938 rise in textile activity; (c) a substantial increase in specifications on recent steel orders, which promises to extend the recent unseasonal rise in steel activity; (d) a marked upturn in electric power production; (e) continued improvement in security prices here and abroad; (f) an upturn in Canadian business activity after four months' decline.

(3) A well-sustained level of retail buying, as shown by department store sales and rural retail sales, provides one evidence of the sound foundation on which a rising business trend is being built.

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The present situation

There seems practically no doubt that a substantial rise in business activity is getting under way, barring adverse developments abroad. Basic conditions had already become

Secretary Morgenthau - 2

favorable for such a rise. The strong recovery movement which began in the summer of 1938 was not permitted to get out of hand, owing to conservative inventory policies followed by businessmen because of uncertainty over price trends, hence no maladjustments developed that might have brought on an extended recession. Since goods have continued to move rapidly into consumption, the moderate setback in industrial production early in 1939 has served to strengthen the business foundation and prepare the ground for a renewal of the recovery movement begun last year.

The strong foundation underlying the present business upturn is shown graphically in our usual monthly chart of basic business indices. (See Chart 1.) The "basic demand" index, which serves to indicate maladjustments between production and demand, shows that production dipped too low during the early part of this year. Since there is now no problem of liquidating inventories built up through previous over-production, as was the case in 1938, a rise in production may be expected quickly. As is usual during an upturn in business activity, the "basic demand" index should also show more or less improvement, in line with the improved demand for industrial products.

The excessive dip in production this year, as compared with the actual "offtake" of manufactured goods, is reflected in our combined sales index (in physical volume), shown in the center section of the chart. While sales turned down in April, owing to a combination of war scares, bad weather, and the coal strike, the decline in production was even greater.

New industrial orders (shown in the lower section of the chart) turned down in April from the same causes, but the index of new orders remained somewhat above its usual relationship to the production index, suggesting a bullish situation somewhat analogous to that in early 1935 or early 1936.

Furthermore, recent data show an improvement in new orders during May, while the production index has remained at approximately its low April level. Our weekly index of orders (See Chart 2) has risen to around the year's high level. Increasing specifications on recent steel orders, together with last week's boom in textile orders, will doubtless bring a marked further gain in the new orders index in succeeding weeks. Reported figures which make up the index lag somewhat behind the dates of actual ordering.

Secretary Morgenthau - 3

Price rise may accompany business upturn

Unlike the situation last year, when a weakening foreign situation and heavy stocks of various commodities prevented the usual rise in prices that accompanies increased business activity, commodity prices this year seem in a favorable position to improve as business improves. This would add a strengthening factor to business confidence that was lacking last fall, when the failure of prices to improve led businessmen to keep their inventories trimmed and buy on a hand-to-mouth basis.

The independent strength shown by commodity prices recently, before business showed visible signs of a turn, is one indication of a change in the underlying price situation. Additional evidence is provided by reductions in stocks of basic industrial materials, as compared with those at the end of May last year, when the 1938 business recovery began. The following table shows a comparison of domestic stocks of leading industrial materials for which figures are available:

	<u>May 31, 1938</u>	<u>Most recent</u>	<u>Unit, and most recent date</u>
Copper	369,809	332,513	Short tons, refined, April 30, 1939
Lead	164,636	123,394	Short tons, refined, April 30, 1939
Zinc	148,120	130,380	Short tons, slab, April 30, 1939
Tin	3,679	3,387	Long tons, May 30, 1939
Cotton	11,640	14,261	1,000 bales, in mills and warehouses, April 30, 1939
Rubber	309,812	205,214	Long tons, March 31, 1939
Hides	13,874	12,911	1,000 skins, March 31, 1939
Wool	109,487*	94,309	1,000 pounds, March 31, 1939

\* March 31, 1938.

During the past week, basic commodity prices have sagged slightly following their previous rise. Stock prices in London, Paris, and New York, in the meantime, have continued upward.

#### Textile sales improve

Announcement that the WPA would purchase more than 41,000,000 yards of cotton goods on June 13 came as a further stimulant last week to a strongly active textile market. Following several days of heavy buying of cotton goods, the announcement brought a large volume of gray goods buying from converters, who usually are active participants in bidding on Government contracts. Sales of print cloths mounted in four days to 65,000,000 yards or over, according to trade reports, equal to about one-third of the estimated stocks of these goods in mills at the end of the previous week. The heavy demand brought general price advances on print cloths, sheetings, and other classifications of cotton goods.

Both buyers and sellers, according to reports from the trade, are inclined to the belief that the cotton goods markets have turned, and that "continued price improvement can be expected from now on." The situation is likened to that of last June, when a heavy demand for cotton textiles signalled the end of the 1937-38 business recession. The WPA purchases will apparently clean up the available stocks in many sections of the primary goods markets, and pave the way for increased textile activity. Meanwhile, rising cotton prices have made some volume of loan cotton available for mill consumption, certain estimates indicating that 100,000 to 150,000 bales were released during May.

#### Steel rate increasing

The unseasonal upturn in steel activity over the past two weeks (See Chart 3) may be followed by a further increase during the current week, since operations in the Youngstown district are scheduled for an additional advance of one to two points. New orders reported by the U. S. Steel Corporation for the week ending May 25 increased to 53 per cent of capacity, versus 43 per cent the previous week. This is the first upturn since the recent price concessions, and apparently reflects the beginning of actual specifications against orders provisionally booked at that time.

The expansion in steel activity is due, in an important degree, to the production of automobile steel on recent orders, on which the steel companies are pressing for early specifications and shipment. A substantial increase in specifications is reported in the current issue of the Iron Age. In some districts, on the other hand, the upturn is attributed to a general rise in demand. Since shipments of automobile steel will undoubtedly extend into the third quarter, steel production will be supported by the recent orders for a considerable period.

The current strike at the Briggs plants, which has resulted in a severe curtailment of automobile production at the Chrysler and Ford Company factories, may postpone completion of the 1939 model season and delay production of 1940 models. According to the Iron Age, this may result in a bulge in steel production in July and August, when it is usually lagging. As a result of the strike and the Memorial Day holiday, automobile production was reduced last week to 32,445 units, which compares with a figure of 80,145 two weeks ago (before the strike).

Retail sales well maintained

Despite the coal strike and war scares, department store sales were well maintained through April, according to the Federal Reserve Board's seasonally adjusted index. (See Chart 4, upper line.) Sales during May, however, reflect the influence of the coal strike, the settlement of which was not reflected in payrolls until the week ending May 20. Weekly figures on department store sales during May appear to indicate a decline of about 4 points in the adjusted index for that month (indicated by dotted line), though this estimate is tentative.

As a potential business factor, the volume of retail sales is particularly significant in comparison with the level of retail store inventories. In the center section of the chart, we have expressed the FRB department store sales index as a ratio to the corresponding index of department store stocks, both seasonally adjusted. This indicates that department stores, as potential buyers of finished goods, are now in approximately as strong a position as at the end of 1936.

The well-maintained level of retail buying is especially apparent in rural districts, according to Department of Commerce data on rural sales. (See Chart 5.) While farm income,

Secretary Morgenthau - 6

including Government payments, has closely approximated that of 1938, rural sales this year have risen above the higher figures of 1937. Sales by local merchants, however, are not included in this index, and it is possible that the increase reflects some diversion of rural buying to chain stores and mail order houses.

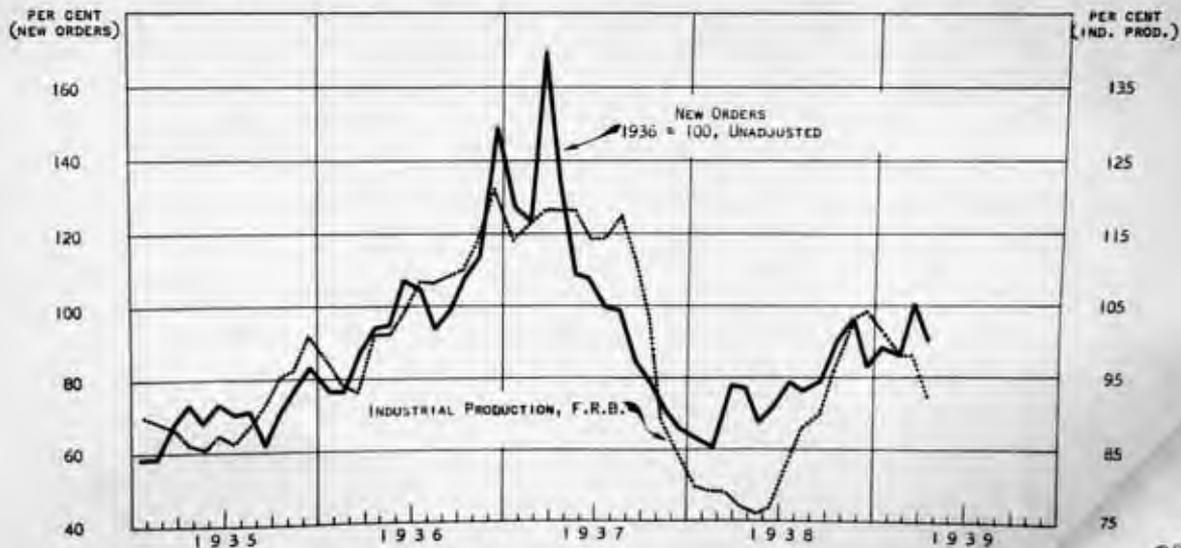
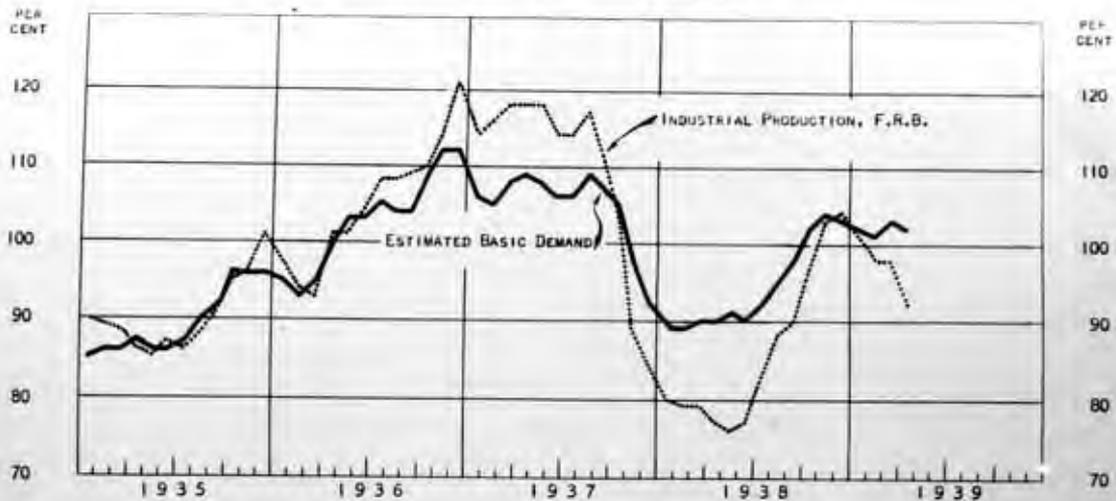
Business activity higher

The New York Times business index for the week ending May 27 rose 1.6 points to 87.6. Substantial increases in steel production, electric power production, and lumber production, and an increase in the seasonally-adjusted index of cotton mill activity, were partly offset by a drop in automobile production. The upturn does not represent a further recovery due to settlement of the coal strike, since car-loadings were practically unchanged, but largely reflects other improving business factors.

A rise in Canadian business activity during April, after four months of decline, with activity in May apparently somewhat better, appears significant as a further indication of improving world business. The Annalist's index of Canadian business activity rose to 74.5 (preliminary) for April, versus 72.4 in March. There are some reasons, according to the Annalist, why the April improvement in Canada may be the forerunner of further substantial gains.

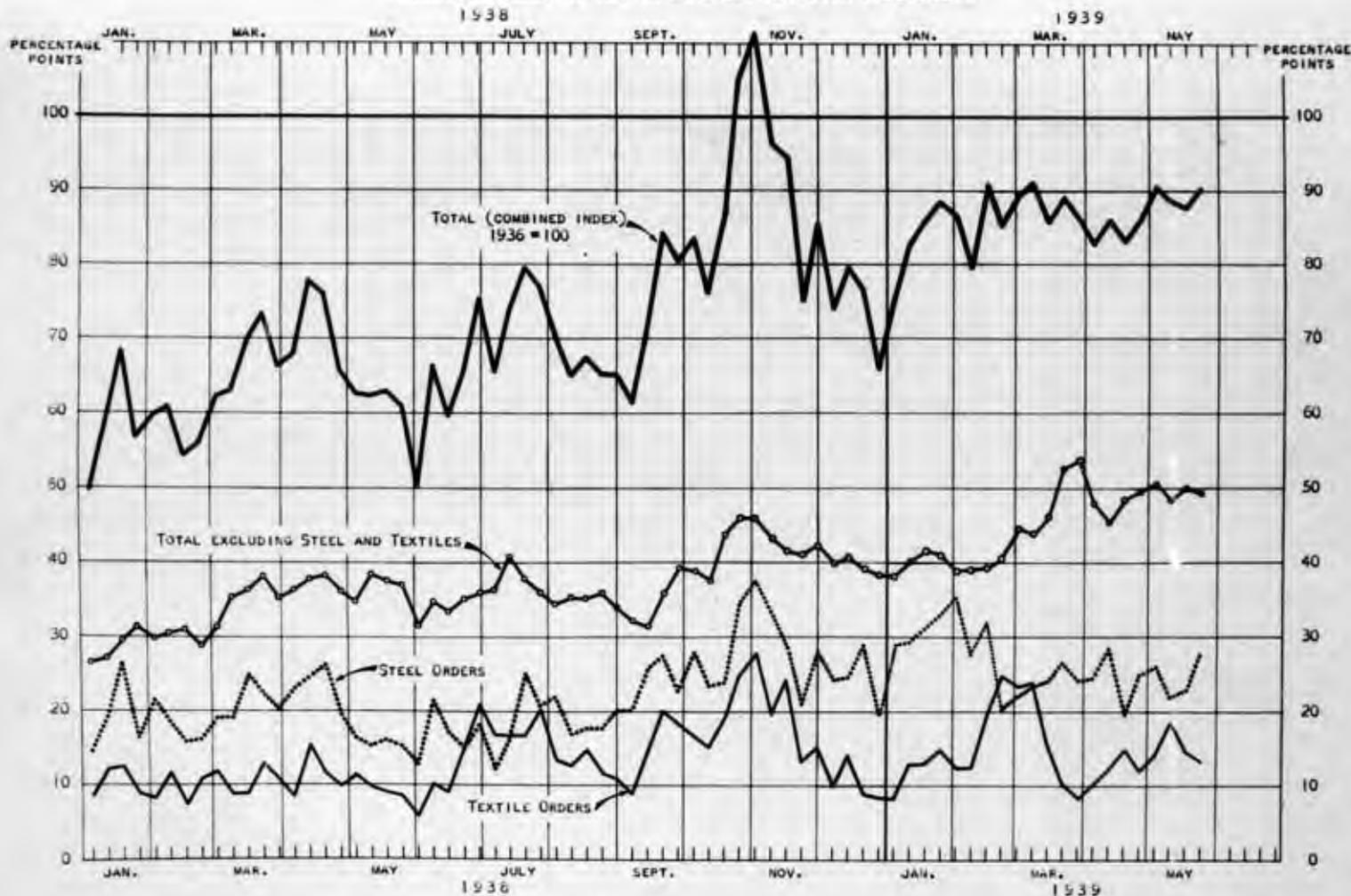
# INDICES OF BASIC BUSINESS TRENDS COMPARED WITH INDUSTRIAL PRODUCTION

1923 = '25 = 100, SEASONALLY ADJUSTED\*

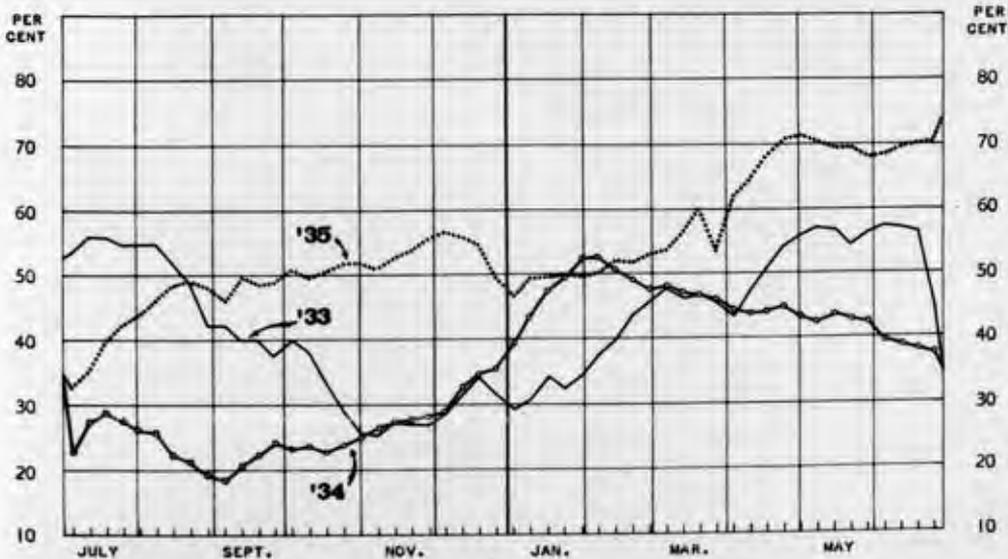
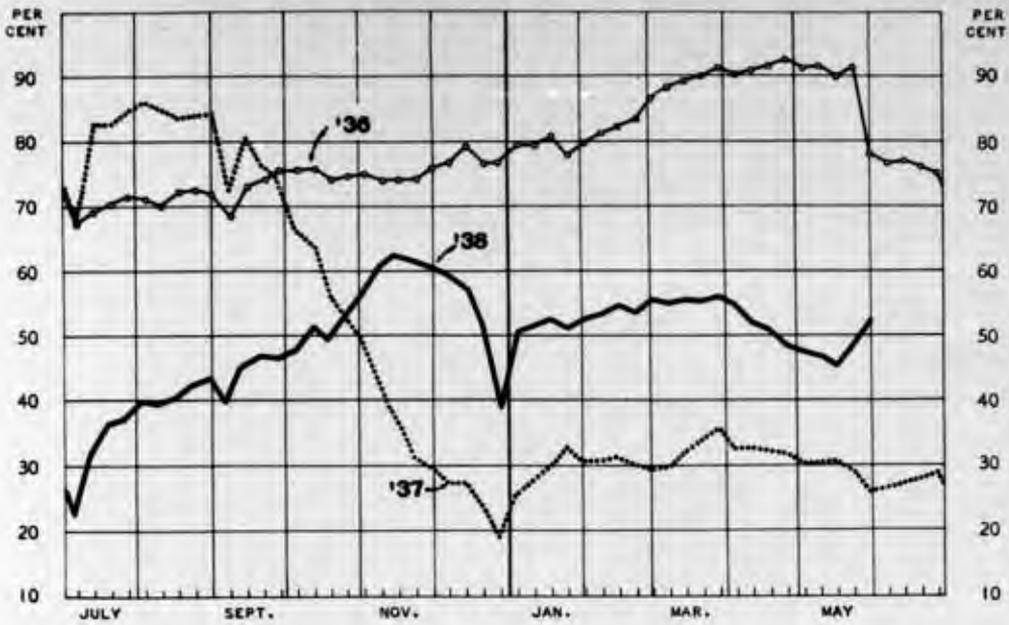


\*EXCEPT NEW ORDERS  
 †REPRESENTS "OFFTAKE" OF MANUFACTURED GOODS, IN PHYSICAL VOLUME

**INDICES OF NEW ORDERS**  
**Combined Index of New Orders and Selected Components**



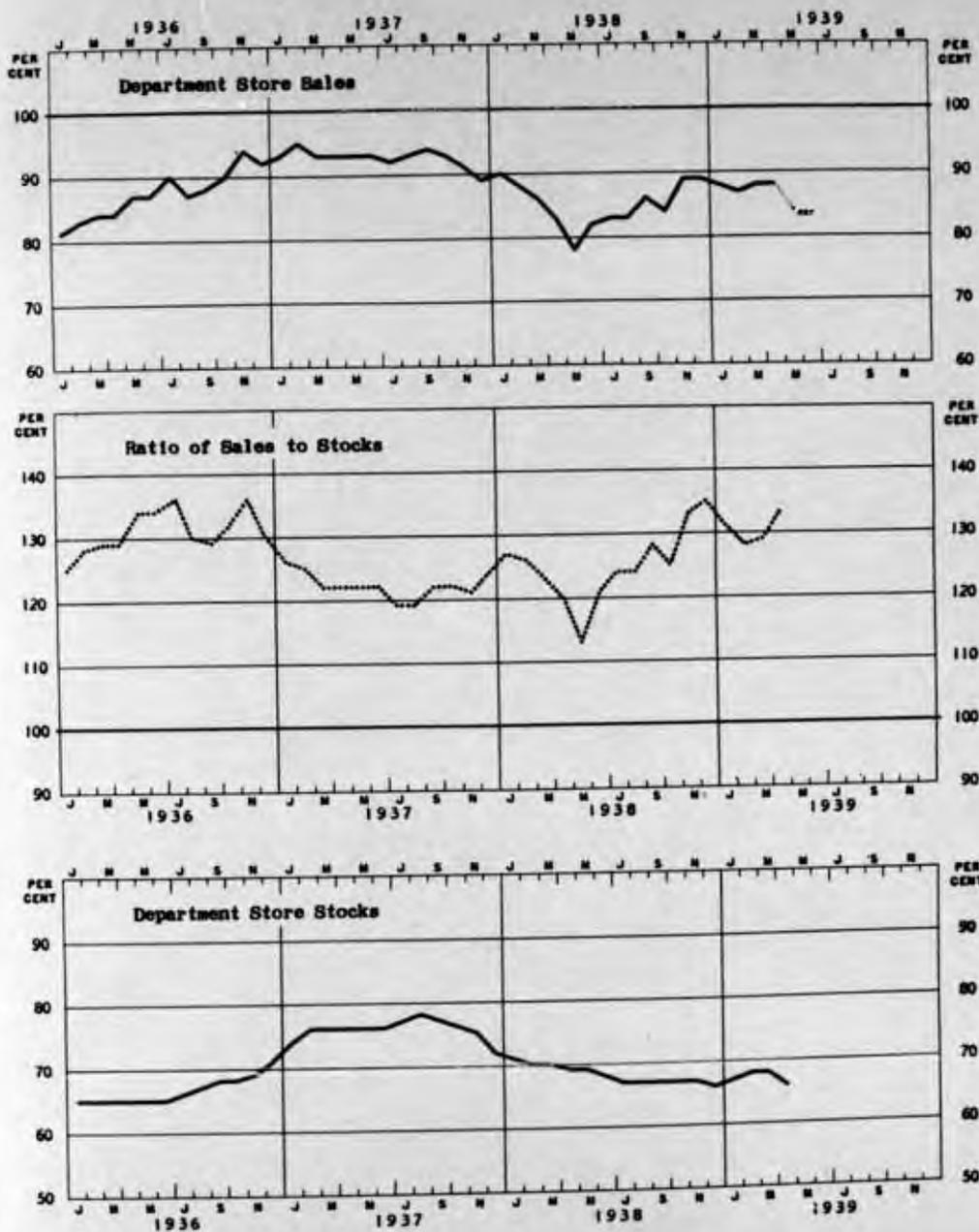
**WEEKLY STEEL OPERATING RATE IN PERCENT OF CAPACITY**  
**Comparison of Years Beginning July; 1933 to Date**



SOURCE: AMERICAN IRON AND STEEL INSTITUTE

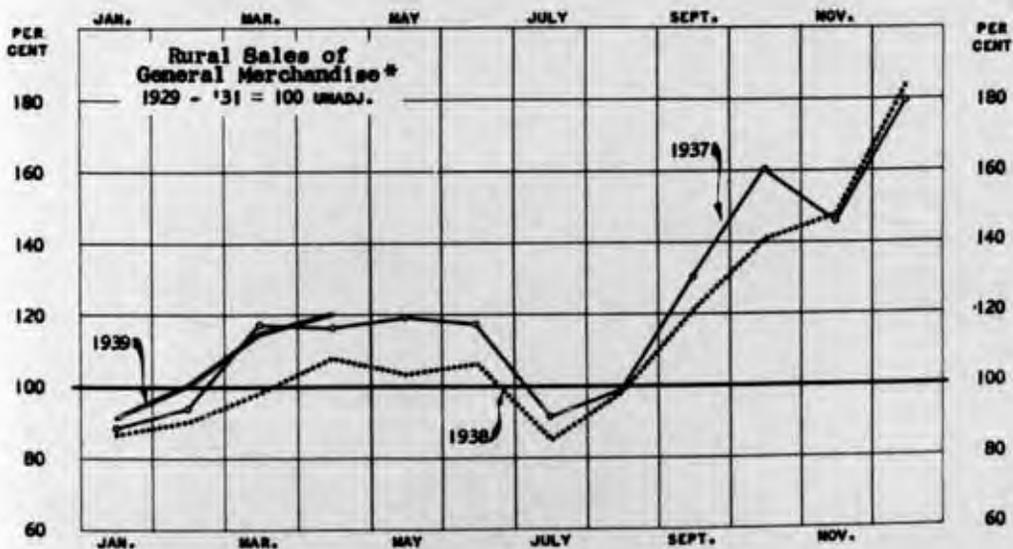
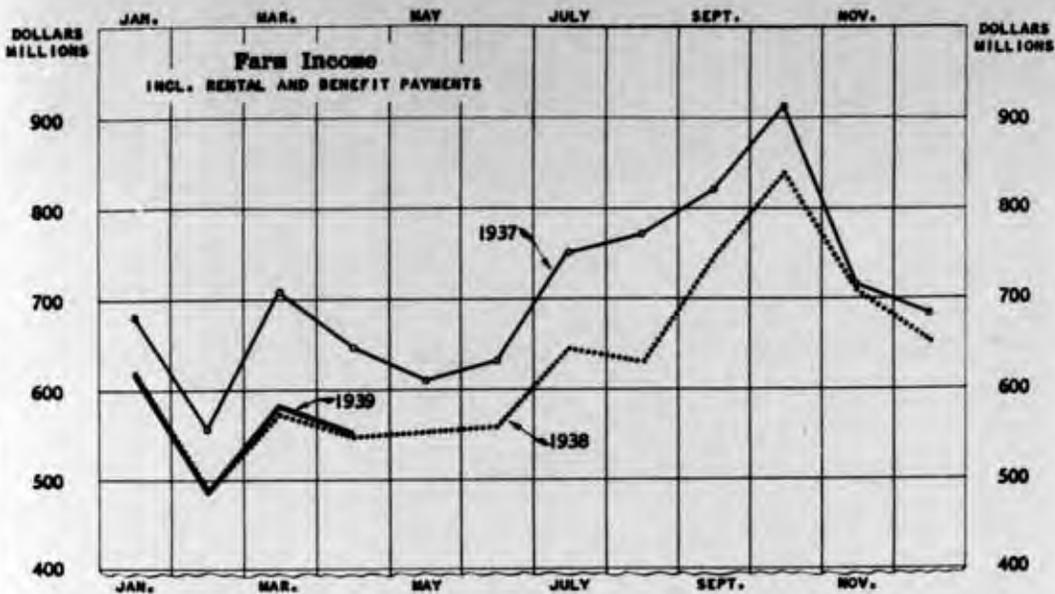
## DEPARTMENT STORE SALES AND STOCKS \*

1923 = '25 = 100



\*Seasonally Adjusted

## FARM INCOME AND RURAL SALES OF GENERAL MERCHANDISE



\* DEPT. OF COMMERCE INDEX OF DOLLAR SALES OF GENERAL MERCHANDISE IN SMALL TOWNS AND RURAL AREAS

June 5, 1939  
11:00 a.m.

Present: Mr. Milo Perkins  
Dr. Viner  
Mr. Gaston  
Dr. White

H.M.Jr.: I don't know how much Harry has told you. What I am trying to do is get up a program, in confidence, for the President. We have until 12:30 tomorrow. This is the so-called Fiscal and Monetary Advisory Committee which is known in this office as uphill and downhill committee.

I want to know -- I would like to recommend to the President that within three months the whole United States be covered with this orange and blue ticket plan -- that by the first of October the whole United States be covered. What would it mean? What would it cost? What would you do? What would be the results? What would you get for your money? I want the whole country covered by the first of October. I say, "I" -- you understand what I mean. I want to recommend it. I want to know where you fellows are stalling.

Perkins: We are not stalling.

H.M.Jr.: Oh boy, oh boy, one city a month.

Perkins: Well, there are lots of reasons for that.

H.M.Jr.: Well look. To save your time and mine, how much would it cost to put this system in so that by the first of October the whole United States would be covered?

Perkins: Well, in the first place I think it would be impossible to do a decent job by October 1st. I think that's going faster than would be physically possible to go. You could do it perhaps, if you got all your key people concentrated on it entirely. You might get 75% or 80% by January 1st and then it would be one terrible job administratively.

Now, as to cost there are 22 million people in the country who are eligible for it and I would think that bearing in mind you can't get going completely for the whole year that possibly from \$250,000,000 to \$300,000,000 would be adequate.

H.M.Jr.: For the fiscal year?

- 2 -

Perkins: For the fiscal year that's coming, yes, sir. And I don't think you could get it going any faster than that.

H.M.Jr: \$250,000,000?

Viner: About \$40. to \$50. a family. Right?

Perkins: No, it would run -- families getting public assistance -- we figure a family of four would get \$2.00 a week. Theoretically you see you get a figure of about \$500,000,000, but actually 25 percent of the people getting public assistance are single people through whom the thing would not work. I think \$250,000,000 is all you could spend in a fiscal year. Under this plan each family now getting an average of \$1.00 a week gets \$1.50 and the Government puts up the extra fifty cents. I don't know how much you have kept up, Mr. Secretary, with the reaction of people to this thing.

H.M.Jr: We had Miss Lonigan up in Rochester.

Perkins: But I was thinking more of the reactions of people in other groups. I have never seen such united support of as many diverse people in all my life. I was over at the Business Advisory Council the other day and they swallowed it hook, line and sinker. Rex Tugwell, who is certainly in a different category, thinks it is an excellent idea. Stuart Chase has a very good article in Cosmopolitan magazine; Life has good pictures, so from the standpoint of the Administration and from the standpoint of what the American people want, it is apparent the majority of our citizens, irrespective of party politics, think it's a heck of a note that you have people living on a nickel diet when you have surplus products.

H.M.Jr: You don't have to sell me on it. Do you know when I started.

Perkins: Two or Three years ago.

H.M.Jr: You don't have to sell this to me. I mean, I am one hundred percent for it. I want to include it in this program. Now, Harry is a mathematician and if we did this \$250,000,000, how would you figure in terms of what it would do to the national income? Have you figured it that way?

White: Before you answer that could you give us the rate at which that would reach? You say you have to begin slowly and this is for the fiscal year. Let's take January, 1940. At what monthly rate would you be hitting?

- 3 -

Perkins: Out of 22 million people I think, bearing in mind single people who would not participate, I think 15 million would be a pretty adequate coverage.

Viner: 15 million all the time.

White: That would be \$180,000,000 for the last half of this fiscal year. Is it expedient, could it be extended to certain textiles, whether that would increase.....

Perkins: On textiles I am very interested in the economics of that thing. I have just finished a study of the consumption of cotton. If you brought everybody up in the country to a \$22.00 income in terms of cotton consumption, you would consume an extra 2 million bales of cotton and would add income of \$100,000,000 to the South. You are not going that far but as much as you can hope for.

But what you have there is a substitute for W.P.A. and that's a policy question. I don't know whether you want to raise it or not but to the extent you print these stamps good for certain kinds of cotton goods and give them too little income, people who make it possible for cotton mills to employ people in the mills they could not otherwise do. I think it's the kind of works program the country would support. It means a greater textile market and again, thinking in terms, in political terms, it means eighty percent of the advertisers of the country, grocers, and dry goods people, would be solidly for it. The press would be ninety-five percent favorable.

H.M.Jr: How much do you need for cotton textiles? Does your \$250,000,000 include that?

Perkins: No. I want to talk to you about the difficulties of the administration.

H.M.Jr: Now listen, young fellow, I don't know what's going to happen. I helped you on this business to get the administrative setup. My God, when I was in Farm Credit we set up ten thousand of these committees -- what do you call them?

Gaston: Debt conciliation committees.

H.M.Jr: And the things we did in those days! Why you're talking now about the first of January. If we were back in 1933 I don't care how big it is, we would set it up in three months. It's just a question of doing things the way we used to do in 1933 when we had people with shotguns on court house steps saying they wouldn't let them sell their farms. I don't know -- I don't want to get into too much detail today because this is a shotgun affair -- I want to get something to the President by 12:30 tomorrow.

- 4 -

Viner: Have you had enough experience at Rochester to feel sure you know what the bugs are on the administrative side, what the bottle necks will be?

Perkins: Yes, we were astounded that there were no hitches in the administration.

Viner: Do you need a big man at each point? Is it a question of personnel?

Perkins: Yes, and complications of local relief setups. We hear talk that nobody is on the dole. As a matter of fact, there are more on the dole than on relief. For instance, in Rochester there are 34,000 on W.P.A., 7,000 on city dole, and 2,600 on veterans' and social security. Every town has a different way of administering relief, and the way we are operating now is the only way, in my judgment. Of course I am sold on it and I am as much in favor of sledge hammer, quick action as anybody I know, but if we are going to proceed on the basis we are, on stamps, and combine it, then you run into administrative competition because every city has a different setup.

Gaston: Why don't we demand of the cities that they have their board set up a coordinating organization whose word we will take.

Perkins: Oh, that's what we are doing. We can't hope to satisfy the public.

White: Well, Milo, it does seem that nine months for as good a thing as that is a lot of time.

Perkins: I will tell you where you could get it going, with a bank, but I have sort of got my fingers crossed. If you give simply the blue stamps for surplus food and ignore your orange stamps you can go in a hurry, but we need the orange stamps to be sure that people will spend as much for food as they have been spending before.

H.M.Jr: That's too important.

Perkins: We can't abandon that.

H.M.Jr: No. Let me have the figures again for Rochester.

Perkins: Rochester? 34,000 people on W.P.A., 7,000 to 7,100 on city and state relief -- by the way, the city and state are combined and the combination is different and you have to see both the city and state people before you can get any work done.

H.M.Jr: 7,100, that's dole?

Perkins: Direct dole. 500 on veterans' relief, 1,450 people getting old age assistance, and 600 people getting county relief in the city of Rochester. That will give you an idea of the applications.

H.M.Jr: If you worked out a formula in Rochester, once you did it in Rochester you can do it for your other cities.

Perkins: No, Mr. Secretary, every city is different. We are finding out more about relief setups than anybody ever knew before.

H.M.Jr: I still say if the President wanted it and he told the relief people and Lattimer's people and "Everybody get together", we will make this thing go and we will give every administrative help we can, you can.

Gaston: Wouldn't it be better to leave some of the abuses to be left until later in view of the necessity for speed?

Perkins: You have got possibilities. One of the great dangers -- to give you an idea of what we ran into, the dairy people got to the relief people in Rochester and although they have all of these people on dole, every family gets milk on a fixed basis delivered to them and the amount of the bill is deducted from the relief check, so you then run into a situation where people were unable to buy a dollar's worth of orange stamps because they had young children and were getting so much deducted from their check that there wasn't enough left to buy stamps. So we tried to get a formula together which we called "Killing the Children". You go into Dayton, you have a completely different setup.

White: In a community that has these requirements we will consider the people on the list and.....

H.M.Jr: Harry, we are getting into too much detail. All I want is the overhead figures.

Perkins: Given the money, by January 1st I would say we could get plenty of help on personnel -- I would say in six months you would have it going in seventy-five or eighty percent of the cities of over 25,000.

H.M.Jr: Let me ask you this. If you wanted to do cotton textiles how much money could you use?

Perkins: The maximum on cotton textiles, based on figures I have just given you, is one-half billion dollars. If you brought every family in the United States on cotton goods under the \$23.00

level it would take one-half billion dollars. That's out of the question. My guess is we ought not go beyond a top of one hundred million dollars on that, but you could very easily.

H.M.Jr: Well, one hundred million dollars would use how many bales of cotton?

Perkins: Would use -- twenty-five thousand would use two hundred million bales -- it would be four hundred thousand bales. That's a works program.

H.M.Jr: That would come out of W.P.A.?

Gaston: It would make work.

Perkins: That's right. Twenty cents out of the dollar will go to the cotton farmer. Fifty cents to employ labor in the cotton mills, and the other thirty cents is for transportation, retail cost, etc.

H.M.Jr: So much the better.

Perkins: And there's a works program that the country would support.

H.M.Jr: But you could use one hundred million dollars there?

White: How about liquid milk?

Perkins: We could put liquid milk on our stamps right now. We did in Rochester because they were already getting milk. There is objection to putting fluid milk on blue stamps because you have a milk monopoly in every city. Given time we could use the blue stamps to get fluid milk in every grocery store at two cents cheaper than at the house delivered, but on the new basis you are hurting the monopoly.

H.M.Jr: That's a story in itself.

Perkins: You can handle cheese better.

H.M.Jr: What I am trying to get is an overall picture and for the moment I am talking around fifty to one hundred million dollars.

White: It already can be between three hundred and four hundred million, whichever way.

H.M.Jr: How much is, at present, the agriculture bill for this purpose?

Perkins: The only money available comes from section 32. Ninety million dollars is our thirty percent of customs receipts this year and there is this appropriation pending for one hundred thirteen million -- in the conference committee. If we got that we will not have over.....

H.M.Jr: Two hundred million?

Perkins: Theoretically we could use it, but the President is out on a limb for the cotton subsidy program fifty million dollars; wheat export twenty-five million dollars; some agricultural conversion such as peanuts to oil which will take at least one hundred million dollars.

H.M.Jr: Out of the ninety million dollars?

Perkins: Out of the two hundred million dollars, you have a twenty-five percent limitation on commodities.

H.M.Jr: So out of the two hundred million dollars there is free?

Perkins: One hundred million dollars would be free for stamps or whatever purpose you wanted.

Gaston: You need two hundred million more for cotton and you would take care of the country on this?

White: Hides are very low. Any reason why you can't include shoes? You can use as much money as you can get allocated. The limiting factor, the allocation of the money and not what they can make use of.

Perkins: If you rush the thing on the basis of straight blue stamps you could be going in three months.

H.M.Jr: No, I think that's the beauty of this. You have something wonderful. I wouldn't change it.

Perkins: Your help -- I don't need to tell you how much we appreciate it but the mechanics of writing regulations -- maybe because I have a sales background all my life -- one of the reasons we have got so much support is because we acted with restraint. The fact that we waited because we wanted to find out how it works, all that was very good public relations strategy in my opinion.

Viner: Also good public administration.

Perkins: As a matter of fact, we could not have gone much farther but we don't know we are going to get this one hundred thirteen million dollars. We have to bear that in mind. We have a lot of agriculture commitments and I take full responsibility for this. I didn't want to get other towns started until I saw what happened in Rochester. We discovered that you can shop with stamps, and smoothly, and redeem them rapidly. The Treasury is getting checks out every forty-eight hours. Fleming said he would write every bank. Clay Williams said he would take time to put Winston-Salem over. One man said, "I think it's a national disgrace that children are living on a five cent meal in this country."

H.M.Jr: I have what I want. Harry, for this purpose do we need a memorandum?

White: Yes, we have enough.

Perkins: Of course, I had no information what this meeting was going to be.

White: We will have something prepared and will have something for you tonight.

H.M.Jr: Because I have this message, that the President will see us tomorrow at 12:30.

White: I am sure he can give you the memorandum we need for our purpose by tonight.

H.M.Jr: Do you want to ask any questions?

Viner: It sounds all right to me. One of the things I am interested in is how they would handle personnel; how much responsibility is on the local man, because as I see it you won't be able to do very much standardization because there is not time to change local relief setups.

Perkins: We are utilizing the local people for certification and in every city other than Rochester we are using them for the actual selling of the stamps. Rochester is the only place where we undertook the administration cost of the selling of the stamps.

White: I think as you progress you will see similarity appears. What may seem like a different situation in each locality will soon form a group where you will find the same thing. One of your tasks will be to find out what setups are not the same.

Perkins: We are starting Dayton today; they are snowed under. We sold more in Dayton today than in the last two weeks, and that in the face of pretty stiff social welfare operation. What that proves is hunger of the people is stronger than sabotage of the professional welfare worker who told them they will be stigmatized as paupers. In Dayton the city has taken over the whole thing. There is so much local responsibility. It means going to the town officials. It means a survey of the relief setup, talks with bankers, grocers, chamber of commerce, the press, mayors. We have only two men whom we could trust to go out and get this started. They have to know something about agriculture, salesmanship, and have to have horse sense, know how to handle the press, smooth out differences.

White: But as things gather momentum it makes your problem easier as you go on. It isn't as important that we go more rapidly than we are going, but if you are taking on from 15 to 20 cities a month and people have got hope that it is coming and there is something to look forward to, I would like to say that's much more important than complete coverage in 90 days.

H.M.Jr: You're right; you're right.

Perkins: Furthermore, again for political reasons, the time for this thing to hit its peak is toward the spring of next year and that's when we can do it more easily, but if you start taking 15 to 20 cities a month and everybody knows about it, I think you are doing a creditable Administration job.

H.M.Jr: I think you are right.

Perkins: Hope is an awful lot.

Viner: I wonder why when you get it started it doesn't rest with the local people rather than with you.

Perkins: The administrative job does rest with the local people after you get started and we don't need to man the town two months after it is started. Your difficulties are in inaugurating the thing.

Viner: It seems to me that once you start it in three or four towns the way to spread it is for their relief people to get organized before they have the plan and send somebody to study the stamp so your participation can be quite minor.

Perkins: That's what we did in Dayton. The Dayton city manager and the head of public relief spent four days in Rochester. We are finding out a lot. One thing, we found out from the public welfare angle, we said, "Positively, we are through going into a town until the grocers put enough pressure on public welfare to make them come to us."

White: Couldn't you get that public pressure working in your favor by merely indicating the list of cities you want to cover?

Perkins: But it takes time.

H.M.Jr: Haven't you plenty of cities that want it? You have a waiting list?

Perkins: Yes. As a matter of fact, we have had to send the grocers a letter to tell them to quit hollering. All I was doing was seeing delegations asking that their home town be given tickets.

H.M.Jr: I will appreciate it if you will give me a memorandum.

## TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,  
Monday, June 5, 1939.  
6/3/39.

Press Service  
No. 17-78

Secretary of the Treasury Morgenthau announced today the offering, through the Federal Reserve banks, of 5 year  $3/4$  percent Treasury Notes of Series A-1944, in exchange for  $1-3/8$  percent Treasury Notes of Series D-1939, maturing September 15, 1939. Exchanges will be made par for par, and accrued interest on the notes exchanged will be paid to June 15, 1939. The offering of the new notes will be limited to the amount of maturing notes tendered and accepted in exchange therefor. Cash subscriptions will not be received.

The Treasury Notes of Series A-1944, now offered only in exchange for Treasury notes maturing September 15, 1939, will be dated June 15, 1939, and will bear interest from that date at the rate of  $3/4$  percent per annum payable semiannually. They will mature June 15, 1944, and will not be subject to call for redemption before that date. The notes will be issued only in bearer form with coupons attached, in the denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000.

The Treasury notes will be accorded the same exemptions from taxation as are accorded other issues of Treasury notes now outstanding. These provisions are specifically set forth in the official circular issued today.

Subscriptions will be received at the Federal Reserve banks and branches, and at the Treasury Department, Washington, and should be accompanied by a like face amount of  $1-3/8$  percent Treasury Notes of Series D-1939,

- 2 -

maturing September 15, 1939, with final coupon due September 15 attached. The notes will be accepted at par, and accrued interest on such notes from March 15 to June 15, 1939, (\$3.4375 per \$1,000 face amount) will be paid following their acceptance.

The right is reserved to close the books as to any or all subscriptions at any time without notice, and, subject to the reservations set forth in the official circular, all subscriptions will be allotted in full.

Treasury Notes of Series D-1939, maturing September 15, 1939, are now outstanding in the amount of \$426,554,600. The present offering will be the only opportunity afforded the holders of these maturing notes to exchange them for other interest-bearing obligations of the United States. Any maturing notes not so exchanged at this time will be paid in cash when they mature.

The text of the official circular follows:

## UNITED STATES OF AMERICA

## 3/4 PERCENT TREASURY NOTES OF SERIES A-1944

Dated and bearing interest from June 15, 1939.

Due June 15, 1944.

Interest payable June 15 and December 15

1939  
Department Circular No. 611

TREASURY DEPARTMENT,  
Office of the Secretary,  
Washington, June 5, 1939.

Public Debt Service

## I. OFFERING OF NOTES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par, from the people of the United States for 3/4 percent notes of the United States, designated Treasury Notes of Series A-1944, in payment of which only Treasury Notes of Series D-1939, maturing September 15, 1939, may be tendered. The amount of the offering under this circular will be limited to the amount of Treasury Notes of Series D-1939 tendered and accepted.

## II. DESCRIPTION OF NOTES

1. The notes will be dated June 15, 1939, and will bear interest from that date at the rate of 3/4 percent per annum, payable semiannually on December 15, 1939, and thereafter on June 15 and December 15 in each year until the principal amount becomes payable. They will mature June 15, 1944, and will not be subject to call for redemption prior to maturity.

2. The notes shall be exempt, both as to principal and interest, from all taxation (except estate or inheritance taxes, or gift taxes) now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority.

3. The notes will be accepted at par during such time and under such rules

and regulations as shall be prescribed or approved by the Secretary of the Treasury in payment of income and profits taxes payable at the maturity of the notes.

4. The notes will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege.

5. Bearer notes with interest coupons attached will be issued in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. The notes will not be issued in registered form.

6. The notes will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States notes.

### III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of notes applied for, to make allotments in full upon applications for smaller amounts and to make reduced allotments upon, or to reject, applications for larger amounts, or to adopt any or all of said methods or such other methods of allotment and classification of allotments as shall be deemed by him to be in the public interest; and his action in any or all of these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

#### IV. PAYMENT

1. Payment at par for notes allotted hereunder must be made or completed on or before June 15, 1939, or on later allotment, and may be made only in Treasury Notes of Series D-1939, maturing September 15, 1939, which will be accepted at par, and should accompany the subscription. Coupons dated September 15, 1939, must be attached to the notes when surrendered, and accrued interest from March 15, 1939, to June 15, 1939, (\$3.4375 per \$1,000) will be paid following acceptance of the notes.

#### V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve banks of the respective districts, to issue allotment notices, to receive payment for notes allotted, to make delivery of notes on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive notes.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve banks.

HENRY MORGENTHAU, JR.,  
Secretary of the Treasury.

TREASURY DEPARTMENT

49

INTER OFFICE COMMUNICATION

DATE June 5, 1939

TO Secretary Morgenthau

FROM W. H. Hadley

Review of the Government Market

Two-week Period May 23 through June 3, 1939

For the week ending May 27, Treasury bond market was relatively quiet and, in comparison to the previous weeks, practically unchanged. This levelling off followed a steady climb over a period of six weeks of about three points in the longer issues. However, for the week just ended long Treasury bonds resumed their sharp rise and moved up another point. Just prior to the preliminary announcement of June financing the market was quiet but gained considerable activity on the news of no new cash and a new note issue. For the two-week period as a whole, bonds callable after 1949 were up 21/32nds to 1 point 8/32nds in the last two issues. Guaranteed issues were also strong, showing gains of 3 to 12/32nds, while Treasury notes showing a positive yield were up 3 to 4/32nds.

Until the announcement of the June financing there was considerable shifting between maturities and some trading out of long bonds into "rights" on the expectation of a new offering of long bonds. When this did not materialize and announcement of a new note was made, the "rights" of September, 1939 dropped from 101.29 to a low of 100.31, from which level they recovered to close the week at 101.3.

This morning the offering of 3/4% 5-year notes appeared to be well received and was quoted at the opening at 101.10-12. There was fairly good demand for these notes all day, with the closing quote 101.7-9.

HOLC Financing

The offering by the HOLC on May 22 of a 1-1/2% 6-8 year bond in exchange for the 3-5/4s of August, 1939 was well received, but the fact that there were over a million pieces outstanding very widely distributed throughout the country resulted in a turn-in of but 75% of the called issue of \$905 million. These bonds are now quoted at 102.8-10, a gain of about 1 point from opening price two weeks ago.

Dealers' Portfolios

Although dealers' holdings did not change much in total over the two-week period, they moved through a range of about \$16 million. Unlike other financing periods, holdings in Treasury note "rights" were not increased substantially. At one time these "rights" holdings were up to \$31 million but were subsequently reduced to about \$20 million, at which point they held during the last ten days. Treasury bond holdings ranged in the neighborhood of \$40 to \$50 million and HOLC issues in the neighborhood of \$40 million. The principal changes in holdings were a decrease of \$15 million in Treasury notes and increases of \$17 million in HOLC issues and about \$5 million in Treasury bonds.

(in millions)

	<u>Week ended</u> <u>May 20</u>	<u>Week ended</u> <u>June 3</u>	<u>Net Change</u>
Treasury bonds	42.6	47.3	+ 4.7
Treasury notes (1 year)	27.7	20.6	- 7.1
Treasury notes (1-5 yrs.)	28.7	20.7	- 8.0
Treasury bills	0.1	-	- 0.1
H.O.L.C. bonds	32.0	49.1	+17.1
F.F.N.C. bonds	<u>10.5</u>	<u>6.8</u>	<u>- 3.7</u>
	141.6	144.5	+ 2.9

During both weeks volume totaled approximately \$200 million daily. In the first week HOLC volume was the principal item as a result of the

new offering. \$190 million HOLC bonds were traded on the day of offering and \$130 million the second day. Last week HOLC volume continued large but considerably reduced, averaging about \$40 million daily, Treasury sales accounting for a substantial part. Treasury bond volume during the period was about \$120 million daily.

#### New Security Issues

The only new security issue of any significance offered to the market during the two-week period was a \$9 million 4-1/2% bond of 1954 (rated BAA) of the Montana-Dakota Utilities Co. Offered at 101, it was immediately quoted at a 3 to 3-1/2 point premium. There was, however, a \$23-1/2 million private sale of Indiana-Michigan Electric Company first mortgage 3-1/4% of 1969, which was sold to fifteen insurance companies.

#### Corporate Bond Market

The corporate bond market showed firmness throughout the two weeks. Average gain was about a point. Considerable demand continued for high grade issues, which showed sudden strengthening immediately following the Treasury financing announcement. The spread between high grade and second grade issues steadily decreased during the last two weeks, showing an increasing investment interest in second grade issues. A reduction in spread between high and second grade bonds has always been in the past a favorable sign of returning business confidence.

#### Treasury Investment Accounts

In addition to the \$20,272,000 HOLC "rights" previously reported sold (as of Monday, May 22) sales in the market for Treasury investment account included \$14,870,000 various Treasury issues held by the Alien Property Bureau. In addition to these sales, purchases totaling \$571,000 long term

bonds were made in the market for various District of Columbia accounts. There was also a purchase of \$21 million Special 2% notes for account of Postal Savings.

Sale of HOLC Bonds

Of the proposed \$100 million HOLC 1-1/2% bonds to be sold from time to time in New York, \$23,500,000 were sold last week and \$15,000,000 more were sold today, making a total of \$38,500,000.

Federal Reserve System Account

Transactions in the market by the Federal Reserve for the two weeks included replacement of two maturing bill issues, one of \$43,440,000 and the other of \$42,373,000, for a total of \$85,813,000. In addition, on Thursday, June 1, the Federal Reserve sold \$4 million long bonds and replaced them with \$4 million various intermediate bonds for the purpose of softening the rapid rise of long term Treasury bonds.

On the new Treasury note issue offered today, Federal Reserve holds approximately \$70 million "rights".

## GROUP MEETING

June 5, 1939.  
9:30 A. M.

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

H.M.Jr: Have you (Bell) got that report on the T.V.A.?

Bell: I'll have it down here in a few minutes. I can tell you roughly what it is. They gave me a letter in March in which they said that the cost of the Commonwealth Southern properties would be about 78 million dollars. The City of Nashville had to contribute a certain proportion of that cost, but what that proportionate share will be they don't yet know. But they estimate that the T.V.A.'s share will be somewhere between forty-five and fifty million dollars for that property alone, in Tennessee. Now, they have other properties scattered around through the State belonging to other utilities, and some in Alabama and Louisiana that belong to Commonwealth Southern, which will probably run between fifteen and twenty million dollars. So that the total requirements that they can see now out of the hundred million dollar bond issue will be in the neighborhood of sixty-five to seventy million dollars. That's about the picture.

H.M.Jr: They don't need the other?

Bell: Well, they may need it to buy transmission lines and.... They didn't undertake to reduce it because they had put fifty million dollars in each section - there was fifty million dollars in each section, and they just combined the two sections. But I

- 2 -

suppose they could get along with seventy million dollars. They spent three, you know.

H.M.Jr: They could get along with seventy?

Bell: I suppose so.

H.M.Jr: Has anybody asked them?

Bell: No, I haven't. We haven't questioned the hundred million dollar limitation.

H.M.Jr: Well, I think just at this time if they'd limit it to what their needs are, it would be very good. Who do you know over there?

Bell: Well, I know Kohler and I know Blandford, the Executive Secretary - the Manager - Executive Manager.

H.M.Jr: Will you call him up on the phone and say, in view of the discussion and everything, if they don't need more than seventy to seventy-five, why not just ask for that? That they should get out a statement explaining it - I mean I think it would make a much better feeling all around. Huh?

Bell: Yes, I'll do that.

H.M.Jr: Could you do that this morning? Could you let me know?

Bell: Supposing they have some other use for it.

H.M.Jr: Let them say so.

Bell: It may be a couple years off. Do you want them to go back to Congress?

H.M.Jr: Yes. I'm not trying to limit them but I think just at this time - the President has told me he has no other public utility expansion in mind, so why ask for additional money more than they need? I think it's bad publicity for the President.

- 3 -

(McReynolds comes in)

McR: Only twenty minutes after 9:00 by three clocks in my office.

H.M.Jr: Congratulations. Will everybody contribute ten cents to buy him an alarm clock? Can't we get a good alarm clock for a dollar?

Viner: Say, doctor, how's your golf?

H.M.Jr: I want you to know that the doctor doesn't interfere with his golf anyway.

Well, will you....

Bell: Yes sir, I will.

H.M.Jr: ...have a talk and tell them that there is nothing in my mind as to trying to place any limitation or anything, but I just think it's a mistake from the standpoint of the Administration for them to ask for more money than what they really need; that's for the - well, for this year. Dan?

Bell: Uh-huh. I'll do it.

H.M.Jr: What?

Bell: I think one come-back will be that it will be terribly embarrassing to them to go up and ask for a reduction after Senator Norris has put it through the Senate twice - a hundred million dollars.

H.M.Jr: Let it be done in the House.

Bell: The House is where they had difficulty - quite a bit of criticism in the May committee.

Foley: They'll vote that amendment either up or down in the House, Mr. Secretary.

H.M.Jr: What's that?

Foley: They'll vote the amendment either up or down in the House.

- 4 -

H.M.Jr: How do you mean up or down?

(Hanes comes in)

Foley: It will go to the House, I suppose, solely on the question of agreeing on the Senate amendment, and there won't be any chance to amend it. It will be either approved or disapproved.

Hanes: Is that the hundred million dollars?

Foley: Yes, the hundred million dollars stuck on our bill.

Hanes: Mr. Doughton just called me a minute ago and said the amendment was coming over there, and there had to be a unanimous agreement in their Committee in order to agree to the Senate amendment, and he didn't see any hope of getting a unanimous agreement. He wanted to know what the Treasury's attitude was about the amendment, did you have any objection to it?

H.M.Jr: Well, I personally have no objection to it, but what I was thinking of - from the standpoint of the President this would be a swell chance for him to say - well, Dan has been working on it and they need about 70 million dollars, see - and simply say, "All that I want is the 70 million dollars necessary to consummate the T.V.A. deal with Commonwealth and Southern; we don't - it's just for that and for nothing else. And I said that we don't want any - have no other expansion in mind, and it's just for that." I think it would be a swell opportunity for him if he wants to take it.

Now, I'm asking Dan to call up the General Manager of T.V.A. and ask them if 70 million is what they need. You see, there's been no explanation of the hundred, no explanation where the money is going to go.

Now, I don't - if we could get that, we could get word to the President very quickly and ask him whether he didn't want to use this as an opportunity; then he could say to Doughton, "I don't need a hundred but T.V.A. does need 70 or 75, and this is why they need it."

- 5 -

- Foley: Then they'd strike it off this bill and they'd ask May to make the change in the Military Affairs Committee, and the bill may never come out; you see, he's been holding it there for months.
- Bell: They could reduce it from a hundred million to seventy-five in conference.
- H.M.Jr: Not May.
- Bell: They could do that in conference.
- Foley: You mean Doughton could do it?
- Bell: Yes.
- Foley: If it goes to conference. I didn't know it was going to go to conference. I thought they were just going to submit it to the House without having a conference on it. You see, there's no change in the main bill. The main bill passed both Houses exactly the same. And on a question as important as this, where there's been no vote in the House and the thing has passed the Senate twice, I understood they were just going to put it up to the House without having a conference.
- Bell: I see. Well, I didn't know that.
- Hanes: They must be thinking of having a conference, because it's come back to the Ways and Means Committee, which was the originator of the resolution, and I should judge by what Doughton said that they're going to go to conference with it before it goes to the floor of the House.
- Bell: That would be the normal thing unless the House conferees ask for instruction. That would be the normal course.
- H.M.Jr: Ed, look, if they can get through the hundred million, all right, then I don't have to say anything or do anything. But I'm going on the assumption that they can't. What do you think, John?
- Hanes: If they can get the hundred million through the House?

- 6 -

- H.M.Jr: Through the House - the Ways and Means. They've got to get unanimous consent.
- Hanes: They've got to get unanimous consent. That's a very difficult thing to get. I think the objection will be on what you're going to do with that other thirty million, which is what the Republicans, of course, are going to hop on.
- H.M.Jr: What I'm trying to do is have the President take the jump, get out a statement - or T.V.A. get out a statement: "We only need 70 million dollars. This is what we're going to do with it." I think on that basis they can get it. Don't misunderstand me. I want them to have it.
- Foley: I see your point.
- H.M.Jr: But it's silly to start - all the papers have been running stories that we only need 45. Well, Dan has been working on it since Saturday for me and he says they need 70.
- Bell: Between 60 and 70.
- H.M.Jr: Now, I'd give a bill of particulars and say, "This is what we need. We need 65 or 70. This is what we need it for." Then put up a fight for it. Does that make sense to you?
- Hanes: Sure, be a lot more chance of getting it through the Committee.
- H.M.Jr: And not wait until the Republicans smack us down.
- Foley: Yes. The only thing I wanted to bring out was that if you attempt this compromise before a compromise is necessary, you may drive the T.V.A. out of its trading position and then get nothing.
- H.M.Jr: Well, I don't know whose handling the bill, but we can certainly find out from the T.V.A. what they really need. That's the first thing. And my thought was to work entirely with the White House, make this suggestion to the White House and let them advise us what they want done. We can't go very far wrong

- 7 -

on that. In the meantime, John, if you would tell him that we're working on it and we're trying to find out what is the position of the White House, what do they want.

- Hanes: Well, I'm going up there at 10:00 o'clock, so I told him I would tell him when I came up there just what your attitude was about it and what you wanted him to do on it. He's just asking us to tell him how to proceed.
- H.M.Jr: Well, the minute this meeting is over, Dan will call up this fellow, get the facts, and I'll get word to the President and ask him what he'd like us to do.
- Hanes: If you could get word back to me up there by the time this hearing is over by noon....
- H.M.Jr: We will. But Dan will get word....
- Hanes: ....he could keep his Committee right there.
- Bell: We have reported to the Military Affairs Committee of the House that we have no objection to the bill.
- Foley: That's right. It's the same bill, you see.
- H.M.Jr: (On White House phone). Isn't General Watson in? Good morning. - Please.
- Well, do we understand, Bell, that you'll carry the ball on that?
- Bell: Yes, sir.
- H.M.Jr: And let me know?
- Bell: Yes, sir.
- H.M.Jr: Mac?
- McR: I have nothing.
- Gibbons: (Nods nothing).

- 8 -

H.M.Jr: Harold?

Graves: (Nods nothing).

H.M.Jr: We'll have those people....

Graves: They'll be here at 10:00. I haven't been able to reach Mr. Helvering. I talked with his people and they're uncertain as to how he might be fixed this afternoon. I suggest we might set down a time for him to come here and I'll notify Mrs. Klotz if....

H.M.Jr: Well, I can see him between 3:00 and 3:30.

Graves: Fine, and I'll notify her as soon as I find out.

H.M.Jr: Wait a minute, press conference is at 3:00. I can see him between 3:30 and 4:00.

Graves: Fine, and I'll advise Mrs. Klotz whether he can come or not.

H.M.Jr: Any time you want to go, John....

Hanes: I don't have to leave here until about 10:00 o'clock.

Lochhead: General foreign exchange conditions continue to improve, with the exception of the guilder. Great Britain - Bank of England informs us this morning they picked up some dollars there, about three million dollars. First time they picked up any dollars....

H.M.Jr: Who did?

Lochhead: Bank of England. First time they picked up any dollars in several months. So the undertone is very good.

H.M.Jr: Harry?

White: The inflow of capital has stopped and in fact a slight outflow took place. Been getting smaller. Just turned very slightly. Central bank balances are continuing to come in, but the private balances have gone out. And there's even been an outflow of

- 9 -

domestic securities account; that is, they've sold more than they have bought the last week.

This is the letter which Mr. Gaston spoke about as having been sent by one of your Secret Service agents  
....

Gaston: No, it was Harry Anslinger.

White: I think it's worth reading, particularly the last page in which he speaks of how high Roosevelt's stock is in Europe; that even Englishmen have more faith in Roosevelt than in Chamberlain. Some things there need to be taken with a grain of salt, but it....

There was a news item in the Financial News of passing interest, reporting that Schacht's son is now in Mexico negotiating....

H.M.Jr: (On White House phone) Hello. - Hello. - Good morning. I was trying to catch you before you saw the President. - Good. - I wrote him a letter - I'm Chairman of a Committee called the Fiscal and Monetary Committee of which Mr. Eccles, Frederic Delano, the Director of the Budget, and myself are members. I understand the President is having me for lunch tomorrow, and I'd very much like to have him see the four of us after lunch tomorrow. - - That's Eccles and Director of the Budget Smith, see? - Yes, we need an hour. We're going to bring lots of books and lots of charts. - - That's too much. Let him eat in peace. - No, I'd like to prepare him. And then if he'd give us.... - - Fiscal and Monetary Committee. O. K.? - Thanks.

We should have a map of the White House to know where these fellows are located. They've always got to get in with the President - stand outside waiting for an hour to get in.

White: I was about to say that Schacht's son is now in Mexico negotiating for an exchange of a million barrels of oil for German trucks and machinery.

You did bring up a couple weeks ago the question of your presence at a round-table. I don't know whether you've forgot about it.

- 10 -

H.M.Jr: I turned it down. That's the Fortune round-table. I'm not going to go up there and sit around with those men.

White: I don't know whether you know it or not, but the President read - presumably read this speech by Ruml.

H.M.Jr: And so what?

White: Well, I thought you might want to read it.

H.M.Jr: That I want to read Ruml's speech?

White: Yes.

H.M.Jr: No.

White: I gave you a copy of it.

H.M.Jr: Yes, I know.

Viner: You mean before the Retailers?

White: Yes.

Viner: He thinks it's a good speech - Ruml.

White: I gather you don't, but the President does, so I thought the Secretary might want to read it.

Klotz: He sounds good.

Viner: I know he does. He told me. I know he thinks it's a good speech. He told me before and after.

H.M.Jr: Well, I sat between the President of the Retailers and Mr. Sams, the President of J. C. Penney, and they said there wasn't a man in the audience that knew what Ruml was talking about.

Gibbons: Wasn't Father Ruml, was it?

H.M.Jr: There wasn't a man in the audience that knew what he was talking about.

- 11 -

White: He showed me the speech right before he made it and that was the opinion I formed, that if anybody  
.....

H.M.Jr: I sat between the President of the Retailers and Mr. - is it Sams?

Hanes: Sams, President of J. C. Penney.

H.M.Jr: And they both said there wasn't a person in the room that knew what he was talking about - completely over their heads.

White: He said he didn't care. But I just mentioned it.

Klotz: Oh, that's good.

White: Thought I'd tell you.

Gibbons: I imagine Harry is sold on his speech.

White: I trust that isn't why you're not going to read it - because it went over their heads.

H.M.Jr: No, for reasons I explained to you at yesterday's meeting, I don't want to get in on the theoretical side, I don't want my thinking clouded.

White: Mr. Coe has had....

Klotz: He didn't get that.

Viner: Reminds me of Owen D. Young, who once said he never reads what the economists say, he doesn't want to get his own thinking mixed up with anybody else's thinking.

White: Which reminds me of what Jeff Coolidge said when he was here, that he never gets anything out of reading.

McR: Harry, you're doing very well.

Gaston: Sounds like a good speech, Harry. Will you let me have a copy?

- 12 -

H.M.Jr: Something like Jeff - when he used to look out of the window.

(Hearty laughter)

O. K.

White: This Mr. Coe has had a bid to go down to the Virginia Conference to make a speech, or give a paper, on Canada - Canada in the world economy. He'll be there as a Professor of the University of Toronto, not an employee of the Treasury. I take it that's all right.

H.M.Jr: (Nods yes).

Any other good news?

White: No.

Duffield: Mr. Eccles....

White: Oh yes. Sorry. Milo Perkins has said he'd be very glad to see you at your convenience to tell you about Rochester. And there's been an indication of how rapidly and why, et cetera, this extension can take place. He said you were certainly a great help to them and he'd be very happy to keep you constantly informed.

Bell: Might be interested to know that most of those stamps are coming back through the banks instead of through the retailers and wholesalers.

Foley: Has there been any difficulty yet, Dan, on it?

Bell: No, so far as our machinery is concerned, no difficulty.

Foley: Have much have we disbursed so far?

Bell: Little less than a hundred thousand dollars in that one city.

Gaston: That's redemptions?

Bell: No, that's disbursements. Redemptions have been much more.

- 13 -

H.M.Jr: Johnny, Jesse Jones is going to have lunch with me today instead of tomorrow because the President switched me. Will you be here today?

Hanes: Yes, sir.

Duffield: Mr. Eccles can't come at 10:30.

H.M.Jr: When?

Duffield: This morning. Wasn't it down for 10:30 this morning?

H.M.Jr: He was to let us know whether he could come today or tomorrow.

Duffield: And he doesn't know about this afternoon or tomorrow. That depends on the Committee - whether he can come tomorrow.

H.M.Jr: Well, let's call a meeting - a meeting of the Fiscal and Monetary Committee for 10:30, Eccles or no Eccles.

Duffield: Didn't you have Preston Delano down for 10:30 tomorrow?

H.M.Jr: The Fiscal and Monetary is more important. Fiscal and Monetary at 10:30.

And when are you men going to be ready to report?

Duffield: We're still counting on tomorrow. That was the....

H.M.Jr: Well then, let's make it 9:30 tomorrow, and maybe you (Hanes) can sit in with us at the beginning.

Hanes: Sure.

H.M.Jr: Just make it for the Banking Committee....

Duffield: 9:30 tomorrow.

H.M.Jr: 9:30. What?

Duffield: If that's all right with Mr. Haas....

Haas: Yes.

- 14 -

H.M.Jr: What? Banking. And I'm going to explain to Mr. Viner what we're doing on that banking, and it's one of the things I'd like him to get in on right away - this so-called Mead bill in the House.

Duffield: If Mr. Eccles should find it impossible to come....

H.M.Jr: I'm going to call the meeting anyway.

Duffield: Did you want me to write a memorandum for your files on the discussion of the Mead bill in here on Saturday?

H.M.Jr: Yes.

Harry, don't forget you're going to dictate what took place between you and me. Please.

Duffield: That's all.

H.M.Jr: Let Mr. Viner have whatever he wants on the Mead bill. George?

Haas: (Takes up to H.M.Jr. black book of statistics). Here's the steel orders - they're holding up now. Here's a very interesting figure.

You got a reply from Hardy - Miss Chauncey has it - in response to your telegram.

H.M.Jr: Yes.

I had Miss Lonigan at the house last night telling her that I wanted to get some special statistics out on self-help co-ops on a national basis. She is to get those out for me just as fast as she can.

Haas: All right.

H.M.Jr: What we can do on a national basis with self-help co-ops.

Haas: Fine.

- 15 -

- H.M.Jr: The Boston thing is no good, and the Department of Agriculture didn't tell us it was going to expire on the first of July, which I don't think was quite playing ball with us. The milk thing.
- Haas: Well - I mean are you settled on that?
- H.M.Jr: No, she's going to do the report, but I think in view of that we'll have to run fluid milk through the stores in exchange for surplus food tickets, rather than doing it on the Boston plan, which is a very special plan and very difficult to work out. And they've decided to kill it, anyway. They didn't tell us....
- Haas: But they did find out that they could have a net increase in milk consumption provided the milk is available.
- H.M.Jr: Oh yes, and they - they paid the farmers five cents and the processing cost was only two, so they sold it at seven cents as against the same milk selling through retail channels at eleven - exactly the same milk. So they're selling at four cents under the retail price.
- Haas: Did you want me to push her to get that written report in today, or would you rather have this other thing take precedence?
- H.M.Jr: Well, the self-help co-op thing should come first. Jake?
- Viner: (Nods nothing).
- Hanes: I haven't anything. (Leaves).
- H.M.Jr: Ed?
- Foley: I have a letter here that Bruce has prepared in connection with this bronze statue up in New York at the World's Fair. He wants to ask them to loan it to us so we can have it cast in bronze for permanent installation at the building down here. In case they won't be able to comply with the letter, the Senator's help will be obtained.

- 16 -

H.M.Jr: Why won't they be able to comply?

Foley: He thinks they'll destroy it.

H.M.Jr: That's perfect nonsense. I mean that's childish. I mean I'm not going to - he's had his share of publicity on this thing.

Foley: I didn't know how far you wanted to go. I'm just reporting. You said you were interested.

H.M.Jr: Yes, that thing....

Foley: That is simply a memorandum of the hearings on the Mead bill, for your information. And here's a memorandum on this bill in regard to the relocation  
....

H.M.Jr: I mean if he wants to do the statue down here, where's the original plaster cast thing? The fellow must have made a cast made out of plaster or clay; and then they cast it. Where is the original clay thing? Just ask him that, turn it around, put him on the spot.

Foley: This is a report on this bill in regard to the allocations of cost in connection with the relocation of bridges across the East River. And I sent a copy of this to Dan last Friday; I don't know whether Dan has any comment on it. It's a pretty full bill.

Bell: Is that the Hayden....

Foley: No, it's the Truman bill. Senator Truman introduced it.

And would you (H.M.Jr.) like to see Tietjens sometime today?

H.M.Jr: Yes - Tietjens.

Foley: I saw the Attorney General on Friday night and he said that the thing that he - he said that he had gone over the material that we had sent over on the movie cases and he thought it was in very good shape; he said the thing that he wanted and he was pressing

- 17 -

us about was the bribery of the labor leaders out there, and he asked me to find out for him where it stood. So I called Elmer Ireys and he said that it would be ready about the 20th of June. So I told him that and then he gave me a little lecture about time was the essence on these things, and so on, in a very friendly way.

Gibbons: Did you hear Walter Winchell last night on the same thing?

H.M.Jr: No.

Gibbons: Said he was flying to Chicago this morning to present before the Grand Jury a tax case in connection with a Philadelphia publisher; but you couldn't miss who it was.

H.M.Jr: I'm amused - if you'll stay here at 10:00 o'clock you'll see that I'm one jump ahead of the Attorney General, because you'll see what will happen at 10:00 o'clock. Harold was at my house at 8:15 this morning on this bribery case.

Foley: Yes, that's fine. Did he call up? I suggested that he call you.

H.M.Jr: No. Did you ask him about my pet case?

Foley: No. I thought he had gotten the message. He said that he...

H.M.Jr: Harold was at my house at 8:15 this morning. If you'd stay behind, you'll get your answer on the bribery case. Right, Harold?

Graves: (Nods yes).

H.M.Jr: We like to be ahead of these boys.

Foley: Also said he wanted to see me sometime this week with Rogge on the Giannini case. Rogge is working for him now, you know. He said he got various reports while he was out on the West Coast that the case was ruining the movie and the banking and other industries out there, and he wants to get it straight. He said the

- 18 -

President has asked him to look into it. If we're right, he wants to go ahead full speed and if we're not he wants to re-examine the whole thing.

- Duffield: He had one of his men write him a report on that case.
- Foley: I thought maybe Jimmy might have spoken to him while he was out there; I don't know.
- H.M.Jr: The President asked him to look into it?
- Foley: He told me the President asked him to check it too. He apparently reported to the President when he got back and the President asked him to get into it.
- H.M.Jr: I take it he's referring to the SEC case.
- Foley: That's right, yes.
- H.M.Jr: Well, fine. We'll give him all the help he wants.
- Foley: Yes.
- H.M.Jr: We'll give him all the help he wants. I have no doubt that Jimmy asked him. He lost one line of customers and he's got to get a new line.
- Foley: I was out at Bill Douglas's Saturday night. He had a little stag dinner. I told Jerry. Jerry said he wanted to go over - the A.G. called him - to let me know. And Bill said that he thought it would be a shocking thing if the troops were called off at this stage of the game.
- H.M.Jr: Well, I don't think "shocking" is a strong enough word.
- Foley: Bill said he thought it would mean the election in '40.
- H.M.Jr: What?
- Foley: He said he thought it would mean the election in '40.
- H.M.Jr: Election of who, Giannini?

- 19 -

(Laughter)

Duffield: Probably so.

Foley: Democrats - for President.

H.M.Jr: Oh, I wouldn't....

Foley: ....characterize it....

H.M.Jr: Oh, I don't think there's one chance in a hundred - I think when the Attorney General gets his teeth into it....

Foley: I think so.

H.M.Jr: ....that he'll be just as keen to see that justice is done as anybody else is.

Foley: I think so.

H.M.Jr: I'm delighted he's taking an interest. But I'm surprised that the President should ask him to look into it and see that he knows all about it. But maybe he wants it hurried up.

Foley: Maybe.

H.M.Jr: Maybe he wants it hurried up.

I brought up the movie case at Cabinet and the President said, "Go to it. Go right after it." Well, keep me posted on what they do over there.

Foley: Yes, I will.

H.M.Jr: Any other good news?

Foley: No. He said that on that - on the Sammy Klaus thing out in Chicago, whatever Bill Campbell wanted was what he wanted, that he was in charge of the case.

H.M.Jr: Well, that's what I said, wasn't it?

Foley: That's right, yes, just exactly the same thing.

- 20 -

H.M.Jr: I said it was up to Bill Campbell.

Foley: That's right.

McR: Ed told me about it. It's their case. Why should we worry now? Sam's working for them, not for us.

H.M.Jr: That's right.

McR: As long as that's completely understood and a matter of record, I have no objection whatever.

Klotz: I don't like that.

H.M.Jr: You don't like that?

Klotz: Don't know what he means.

McR: He's working for them and not for us. Sam is not working for us. He's detailed to the United States Attorney. Whatever he does is their responsibility.

H.M.Jr: Well, he's out there as my personal representative. Don't forget that.

McR: He was sent out as your personal representative, but he's taking his orders from the United States Attorney for everything he does.

H.M.Jr: Right - and reporting to me.

McR: Now and then.

Foley: Well, I get a....

H.M.Jr: You (Klotz) don't know about it.

Klotz: I have some idea; that's why I said I didn't like that.

Foley: I get a written memorandum from him three times a week.

H.M.Jr: No, but this thing - leaving the inside Treasury fight out of the picture, the understanding, I take

- 21 -

it, from the Attorney General - is what?

Foley: The Attorney General said that Bill Campbell was in charge of the case for him and whatever Bill Campbell wanted as to Sam Klaus or anybody else being in Chicago was all right with him.

H.M.Jr: And with me. And with Mac. And with Harold?

Graves: Yes.

H.M.Jr: O. K. Everybody's happy.

McR: So we've got a perfectly good record on it.

H.M.Jr: This is very funny. It's all right. This is one time when I said I'd be strictly neutral and wasn't.

McR: I'm entirely happy about it.

Haas: We're making some charts for Sammy; in fact, sent one of the draftsmen out there to get it up to date the other day.

Foley: That was the arrangement made when Sam was in your office the other day.

H.M.Jr: That's all right; everybody's all right.  
Herbert?

Gaston: I don't think of anything.

H.M.Jr: Mac, if you'll stay, and Harold, Foley, and Mrs. Klotz, please.

June 5, 1939  
9:09 a.m.

HMJr: Hello.

Operator: Mr. Jones.

HMJr: Hello.

Jesse  
Jones: Hello, Henry.

HMJr: Jesse.....

J: Yeah.

HMJr: Good morning.

J: Good morning.

HMJr: The President is having me Tuesday for lunch instead  
of Monday.

J: Yeah.

HMJr: I wondered whether you'd care to come today?

J: I think I'd like it.

HMJr: What?

J: Yeah, I'd like to.

HMJr: Well, supposing you come today.

J: All right, fine.

HMJr: And, -- we'll talk about South America, et cetera.

J: All right, fine.

HMJr: O. K.

J: Good bye.

HMJr: Good bye.

June 5, 1939  
3:10 p.m.

75

HMJr: Hello.

Outside  
Operator: Hello, Miss Carr.

HMJr: Hello.

Operator: He'll be right on.

HMJr: Hello.

O: Just a moment, Mr. Secretary. They said he was right there.

HMJr: What? -- Hello.

O: They said he was right there. Do you want me to ring you back?

HMJr: Hello.

O: Yes, sir.

Outside  
Operator: He's ready.

HMJr: Well, I'm here.

O: All right.

3:11 p.m.

Frank  
Murphy: Hello.

HMJr: Hello.

M: Hello, Henry. I heard you called me this morning.

HMJr: Yes. I just wanted to ask you first, how are you?

M: I'm fine, thanks, Henry.

HMJr: And second, I was delighted to hear from Ed Foley, as I understood him, that the President has asked you to look into this Transamerica case.

M: Yes.

HMJr: And I'm glad you're going to do it.

M: Well, I think we can. That fellow is just a mad bull in the china shop.

HMJr: Oh, yes.

M: He's -- he's a wild man.

HMJr: Yeah. And.....

M: But.....

HMJr: I've always said it's high time to find out whether the United States Government is bigger than Giannini or if Giannini's bigger than the Government.

M: Yeah.

HMJr: And up to now, I don't know.

M: Well, he'll find that isn't so.

HMJr: Well, I don't know, and he's had it all his own way, and when you go into that Transamerica case, I think you'll be amazed. But I -- I'm glad you're looking into it. And now the other thing.....

M: Well, I'll just look into the criminal side of it and nothing else.

HMJr: Yeah. Well, I don't.....

M: And if there's any criminal action, why nothing is going to stand in the way of it going ahead.

HMJr: Uh-huh. Well, I -- I just gathered that you -- I thought that from what Ed said, you were going to look into the whole case.

M: I don't think so.

HMJr: Uh-huh. Well, the criminal side has no interest with me.

M: I think that I'll talk with your -- if you haven't any objection, with your people about it and sort of measure the whole thing.

HMJr: Oh, I'm delighted! Anything we've got is right at your service. Now, on the case of the bribery of the labor leader.....

M: Yeah.

HMJr: .....in Los Angeles, that will be ready in two weeks from today.

M: That'll be good.

HMJr: See? And you see, it was the same people who were working on that were working on the -- the other -- the Twentieth Century Fox, you see?

M: Yes.

HMJr: And they've finished that and now they're writing up this thing. It will take them about two weeks.

M: Yes.

HMJr: But they were in this morning and they said they'd have it finished, quite possibly, two weeks from today.

M: That's fine, Henry.

HMJr: And -- I just wanted to tell you that.

M: All right. That's fine, and the other stuff that you've gotten in here has been in grand shape.

HMJr: It has?

M: Oh, you bet it has.

HMJr: And.....

M: Really, the great credit is due you people.....

HMJr: Well.....

M: .....for these cases, for thorough preparation.

HMJr: Well, it takes -- it takes years. You can't turn these cases out.....

M: I know you can't.

HMJr: .....in -- in two weeks.

M: I'm very impatient about it and I like to get these things done because the time is so short, but I realize that it's the thorough preparation of them that counts.

HMJr: Yes, because when we turn them over, it's worth -- it's a big buildup and then the thing falls flat, and -- but when we turn them over -- the time they leave our hands they -- we're 99 -- 95 percent sure that there's a case.

M: Yes.

HMJr: And..... But the other one will be coming along in about two weeks.

M: All right. Thank you very much.....

HMJr: Thank you.

M: .....Henry.

June 5, 1939  
3:17 p.m.

79

HMJr: Hello.

Operator: Secretary Hull is coming on.

HMJr: Thank you. Hello.

O: He'll be right on.

HMJr: All right. (Brief pause) Hello.

Cordell  
Hull: Hello, Henry.

HMJr: Hello, Cordell.

H: Yes, sir.

HMJr: How are you?

H: Fine!

HMJr: Cordell, some of my good friends in New York have called me up about this terrible tragedy on this boat the St. Louis with those 900 refugees on it.

H: Yes.

HMJr: And there have been so many things back and forth as to what could or couldn't be done-- I mean, as to.....

H: Yeah.

HMJr: .....guarantee money for them and so forth and so on. And they wondered if there is -- if it's reached a stage where any Jewish organization could guarantee bonds or expenses or anything else.

H: Yeah.

HMJr: Because if they knew it was down to that point, they'd be ready to do something.

H: Yes.

HMJr: You see?

H: Yes. Well, I talked with the Cuban Ambassador about an hour ago and talked with the President about twenty minutes ago.....

HMJr: Yes.

H: .....on this question.

HMJr: Yes.

H: And this morning I talked to old man, James M. Carson of New York, that big utility man who is in Savannah.....

HMJr: Yes.

H: .....in Havana.

HMJr: Yes.

H: He brought up the question of tourists' visas.....

HMJr: Yes.

H: .....so they might go out to the -- the islands -- our islands down there. What the devil.....

HMJr: Virgin Islands?

H: Yeah.

HMJr: Yeah.

H: And stay until proper arrangements could be made for them to go elsewhere.

HMJr: Yes.

H: Now, I took that up at once and I found that under the law.....

HMJr: Yeah.

H: .....we couldn't -- couldn't issue tourists' visas unless they had a definite home where they were coming from and in a situation to return to it.

HMJr: Yes.

H: So under the law we're -- we're helpless in that respect.

HMJr: I see.

H: Then the Cuban Ambassador talked like the main thing was the financing. That he believed -- he's telling me this not to be published now.....

HMJr: Yes.

- 3 -

H: .....that he believed it would be worked out.

HMJr: Uh-huh.

H: The problem of these people. He said they'd taken in a good many already.

HMJr: Yeah.

H: And I think that the Jewish organizations who are dealing with the money end of this have one or two representatives in Havana now keeping in touch with them on this.

HMJr: I'm not sure. There seems to be confusion.

H: One of my men in here understood that. Now, I think they -- they will work it out if they can see that the financial -- financing will be made certain.

HMJr: Well now is it.....

H: I'd say -- I'd say they will. I believe they -- they've got a real chance to do it, that's what I'm trying to say.

HMJr: Well now, supposing -- would this be a suggestion which would be in order, that if they send somebody down from the joint committee to be here so that he'd be on "tap"?

H: Yes. Well, the main thing is we can't tell them without much trouble what is -- what we know about it. The main thing is to follow up with the -- with their -- with a representative at Havana. They ought to have a representative there.

HMJr: It's better to do it there than here?

H: Yeah. We'll do what we can, you understand, in any event, but they need a man there who knows how to dicker with them on the financing of this.

HMJr: I see.

H: That's the main thing.

HMJr: And it's better to have somebody there than here?

H: Now, that's my impression -- that's my impression. I would -- I would suggest that they consider that question...

HMJr: I see.

- 4 -

H: .....of whether it -- whether it is not better.

HMJr: Well, I was just thinking that -- I mean, if there was one man here, like Mr. Paul Baerwald, or somebody.

H: Yeah.

HMJr: So that he could keep posted as to what was going on in Cuba and here also.

H: Yes. Well, this -- you see, this is a matter primarily between Cuba ----.

HMJr: I see.

H: The Cuban Government and these people.

HMJr: I see.

H: And not between this Government.

HMJr: I see.

H: And that's the reason that they need to be closer to the Cuban Government.

HMJr: I see, and -- but the Virgin Islands thing is out?

H: I think that's -- that's what my fellows tell me.

HMJr: Uh-huh. Well, would you mind if I called you up again tomorrow?

H: Yes, sir. I'm keeping up with it the best I can.

HMJr: And I can call you up again tomorrow?

H: Yes, sir. Any time.

HMJr: Thank you.

H: Yeah.

HMJr: Thank you.

Prepared by Sidney G. Tickton and  
William E. Conrad

83

TREASURY DEPARTMENT

B4

INTER OFFICE COMMUNICATION

DATE June 5, 1939

TO Secretary Morgenthau  
 FROM Mr. Haas  
 Subject: No New Money (Net) Raised by Securities Issues,  
 1933-1938, Except Through U. S. Obligations

Data on securities issues recently made available by the Research Section of the Securities and Exchange Commission indicate that on net balance, the increase in the direct and guaranteed debt of the Federal Government represented just about 100 percent of the new money\* raised by offerings of securities between January 1, 1933 and December 31, 1938. All other issuers of securities in the domestic market -- domestic corporations, State and local governments, and foreign corporations and governments -- apparently raised no new money (net) during this six-year period; so that on net balance Governments represented the only net additions to the supply of securities available in the market for domestic investors. This information is summarized in the attached table.

The same series of Securities and Exchange Commission data also seems to indicate that the supply of securities other than Governments available to domestic investors decreased significantly during this period. Not only did the balance of transactions for foreign account remove some \$1.4 billions of securities from the total domestic supply between January 1, 1933 and December 31, 1938, but a substantial volume of securities, probably a billion dollars or more, also disappeared through reorganizations, bankruptcies, reacquisitions at a discount by borrowers, etc.

Attachment

\* New money is defined to mean proceeds of new securities issues less the amount of outstanding securities retired. It differs from the changes in total debt, however, because (1) it includes issues of common and preferred stocks, and (2) it excludes debt not represented by issues of market securities (mortgages, bank loans, etc.).

New Money Raised by Securities Offerings <sup>1/</sup>  
1933-1938

Year	U. S. Government and its agencies issuing guaranteed obligations <sup>2/</sup>	All other issuers	Total new money raised
(In billions of dollars)			
1933	2.0	- 0.6	1.4
1934	4.7	- 0.6	4.1
1935	1.5	- 0.1	1.4
1936	4.3	+ 0.9	5.2
1937	3.2	- 0.1	3.1
1938	3.2	+ 0.1	3.3
<b>Total</b>	<b>18.9</b>	<b>- 0.4</b>	<b>18.5</b>

<sup>1/</sup> Data from SEC releases; 1938 partly estimated. Negative figures denote excess of retirements over proceeds of new issues. New money is defined to mean proceeds of new securities issues less the amount of outstanding securities retired.

<sup>2/</sup> Excludes amounts borrowed by issuing Treasury bills and securities issued in exchange for previously outstanding farm and home mortgages. Includes borrowings represented by special Treasury issues made to Government agencies and trust funds. Total increase in the direct and guaranteed interest-bearing public debt of the United States during this period amounted to \$23.5 billions.

## TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,  
Tuesday, June 6, 1939.  
6-5-39

Press Service  
No. 17-79

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of  $3/4$  percent Treasury Notes of Series A-1944 will close at the close of business Wednesday, June 7, 1939. This offering is open only to the holders of Treasury Notes of Series D-1939, maturing September 15, 1939.

Subscriptions addressed to a Federal Reserve bank or branch, or to the Treasury Department, and placed in the mail before 12 o'clock midnight, Wednesday, June 7, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of subscriptions and their division among the several Federal Reserve districts will be made later.

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MEETING OF FISCAL AND MONETARY  
 ADVISORY BOARD  
 (Treasury group alone for first hour)

June 6, 1939  
 8:30 A. M.

Present: Mr. Eccles  
 Mr. Smith  
 Mr. Hanes  
 Mr. Gaston  
 Mr. Bell  
 Mr. Foley  
 Mrs. Klotz (part of the time)  
 Mr. Viner  
 Mr. Currie  
 Mr. White  
 Mr. Haas  
 Mr. Duffield

H.M.Jr: I don't know where everybody is, but while we're waiting, Dan, I'll explain - the others can go along - I think one thing we ought to do with that set-up is to get some figures, for instance, that if, say, we put down a billion dollars for roads, so forth and so on - I don't know what the term is, but I want to show how many men can be employed for twelve months in that kind of construction, see? And have that all the way down the line.

Bell: Uh-huh. You mean about each one of those items.

H.M.Jr: Yes.

Bell: O. K.

H.M.Jr: Who isn't here? Well, I'm going to start. Some of you know something about this and some of you don't. I don't want to make this speech twice.

(Hanes comes in)

H.M.Jr: Good morning.

Hanes: Sorry to be late.

H.M.Jr: It's all right. Just going to start. Come up here.

- 2 -

What I'm trying to do in this hour is to get advice on my own program before we meet with the Fiscal and Monetary Committee at 9:30, see, and then we'll present it to them. And I still haven't gone over the statement that we're going to show the President at 12:30 as to what is wrong with the country. We may have time to do that afterwards. But I want to get my own program right first, and show it. And so I asked you to come down at this hour. Everybody can leave thirty minutes earlier tonight.

Let's get down to business. What I have attempted to do here, for those - some I've talked to and some I haven't, and Bell refuses to believe that it's my own program, thinks I've turned coat on him - copperhead in our midst. But anyway, rather than have a spending program sneak up on me in the dark, I thought I'd get out a recovery program of my own to give the President, put it in his lap, and he can do whatever he wants with it; but at least put one which I can believe in and one which doesn't compete with private enterprise, one which is as much self-liquidating as possible and one which a hundred percent reaches the lower third.

So what we've done is this. We've got down here - now, Harry, I'm going to - you haven't any extra copies - well, I'll read it.

- White: Unfortunately. They will be ready soon.
- H.M.Jr: That thing at the top - "(New legislation or additional appropriations by Congress required in every project)" - cut that out for the top. That isn't the place to put it. If you're going to put any title, I would say "Suggested Recovery Program - Federal Projects."
- Viner: I'd put it "Suggestions toward a Recovery Program."
- H.M.Jr: "Suggestions toward a Recovery Program."
- Viner: "Federal Projects."

- 3 -

H.M.Jr: "...Which Supplement Private Enterprise" - something like that, if you need a title. Will this qualify on that, Jake? Supplement?

Viner: It's to be hoped....

H.M.Jr: "...Supplements and Does Not Compete with Private Enterprise."

Viner: We'll pray that it will.

White: That's stated on the first page, but we can....

H.M.Jr: Well, the first page....

"The program is submitted with the following objectives:

"1. To assist in raising the national income in 1940.

"2. To give more substance to the New Deal principle of raising the standard of living for the lower third of the nation.

"3. To give buying power and thus stimulate private enterprise and private investment."

Well, that isn't just the way I'd put it, but have we got time....

White: Yes, we can change it any way you want.

H.M.Jr: "None of the projects involve Government encroachment in the field that should be reserved for private enterprise. Most of them are wholly or partly self-liquidating ventures and can be financed outside the budget."

I haven't got time to do words. I wonder if....

White: Well, we can work over that first page.

H.M.Jr: Yes, let George - Jake take a look at it, and George. That is, it's got the idea, but not just the way I'd say it.

- 4 -

- Viner: One general suggestion I'd make there, that it be worded in terms of contribution toward, so it isn't made to seem larger than its content, so that it's a supplement to the rest of the Administration's program, whatever that may be.
- H.M.Jr: Right.
- Viner: Sometimes a thing is very good in itself, but if it's presented as saving the world it looks ridiculous, while it's perfectly sensible as an item. I think I'd handle it that way, in a modest way.
- H.M.Jr: That's all right. Understate it.
- "A. Projects which are in part or in whole self-liquidating:
- "1. Extension of the United States Housing program. Additional appropriation, \$500; to be spent in calendar year 1940, 200."
- Now, Harry, in everycase I want in smaller type the number of people that this will give a job to for twelve months.
- White: I totaled that beneath. But you want it in each case?
- H.M.Jr: I think it would - what do you (Hanes) think?
- Hanes: I think it's all right.
- H.M.Jr: We can't get it all on the one page.
- White: I can do that very easily. I've done it already, but I didn't put it down for each. I totaled them down below.
- H.M.Jr: Of course, one page - let me read through this.
- "2. Self-liquidating toll road, tunnel, and bridge projects. Additional appropriation, one billion dollars; 1940, 400.

- 5 -

"3. Expansion of Farm Tenancy program from 200 million dollars to 350 million dollars, including 30 million dollars increase in rehabilitation loans and about 75 million dollars in farm tenant purchases. Additional appropriation, 150; to be spent in 1940, 100 million.

"4. Extension of short-term and long-term loans for the purpose of promoting foreign trade. Additional appropriation, 500 million; to be spent in 1940, 300 million.

"B. Projects which are not self-liquidating:

"Rapid expansion of the Food Stamp Plan for distributing surplus commodities to all communities and extension to cover more commodities, including cotton textiles, clothing and dairy products. Additional appropriation, 150 million.

"Expansion on a nation-wide basis of the self-help cooperatives, now successfully operated in Washington, D. C., Richmond and many western states. Additional appropriation, 200; to be spent in 1940, 100.

"About 2.4 billion of the 2.8 billion is self-liquidating, wholly or partly.

"Of the 2.8 billion, about 1.2 billion can be expended during 1940.

"Of the 1.2 billion additional expenditures called for in this program, 600 to 800 million dollars would be expended directly or indirectly on new employment. In other words, it would absorb from one-half to three-quarters million unemployed."

Bell: How many, half a million?

H.M.Jr: Half to three-quarters. Why do you repeat that, if you say it gives - oh, I see, it would absorb from a half to three-quarters of a million unemployed.

Viner: I'd put in the word "directly" there.

White: It's directly and indirectly. I mean in the second, if it would be direct, it would be less.

- 6 -

Viner: I see.

White: Pretty rough figure.

H.M.Jr: Now, on this thing, do we want to say what Dan said on the agriculture - the food surplus, and do we want to say that 150 of it should come out of the existing agricultural appropriations? And do we want to say that the hundred million for the self-help should come out of the WPA? You see, if we could say that, then this would mean no new money, no additional money.

Gaston: I should say that the cotton textile should come out of WPA, or at least part of it.

Bell: You mean just the cotton textile of that commodity distribution or all of it?

Gaston: Of the commodity distribution. I should say that at least half of the cotton textile should come out of WPA.

(Foley comes in)

Foley: Good morning.

H.M.Jr: Good afternoon. Read this in a hurry. This is my recovery program. Just these two pages.

Viner: If you do that, Mr. Secretary, won't you be mixing up two different things? One is an increase in the spending program for next year along certain lines. The other is the direction in which certain expenditures to which we are already committed shall be made. If you're doing the second, you are interfering with the WPA program, perhaps rightly; you are suggesting they shift funds to some other uses. The question is, what is your objective? If it is to change the direction of these expenditures, why stop at those two points? You're making yourself vulnerable, unless you're prepared to say, "I don't like the way WPA is spending its money."

H.M.Jr: Now, you'll all have to hit hard and hit short. Do you think I should or shouldn't, Jake?

- 7 -

Viner: I'd say you'd be mixing two things up.

H.M.Jr: O. K.

Viner: That you shouldn't embark now, with as little preparation as you have, on a criticism of the direction of the existing WPA program, unless it in some way interferes with a program of this sort.

H.M.Jr: I could say, for instance, to the President verbally, "What about the cotton export plan? I'd say if you'd want to, this cotton textile thing will take the place of it."

Viner: That isn't already in the Administration program, the export subsidy. You can refer to that legitimately. I don't think you should criticize the WPA directly now unless you....

White: To the extent you merely shift, you reduce the efficacy of this program, whatever it is.

H.M.Jr: All right, George?

Haas: I think it's all right.

H.M.Jr: We'll go around. You think if I begin to argue about other programs, then I'm sunk.

Viner: That you ought to confine yourself at this stage to the question of what additional items not in the program now....

H.M.Jr: Additional cash only takes what? May I have the book back, Ed, please?

Foley: Yes.

H.M.Jr: Two or three hundred million.

Viner: And you can refer to items already in the program to point out how this would tie in with that.

H.M.Jr: Two hundred fifty million dollars is all that this program would take.

- 8 -

- Hanes: What was that total, that two hundred fifty million dollars - just for the cotton textile?
- H.M.Jr: No, for next year - I'm going to read 1940 - a hundred fifty million for the Food Stamp Plan is additional, which includes cotton textiles, clothing and dairy products.
- Hanes: I see. That's extending the stamp program to the cotton textiles.
- H.M.Jr: Right.
- Hanes: And that takes a hundred fifty million.
- H.M.Jr: No, a hundred million of it. A hundred of the 150 for the cotton textile.
- Hanes: I see.
- H.M.Jr: And the self-help co-op thing, a hundred million million dollars. So it's really - this program that I'm taking - am I right - would mean 250 million of additional cash in the budget. That's all.
- Bell: I thought it was about 600 million. That two billion four was self-liquidating and the rest had to come out of the budget.
- H.M.Jr: But not in 1940.
- Bell: I see, you've cut 600 million off of that.
- H.M.Jr: Take a look at it.
- Hanes: What was the total of the road program, Dan?
- H.M.Jr: A billion, but only....
- Hanes: Four hundred million for '40.
- Duffield: Where does that four hundred million come from?
- H.M.Jr: Well, all these things - I haven't explained - everyone of these things - the road thing, for instance, - that's why you're (Foley) in here particularly,

- 9 -

also for your judgment - we're going to give Public Roads a self-liquidating corporation which will sell their own bonds against a by-pass around Baltimore or a tunnel here, a bridge there. You see, each one of these things is going to get a self-liquidating corporation, a corporation to sell bonds.

Duffield: I'm....

H.M.Jr: Well, go ahead.

Duffield: I don't know whether you want these comments now, but from what little work I've done on self-liquidating roads, it has been pretty discouraging. I don't know what sort you have in mind.

H.M.Jr: We're taking recommendations from Mr. MacDonald, the head of the Highway Department.

Duffield: I saw that great big report they did on toll roads. I thought their conclusion was on toll roads that they weren't feasible.

Haas: That's that big long one.

Duffield: Oh, the long one.

H.M.Jr: This is mostly by-passes around big cities, bridges, tunnels. An express highway from Richmond to Boston, for instance; I think that would pay. I don't know whether they would; I've got to take MacDonald's word.

Gaston: By-passes around some of these cities would certainly make a great hit.

H.M.Jr: But not this trans-continental thing.

Duffield: Yes.

H.M.Jr: Gene, you're getting this - it's hard to ask - I mean what's your reaction - state it very frankly - for me as Secretary of the Treasury to make this kind of a recommendation publicly, if I'm asked to?

Duffield: Well....

- 10 -

- H.M.Jr: Or put it: for the Treasury to do it, because I want everybody to go along if they can.
- Duffield: Against the background that you mentioned, I think it's good; I mean rather than have a spending program sneak up on you in the dark.
- Haas: That's right.
- H.M.Jr: George, how do you feel about it?
- Haas: I feel just as Gene does, with that preface. But I wonder if the public had that preface, knowing that it comes out of the Treasury - but of course, you can't give that kind of setting. I'm afraid there'll be a little - I'm just stating offhand an opinion that they might be a little shocked at Secretary Morgenthau doing it, but I'm not sure.
- H.M.Jr: Well, I'm willing to - well, I mean I'd be proud if the President would let me say this thing publicly. But I'm doing it for him and if he wants it it's up to him to decide. I mean this isn't like a tax program, which is Treasury business. I mean this is a thing affecting the whole Administration. What I'm hoping is that he'll take it and make it his.
- Haas: I think if you have a little publicity to indicate a little more the need for it - you know those figures I gave you yesterday were - really surprised me - from the SEC - that compilation they made of new money. Practically the only new money since 1933 has been what you've put out.
- H.M.Jr: Is that right?
- Haas: Really surprising. New money net has consisted practically entirely of just the Federal debt. That's counting domestic corporations, foreign corporations, state and local, and minus the retirements. In other words, you could take the net figure as to the domestic investors, and they have had nothing net plus to invest in except Government bonds.

- 11 -

- H.M.Jr: That's amazing.
- Haas: That's amazing, and I think that may give some justification for this.
- Bell: I thought there had been a debt reduction during that time.
- H.M.Jr: If everybody will give me their criticisms....
- Haas: This isn't debt, it's new securities.
- Bell: You're talking about net.
- Haas: Net new securities.
- Bell: Leaving out the reduction of debt. I don't know what you mean by debt.
- Haas: Minus retirements. The Secretary wants to go on. I'll explain it to you. I'll give you a copy.
- H.M.Jr: What would self-help spend a hundred million for, Harry? I haven't seen the report.
- White: It goes for raw materials, some very small amount of machinery, rent, light, power, administration. She couldn't give me a breakdown; I asked her for a breakdown as to relative amounts of each, but....
- Bell: Pretty largely administration and capital, to get started, like the one here. We gave them fifty thousand dollars the first year, I think, to get the machinery and equipment.
- H.M.Jr: May I have mine back again?
- Bell: Sure.
- H.M.Jr: Well now, let me put it a different way. Supposing we had - I still - on this, for instance, B, those projects, how much - you see, you have 150; this doesn't show the President that there is in the bill another - I take it another hundred or two hundred.

- 12 -

White: I thought that says "Additional appropriation." The memo explains that.

H.M.Jr: Also he'll ask me the question - well, I haven't got all this - he'll ask me the question - I mean can't there be some way to show....

White: We can put a phrase on there that this is in addition to.

H.M.Jr: And how much there is in the bill.

Viner: Do it like A-3. You've done it just that way in A-3.

White: Except the explanation is a little longer.

H.M.Jr: It goes over for two pages.

White: We can do it.

H.M.Jr: I don't know, for instance - B-5 - how much is there in the present bill. I'd say that, since he's thinking of vetoing that bill, all the rest of that.

White: We can put that in.

H.M.Jr: Huh?

White: Yes.

H.M.Jr: And also under B-5 say how many people. If you have 150 and, I take it, plus - how much more in the bill, 200 or 100?

White: No, total expenditure of 250 million dollars for the calendar year.

H.M.Jr: All right.

Bell: That would apply to B now. There's 90 million customs and 113 million added by the Senate. That's 203 million, I think, Harry.

White: Yes, but they expect to use a hundred million of that for something else.

- 13 -

Bell: I see.

H.M.Jr: That's the point, you see. I want to know how much in 1940 can be used for surplus food tickets. I want that all under 5, so I have it there.

White: It's 150 million.

H.M.Jr: And how many people that will reach, see?

White: How many it will reach, and how much new employment on each one.

H.M.Jr: Well, yes, if you could figure that in terms of employment.

White: Roughly, it will be very little.

H.M.Jr: Well, I don't think it will be particularly significant, but how many people will that reach; and also this little sentence: "This will reach fifteen million people who are on direct relief from States and cities and who are now receiving between ten dollars a month and" - whatever the top figure is per month per family - "from the States and cities."

I know in West Virginia the minimum is ten. See what I mean? I want to get this in. I've got to have something to sell.

White: That's all in the memo, but I didn't know you wanted it here.

H.M.Jr: Well, I can't - I haven't got time to learn it.

White: Well, as long as we can run over two pages....

H.M.Jr: When I pick up number 5 - "Now, Mr. President, with another 150 million dollars - a 100 in the bill makes 250 - there are in this classification, Milo Perkins says, 18 to 20 million people who are underfed and underclothed - we can reach with 250 half of these people. These people are now getting from the States and cities a minimum of from ten dollars per month to...." - whatever the maximum is that any State gives them for direct relief - "and this is to supplement this shocking condition." Something like that. Right?

- 14 -

Hanes: (Nods yes).

H.M.Jr: In other words, I don't think that he knows that Milo Perkins is talking in terms of serving 18 to 20 million people. And with 250 million dollars we are going to reach so many of them, and that these people now are only getting from ten dollars per month to whatever the top figure is on direct relief.

White: An additional 150 million dollars would be needed to extend the food stamp program to 15 million eligible people during the coming fiscal year.

H.M.Jr: Well, just put in that. But I want to get in a sentence about what these 15 million people are getting now on direct relief. They're all on direct relief, I take it. Well, make sure, see?

Bell: No, I don't think so.

H.M.Jr: What?

Bell: They're on some kind of relief - Agriculture. They're not on WPA; they shifted them back to Agriculture. Of course, they only take about 350 or 400 thousand families.

Viner: State and local direct relief.

Bell: I don't think so.

H.M.Jr: Where would this one be - B-5? How could you refer to that? Where is the supporting data?

White: That's under 5.

H.M.Jr: Under 5.

White: The Food Stamp Plan?

H.M.Jr: Yes, that's right.

White: These are all supposed to be persons getting public assistance, whether or not the public assistance means relief.

- 15

H.M.Jr: Excuse me a minute. (Goes out and returns in few minutes with Mrs. Klotz).

Foley: I don't think you can spend 400 million dollars in a year on those.

H.M.Jr: On what?

Foley: On 2, Mr. Secretary. You have a billion dollars for self-liquidating toll roads, tunnels and bridge projects. Now, that was the Republican proposal in 1932 and that was the provision that was put in the RFC Act, and I administered part of that when I first went into the RFC, and our record was very, very sad. And that was what led to the starting of the PWA program, because we couldn't get any money out on that type of project. You have to finance them, and that means that you have to have in some instances State legislation and you have to set up your projects, you have to estimate them, and when you finally get them approved and you get them under way, you lose a great deal of time. And then it takes a lot of time before you actually get any money out at all.

So that I think 400 million dollars on a billion dollar program of that self-liquidating character is a little optimistic. I don't think you can get it out.

Duffield: Can you make commitments for 400 million?

Foley: You can make your commitments, I think, but you'd have to work awfully hard to make that many commitments on that type of a program.

You see, Mr. Secretary, these fellows have been - I mean ever since 1932 the Government's been going away from that rigid standard that was set up at the time of only self-liquidating projects. We broke it down first and we had projects that were retired from taxation, and then we started in by giving them a grant, a smaller grant and then a bigger grant. So lots of these fellows aren't interested in anything unless there's some bait attached to it. And to swing back now to what you

- 16 -

did six or seven years ago is going to cause some element of delay, and it's going to be a little while before these fellows are going to adjust themselves to it. I'm merely arguing that the....

H.M.Jr: Are you arguing for another PWA appropriation?

Foley: I'm not arguing for anything, sir, I merely point out what I see.

H.M.Jr: May I say, I'm glad to get that, but where I differ with you - I can point out to you where an organization has done it and done it much more successfully than the Federal Government, and has done it so it doesn't cost the community one red cent; and that's Mr. Robert Moses, and he's built bridge after bridge, tunnel after tunnel, all on a self-liquidating corporation basis, and has done it a hundred percent successful, because the fellow is smart, hard-hitting and industrious, and he's made a great success of it.

Foley: Yes, sir.

H.M.Jr: And we sit back here and give them more and more bait and do it by giving the money away. Now, Robert Moses has been a hundred percent successful from '32 to '38.

Foley: But there's only one Robert Moses in the whole United States, sir.

H.M.Jr: All right, let's hire him and make him come down here and make him the head of Public Works. All right, now, the President had him - he hates him, but he had him work under him; he was the head of the State Fair Commission. He was under me when I was Conservation Commissioner.

Foley: I know it, sir.

H.M.Jr: And you can work him. But it can be done, and as opposed to that, I won't personally go out and recommend another PWA, and using the bait of 45 or 55 percent to bribe these people to do it. But I will follow, for want of a better name, the New York Authority Plan which has worked. And I hate to think

- 17 -

that there is only one Robert Moses, and if there is only one, let's have him come down here.

Duffield: Mr. Secretary, may I ask if these roads and things....

H.M.Jr: Now, I did it. I did it. The first million dollar appropriation that New York State got - the only department that was ready was Conservation, and so one Harry Hopkins and Jesse Straus gave me three-quarters of it, because I could use it. It can be done. I got three-quarters of the first State appropriation for the unemployed when I was Conservation Commissioner. I've been all through this myself. And I think that this thing - to sit here - I'm not angry, I'm just positive - and admit that we haven't got a fellow that's as good as Bob Moses and therefore we've got to continue to give away these baits - I think it's a shameful admission.

Viner: Well, I think that's a little too strong. Bob Moses is a genius, no question about it.

H.M.Jr: Let's have him come down.

Foley: Jake, it isn't just a question of Bob Moses doing it. Most of these projects are local projects. You can't do it from Washington. You've got to have a Bob Moses in San Francisco, in Chicago, in New Orleans - got to have them all over the country. It isn't just here.

Duffield: This would be Federal projects.

H.M.Jr: This would be Federal projects.

White: These are - the Bureau of Roads has been planning these things for a number of years. They have the specific projects and their plans are matured much more than they were. Now, whether they're sufficiently matured or not, I don't know, but they insist that they could get a million dollars worth in 1940, giving them seven or eight months' start; that is, for the calendar year 1940, which is the estimate there, of which 200 would be for land. They figured a billion, so I cut their billion from a billion to 400 million. They insist on a billion. They say they've got a lot of plans already drawn and if we give them

- 18 -

seven months' head start they can do it. But I agree with you that they're very optimistic. Whether it's four, three or two, I don't know.

Foley: Harry, is that what....

H.M.Jr: Just a minute. This plan we've been working on for a year, under this Fiscal and Monetary Group and under the National Resources, and there's one man been in charge of it, and he's this reactionary right-wing man - I guess he's a Republican - I don't know, but he's a most - I don't know how he ever got this job, but he's the fellow that developed this road plan, and his name is Mordecai Ezekiel.

White: He just took it from the Bureau of Roads.

Haas: When East meets West!

Viner: For the sake of the record, I think you may have Mordecai Ezekiel wrong, as compared to a lot of the others, he is right-wing. He does work along to....

H.M.Jr: You don't think I was being funny.

Viner: Well, I - no, I wondered. Ezekiel is definitely....

H.M.Jr: Go on, I'm kidding.

White: He wants to make the system work.

Viner: That's right. He is of that small group.

White: Small group, mostly, in Washington - most of them from Chicago and points West.

Foley: I was pointing out what you're liable to have said to you, that's all.

H.M.Jr: Go ahead.

Foley: We have combed in PWA and the RFC these local bridge projects and these self-liquidating projects around the country, and most of them have been built that have been set up. Now, it's perfectly true that you had a fine Authority program up in New York. I

- 19 -

worked on all of that legislation and I handled most of the financing for that New York program, so I know a good deal about it too. The tunnel under the East River, the Triborough bridge, all those projects - the tunnel under the Hudson - those are all - there's a grant in all those projects, sir; that makes the financing of them a little bit better. If you didn't have the grant for the tunnel under the East River, it probably wouldn't be a self-liquidating project. You'd have to back your bonds up with something else. But each one of those projects has a little cushion in there as a result of the grant that the Federal Government has given. That makes it easier to sell the bonds, makes it easier to make the projects pay out.

Now, I don't know whether it would be possible to get a set-up on these toll roads around the country in a year's time so that you could get 400 million dollars spent on them within that year. That's the only point that I'm bringing up. I think if you took the money and just went out and you didn't have to finance it - all you'd have to do is spend it - you'd have a tough time getting 400 million dollars disbursed on a billion dollar program within a year.

White: Major portion of that, or a substantial portion, would be for the acquisition of land.

Foley: That takes time, Harry. It takes an awful time to acquire this land around cities, where you have to go in and condemn, you have to go to court, and you have to be delayed and pay the money into court, and there are appeals and everything else. It takes an awful long time before you....

White: Well, that period is covered - 18, 19 months.

Foley: And you have to be very, very careful, because there are all kinds of opportunities for graft and for speculation and for all the rest of it. As soon as they find out that the Federal Government is the one that's buying, the price goes up and everybody gets in and tries to get his little bit. It isn't as optimistic as it appears, and that's all I'm trying to point out. I'm not arguing for any kind of a program. I don't think we ought to shut our eyes to what we have learned during the last six years.

- 20 -

- White: This calls for the creation of a new authority which would simplify some of those problems.
- Foley: I understand that, Harry. I don't think it makes an awful lot of difference whether you do it with the Federal authority or whether you do it with local authorities....
- H.M.Jr: Oh yes, you'd have to....
- Foley: ....and have cooperation with the local people. It's a little faster to do it with the Federal Authority, but you've still got to get the land...
- H.M.Jr: Wouldn't you have the right of condemnation?
- Foley: You have the right of condemnation, but you know what that is, sir.
- H.M.Jr: If you do it this way, you could go ahead and use the land and settle claims afterwards.
- Foley: I think we could do that.
- H.M.Jr: Which would make all the difference in the world.
- Foley: We could do that. It would help a good deal, I think. But after all, when you're up against getting out 400 million dollars on a billion dollar program within a year, you haven't got an awful lot of time.
- H.M.Jr: Well, it isn't just....
- Viner: It's eighteen months.
- H.M.Jr: Well, even if it went over - all of these things - we've got a cushion now for the next six months because the people couldn't spend it. You're just arguing the way I have for the last five years on these things, that these things never get out during the period that you want them to - the money. But on the other hand, you take this formula which I have laid down for myself, which I am willing to stand for - and you've got to do this kind of thing.

- 21 -

Now, polling Perkins yesterday, he was saying that he finds that even though he is only in one city - two cities to date - Dayton - the very fact that they are coming raises the people's hopes, so that they have something to look forward to. And if they knew that whatever these projects were, they were all in blue prints and there were all these contracts being let, it would give the people the feeling that there is something under way.

Haas: That affects business, too.

H.M.Jr: And it affects business psychology. And the whole purpose of this thing - I don't know, he may throw it in the trash basket - this is something that I hope everybody in the Treasury can say, "Well, we stand for this thing publicly." But I don't want to at this time go back to the technique which we have used for the last five years, that we ask for a billion and a half for the unemployed and they always know - we always come back for one, two, or three additional appropriations. We don't train people to give them skill so they can go back and really earn a living, and we still have these 18 or 20 millions of people who are living in shocking conditions.

Now, this is my contribution, and I don't pretend for a minute that it's going to solve the unemployment program, but I think it's going to help, and it might help to the extent that we wouldn't have to go back again next January and February and ask for an additional appropriation over the billion and a half. Now, if it did nothing else but make it possible that we'd put enough people to work so they wouldn't have to ask for another appropriation from the Congress after the first of the year, that would be an accomplishment.

Foley: This would be in addition to the billion and a half for WPA.

H.M.Jr: Well, following Viner's advice, I wouldn't question any other appropriation. This would be supplementary, yes. This would be over....

- 22 -

- Bell: You say 18 months, Harry. Is this a program beginning July 1 or January 1?
- White: The presumption is you'd begin it July 1, but you wouldn't get any money spent the first seven or eight months.
- Bell: Your 18 months might run from say January 1, 1940 until June 30, 1941?
- White: No, January 1, 1941 - that you would reach - along next spring and summer you would reach an expenditure somewhere in the neighborhood of 40 million dollars a month, possibly, of which a portion will go for non-employment-creating expenditures - purchase of land, so on. There are many who agree with Ed that that is a generous estimate, but again I think it's a question as to how fast you push it. It allows seven or eight months to get going, plus the fact that they seem to have made - I don't know actually how much, but the report seems to look very mature, the specific projects seem to look mature on paper. Whether that means anything or not, I don't know, but they claim they've got a billion dollars a year.
- Viner: If you gave it to Harry Hopkins, couldn't he do it on schedule?
- Foley: He's never done any financing, Jake. He could spend it if you gave him the dough. He could get it out, probably, but that's all. It's another thing to finance these projects.
- H.M.Jr: It's a different technique. If the President could swallow it and make Bob Moses the head of the new Public Works Department, he'd get it done.
- Foley: He could do it if anybody could.
- H.M.Jr: You know, it isn't such a crazy idea - you know?
- Gaston: The Bob Moses idea, you mean.
- H.M.Jr: Make Bob Moses the head of this - what do you call it?
- Bell: Federal Works Agency.

- 23 -

Viner: Not a Cabinet job.

Gaston: Pretty good idea.

Bell: No, it isn't a Cabinet job. It has to have confirmation of the Senate.

H.M.Jr: That would help get it done.

Foley: Sure it would.

Viner: Be hard on New York.

H.M.Jr: He'd take it.

Foley: Would he?

Klotz: I don't think so.

H.M.Jr: I think he would. Well - but you need somebody.

Viner: There would be fun here.

H.M.Jr: What?

Viner: There would be lots of fun here.

H.M.Jr: You bet your life.

White: This whole program - if you would get the whole program, and some of these items might be doubtful of obtaining, you'd only have an absorption of from half a million to three-quarters of a million unemployed, which is no more than the additional number of labor supply that normally takes place within a year, so that - I mean the sum total of the program in its effect on recovery mustn't be exaggerated.

Viner: Well, I tell you what I think might be worth while doing. Put it on that basis. Say "As an estimate, to take care of the...."

White: "....accretion."

Viner: That's a population growth factor.

- 24 -

- White: Working population growth factor.
- Viner: If roughly they correspond, that fixes the amount of your program.
- White: And our contribution to the recovery program is to take care of the additional unemployed which will be created in 1940.
- Gaston: Gives you a very gloomy picture for '40.
- Viner: It is a gloomy picture.
- Haas: I don't think there is anything to be gained by stating that.
- White: It would be close to fact.
- Haas: Close to fact, but you want to get all the psychological effect you can.
- White: You would like in addition to get some real effect - in addition.
- H.M.Jr: One of the psychological effects which I think would be the most important of all, and I've always tried to be a hundred percent sincere with you people - that if the President would say publicly that this program is planned so that it will supplement and not compete with private enterprise, and that it will reach the lower - and is designed to reach the lower third, and that it should be as self-liquidating as possible, and that that's the way the Government is going to - the trend of the Government - now, if he would say that, the psychological effect of that would be worth everything. Don't you think so, Johnny?
- Hanes: More than the money.
- H.M.Jr: Say that louder.
- Hanes: Just said it would be worth more than the money.
- H.M.Jr: That's it. Well, I'm - I mean I'm always frank, and I agree with Johnny that if the President would be

- 25 -

willing to say that, that he'd get the best press he's had in a long time and would answer so many of the questions and wouldn't be giving up an inch. Do you think he would, Ed?

Foley: No, I don't think he would.

H.M.Jr: What did you say, Harry?

White: I don't know how much good the press will - what difference that will make in business activity.

H.M.Jr: Make all the difference in the world.

Foley: Mr. Secretary, we started in PWA, we got going in August, 1933, and on the 31st of December that year we had 25 million dollars disbursed, and I had to close loans in places where they didn't need the money in order to have 25 million dollars out at the end of that year.

Now, when the RFC did it, they started in June, 1932, and at the end of the year, December 31, 1932, they didn't have out five million dollars disbursed on these self-liquidating projects.

Duffield: And how much of that is due to the fact....

Foley: And we have learned a lot since then, and we have implemented the State laws, we've got laws passed in all the States for these self-liquidating projects, and we have learned a good deal. But that's the record on those two programs for the first six months, and that's why I simply say that that's what these other people in town are going to say to you when you talk about 400 million dollars on a self-liquidating program.

White: How much would you like to set the figure at?

Foley: I don't know what the figure is.

H.M.Jr: Just a second. Dan, when we start on the first of July this year - I want two figures. What is the backlog of the unexpended public works funds as of the first of July - unexpended - what is the backlog?

- 26 -

And two, how much would be the new funds as it's written now?

Viner: In other words, how much will be available from old and new?

H.M.Jr: Well, I want the old funds and the new funds.

Viner: Do the old funds have to be reappropriated?

H.M.Jr: No.

Bell: You want all public works.

H.M.Jr: I want all public works - everything - Maritime Commission for ships, armaments, Navy, War - anything that goes to put people to work. What are the old funds that we're going to carry over and what does it look like, including a billion and a half new unemployment funds? I mean those two figures. Now, what I'm getting at is - "O. K., everything you say I agree with, but this thing is to be superimposed on that." We have enough old funds and new funds to carry us actively for 12 months, and this would begin to catch, say, not for 12 months from now. But again, the very fact that it took so long is an argument in my favor in presenting it to the President, that he should get it out at this Congress and not try to get it next January. So many people tell him, "Save all your programs until next January." That's where I differ, see?

Foley: I think that's right.

White: Would you be happier, Mr. Secretary, if we made that 300 instead of 400 million? Little easier to defend.

H.M.Jr: All right.

White: There is this characteristic about the program that you have stressed, and I think it gains in emphasis by virtue of the fact that it is, I would say, one of the chief merits of the program....

- 27 -

H.M.Jr: Cheap? C-h-e-a-p?

White: -i-e-f. The over-all characteristic is that it is cheap, but I mean that it's - but I mean it doesn't involve enough money; but the chief characteristic is that they are new types of expenditures which strike just where they are most necessary and just where the New Deal needs to strike. I mean that's the important thing about this program, and that's why I think if Jack's point is stressed, that this is to supplement any other program, then it can stand on its own feet and get a lot of defense. What it might supplement the other boys may....

H.M.Jr: May I just digress one minute? I think it's very, very bad - you (Bell) were to let me know, young fellow, yesterday about that T.V.A. thing.

Bell: I didn't get hold of Blandford - I just chased him all over the State of Tennessee - didn't get hold of him until about 3:00 o'clock. He was to look into it, consult his Board, try to let me know last night or first thing in the morning. He was a little bit doubtful as to whether they should reduce it. But I called attention to the fact that he would have to spend it by June 30, 1941, and he said, "Well, maybe it will be difficult to get it out within two years, maybe we could reduce it 25 or 30 million."

He is to call me back this morning.

H.M.Jr: I must have that when I go to see the President.

Bell: Just a question of getting hold of him.

H.M.Jr: You (Hanes) might tell that to Doughton.

Hanes: Yes.

H.M.Jr: Again, it's the same thing I was talking about - that if the President were satisfied that he couldn't use up the hundred and would cut this to what would be spent within two years....

Bell: June 30, 1941, the re-authorized funds for that purpose expire.

- 28 -

H.M.Jr: Again he would say, "I only want the T.V.A. to do what has been planned. I want them to have the money. There is nothing up my sleeve. They need 70, 75 million dollars. No sense of giving more to them than they can use within two years. This is all they can use, gentlemen. There's nothing up my sleeve."

That would have a wonderful effect, have a wonderful effect. For instance - I don't like to mention names, but I had one of the people closest to the President in here some time ago, who had something to do with public utilities, and I said, "The President tells me that I don't understand his public utility program and it's perfectly simple, there's nothing - everything is done." And this man is one of the ranking three or four or five people that the President calls in. I said, "Well, you explain it to me." He said, "I don't understand it." He said, "And I ought to." He said, "I can't explain it." And there's one of the three or four people that he calls in to advise him.

Hanes: Couldn't understand it.

H.M.Jr: Couldn't understand it and couldn't explain it, as to what is the Administration program toward public utilities.

But if the President would take this hundred million dollar thing and say, "No, I only want T.V.A. to have what they need for the next two years," I think it would help like hell, because the President has told me that he has no new projects up his sleeve. All right, this is his chance to demonstrate it. Check?

Hanes: Right.

H.M.Jr: Johnny, you've been very quiet on this. Do you want to criticize it or make any suggestions?

Hanes: No. I would leave off the first page. About all - what I'll say about the second page is, without giving any more thought to it - I like it better than the spending program I have heard discussed. Whether that's official or not, I don't know, but

- 29 -

all these spending programs are not going to do business good of any kind. I like your extension of the Stamp Plan. But in so far as a program designed to encourage business, I don't hold out any hope for that, because I don't think it does.

H.M.Jr: This program?

Hanes: No, any spending program. For that reason, I'm a little bit sorry to see the Treasury go out on what might be termed, or might be thought to be in the public mind, the advocating of a broad spending program by the Treasury. I naturally shrink from that sort of thing. I will say, though, that I like this approach far better than anything that I've seen to date.

H.M.Jr: Well, don't you think I ought to have one?

Hanes: Yes, I do.

H.M.Jr: In view of what is happening.

Hanes: My criticism is purely destructive, in the absence of having something concrete to offer. I say what I said to you yesterday, that I don't think you can fight by saying, "Well, I don't like your program." Then what?

So I think that you're quite right in trying to find something that would supplement or augment private enterprise and not just go on a big broad spending spree. We are already on a spending spree. We've ten billion dollars already. Now to say to the public, "Well, ten billion isn't enough, we've got to have two billion more or three billion more or four billion more" - it's going to do what George Haas says, and what it has done since 1933 is to stop private investment and private enterprise. The dollar has just gotten so timid that it just will not come out, that's all there is to it, and a spending program is not going to entice it out, in my opinion. Again I apologize for saying it that way because I say it's purely destructive and it isn't a constructive criticism. I don't like to make a destructive criticism.

- 30 -

- H.M.Jr: But in view of the inventory of the pulse of Washington the way it is now....
- Hanes: Just what I said yesterday, that it's the alternative. Put it this way: it's the lesser of two evils.
- White: Seems to me there's a constructive criticism implicit in your remarks, John. I'd like to push it to the inevitable logic of your position; that is, to curtail expenditures. That would follow from the assumption that any increase in expenditures is going to discourage business. Business is already sufficiently worried. I don't see how you can avoid the inevitable deduction that the way to restore confidence and the way to improve the attitude of business so they'll go forth and make investments, which they are not making, is to curtail expenditures. And the program which you ought to be ready to support, whoever agrees with you ought to be ready to support, is a curtailment of expenditures right down the line. If it's not politically possible, it's just too bad, but at least that is what you ought to recommend. In other words, I don't see how you can ride both horses. You either have to take the position that an increase in the Government contribution in the way most desirable - of course, self-liquidating expenditures would be by far more desirable than WPA or anything else; in fact, the others should be eschewed as much as possible by virtue of its history - but you either take that position, that that addition to purchasing power will not help to get business going unless you can get some of your basic recommendations through, if, as and when you do get them through. So if you follow that logic, it seems to me inevitable that you have to take the position that the way to get increased private investment - that's where the big source of investment lies - is to cut expenditures.
- Duffield: Or raise taxes.
- White: Or raise taxes, or both.
- Hanes: Well, I subscribe heartily to both those plans. I'd like to see both.
- White: Well, I think it's a comprehensive suggestion. It's one I don't agree with, but it certainly is a comprehensive one.

- 31 -

- Hanes: I'd like to see every effort made by the Government to have a comprehensive tax program to take care of the expenditures.
- White: I don't think you're quite right in calling that a destructive criticism. It is a definitely constructive criticism. That's your program. I take it that that's Jack's program too, because he expressed the same sentiment, unless I misinterpreted him.
- Viner: I believe in a spending program, but only when it is connected with a situation and a policy which permits the spending to have a stimulating effect and doesn't neutralize it by restrictive effects. I believe in it as an emergency program, as a short-run program. I say we have had a tremendous spending program and it's been a flop as a spending program. But I'd start again on the same basis of spending if you were in a deep depression. The English get improvement within two months after they start a spending program. They're already talking about bottlenecks in labor. Six months ago they were in a depression.
- White: Those are not comparable - starting from a high level of business activity, with an armament program. Let the Government embark on a three billion dollar armament program in addition to what they have now, and you talk about everybody holding back from investing....
- Viner: They had a balanced budget to start with.
- White: There are so many other factors that you shouldn't, of all people, compare them for this purpose.
- Viner: I'm just saying the spending program is given no chance in this country.
- White: Well, we didn't start it from a high level of business activity.
- H.M.Jr: I can agree with Viner a hundred percent.
- Hanes: I agree with him a hundred percent, too. We've been leading the horse up by the bridle and hitting him

- 32 -

in the nose every step of the way. That's the truth about the matter. And until we stop that....

- Viner: Dangling a carrot in front of him to make him come forward, and every time he comes up we give him a good kick.
- White: That's what keeps the horse going.
- Hanes: What did, Harry? It keeps him uncertain.
- White: Like all analogies.... That's what keeps the mule going. That's what they do, you know, keep him on a treadmill, keep the carrot in front of his nose.
- Hanes: But they don't stand in front of him and hit him on the nose every step of the way - on the jaw.
- Gaston: The only trouble is, the mule has become educated. The system used to work until the mule became educated by economists. Too many statisticians in the world.
- Viner: That's right too. That's another element.
- White: That's a problem of its own.
- H.M.Jr: Did you hear that one?
- Hanes: We ought to have open season on economists.
- Viner: On what?
- White: On economists.
- H.M.Jr: One thing - in the Treasury, we only let one lawyer in our conferences - one at a time. Three economists and one lawyer.
- Viner: For the sake of Foley, though, you ought to know how many there are. If all the economists were laid out end to end, it would be just as well.
- White: The only point there would be in that....

- 33 -

Haas: Just as well, and how long would it be?

H.M.Jr: Now, that broke the tension.

Harry, unless I get something which suits me, I'd rather have no introduction, in the first place.

White: Well, we'll either - we'll work that over and show you something which you can slip in at the last minute if you like it.

H.M.Jr: Now, as to arrangement, when we come in here with Eccles, if he's coming, and the rest of them, should we start first on their program, then show them this? I haven't had time to go over this thing to show the President this morning as to the basis. Where is that?

White: That's here.

Viner: I think you'll probably have two alternatives, as I see it. With insufficient information you come forward and say, "Here is a Treasury program," on your own initiative, for increased spending. Or you are facing a situation in which it becomes obvious to you that there is going to be a program and you say, "If you're going to have a program, why not take this rather than the one you're thinking about?" In terms of your previous history and the history of the Treasury Department, and the long-run function of the Treasury Department, I'd prefer you to be in the second position instead of the first.

H.M.Jr: What is the second?

Viner: The second is that you're faced with an inevitable spending program and you say, "If you're going to go at it, why not go at it this way?"

H.M.Jr: Well, what I thought - what Director of the Budget Smith said last night was a good suggestion, that we go over there with an economic analysis why it is our belief that the national income won't be any greater next year than this, you see, and lay that foundation. I take it we have that, haven't we, Harry?

- 34 -

White: Right.

H.M.Jr: Then the President is apt to say, "All right, that's what everybody tells me, and so what? Who's got a program? I'm sick and tired of having people tell me that it isn't going to be any better. I'm just sick and tired of that. What have you got?"

I say, "All right, Mr. President, here's the Treasury program, which, these people agree, so forth and so on - if you want a program, here is one."

White: I think they'll like it. I can't imagine....

H.M.Jr: The reason I want as little editorializing as possible is because I'm sure this will be handed all over Washington and, coming from the Treasury, I'd much rather let it rise or fall by the weight of its merits without any editorializing on it, you see.

White: I think there is something to be said for the enunciation of those principles.

H.M.Jr: Well, if you can get one which Viner would accept, then the chances are that I'll accept it, you see. I mean I've repeated what is motivating me all the time.

Viner: Of course, here is another way of putting those two alternatives. You may say, "Increased expenditures should be made, but they should conform to these criteria," or you may say, "If increased expenditures are going to be made, they should be made to conform to these criteria."

H.M.Jr: I'd like very much if Hanes would say he is in the same boat with me on this - I mean if that's possible. I mean my approach when I go over there is, "Well, the country next year - it looks as though it won't be any better off. Now, we don't think we can gamble on that." I'm not going to use that word. Be unfortunate. I'm using it in the room.

Then if the President does the way he always does - "Well, all right, I know that. So what?"

- 35 -

"Well, if you want a program, Mr. President, here is one." See, I'm not going to push you, John. Take your time, think about it, see? I mean you don't have to make up your mind today. You've got lots of time. I mean I'm not going to push you.

Hanes: Well, I'm saying, as I said before, I don't want - I'd hate like the devil to take the attitude that I just want to do nothing. It isn't that I want to do nothing. I want to help all I can, but the thing - I know what the reaction of this thing is on the business mind, I know what it has been for five years. It just....

H.M.Jr: I'm not pushing you. If there's something in here which particularly you don't like, you tell me so. You've got plenty of time, because, after all....

Hanes: There is nothing in here that scares me. I just want to think a little bit about it. As I told you yesterday, I think you're on the right track to get some alternative. To say, "I don't want that" - "But what do you want?" - "I don't know." I don't - well, that's not a constructive attitude.

Gaston: I think so far as the meeting of this Fiscal and Monetary Committee is concerned, I'd agree with what Jake says, not only for the reason he states, but for another reason; that is that if you present this first to this Committee, they are likely to say, "Fine, here's a spending program; well, we'll make a bigger and better spending program out of it." I think it would be better to get their suggestions first and then present this as an alternative.

H.M.Jr: Well, I want to go over first the economic analysis of why this country won't be any better off next year than it is this year.

(Eccles, Smith and Currie come in)

H.M.Jr: Hello. You're among friends.

Eccles: Good morning.

- 36 -

- H.M.Jr: A few extra ones. I had these boys here at 8:30.  
Marriner, Mr. Smith, if we can start in first by looking at the foundation, the economic analysis that we're giving the President, so as to....
- Eccles: You mean the memorandum that we were....
- H.M.Jr: What's the matter with the country and why it won't be any better off next year. Now, who has that? Who has that?
- (White presents memorandum)
- Eccles: Which one is this?
- White: This is the one we were looking at the last time we were here.

-37-

(Following portion of meeting taken by Mr. King; it is noted, at Mrs. Klotz's direction, that it is to some extent incomplete and inaccurate)

- H.M.Jr: Will it be all right if I read this out loud? 'It is the general opinion' - there are some changes.
- White: Just in the first page; there are some minor changes.
- H.M.Jr: And I take it this is the first piece of paper we hand the President.
- White: As I understand it, this is the basis for discussion.
- H.M.Jr: 'It is the general opinion among Administration officials and technicians in Washington who are on, or are cooperating with the Fiscal and Monetary Advisory Board, that there is little if any prospect for marked recovery within the next two years. Even with moderate improvement in business the unemployed will increase because of continued technological changes.'
- Eccles: There will be increasing population, too.
- White: That lies behind the increase.
- H.M.Jr: 'Three. Some of them also recognize the possibility of a downturn in business activity before the end of 1940.' What happened to George Haas?
- Haas: The only question I have is whether it should be 'marked.'
- H.M.Jr: Where's that?
- Haas: It says there is little if any prospect for 'marked' recovery. It's just a question of how that is defined - if you mean getting up to 75 or 80 billion national income.
- H.M.Jr: Well, it's sufficiently vague.
- Haas: It's all right.

-38-

- H.M.Jr: 'Four. The inability of our economy to reach and maintain even the modest objective of an \$80 billion national income.' I don't like the word 'modest.' Strike that out.
- Eccles: It is modest, based upon the number of unemployed that you have. If you hadn't that of course it isn't modest by comparison with anything you have had.
- H.M.Jr: Could you make that just a little bit more powerful. Would it be all right - 'maintain the objective.' Would you mind?
- Eccles: That's all right.
- H.M.Jr: I think we might be laughed at. Just if you cut out the words 'even the modest' to read 'and maintain the objective of \$80 billion.'
- Viner: I wouldn't agree, Mr. Secretary, because we have had higher than that before - in '28 and '29 - and it's acknowledging a defeatist attitude if you don't say in the next few years or two years. I would say this is modest. If you say next year this is by no means modest, but as an objective this is too modest.
- H.M.Jr: How would you make it read?
- Viner: 'The inability of our economy to reach and maintain even the objective of an \$80 billion national income' and then put in brackets 'as compared to '28 and '29' and state the figures.
- Eccles: In other words you would use '28 and '29 with the population ten million lower than it is now.
- Viner: There is another modification because the price level is somewhat lower.
- H.M.Jr: If you say 'to reach and maintain even the objective of \$80 billion national income as compared to - - .'
- Viner: Which had already been surpassed in '28 and '29.
- H.M.Jr: Something like that. Is it all right?
- Eccles: I feel like Viner does, because, after all, we talk about \$80 billion as the ultimate objective as though

when you reached that everything is fine, but that isn't just right.

H.M.Jr: I don't like that the way it is here.

Viner: It isn't 'modest.'

Eccles: We are talking about '40 and then we come along with this paragraph below and say 'modest objective of this \$80 billion income' and it can be assumed that we think that is modest, even if we reach that in 1940. I think modest just isn't the word.

White: Put in that about '29.

Viner: Or some other way of working that out. I think that verbally that can be done.

White: I will let you see it after I work it out.

H.M.Jr: All right, gentlemen? Marriner?

Eccles: All right.

H.M.Jr: If we could see it before we go at least we wouldn't stumble on it. 'some of these maladjustments are subject to correction; others may be compensated for.'

Viner: There, I don't know what they mean. It seems to me 'subject to correction' and 'compensated for' would mean the same thing.

White: Well, that wasn't in the last draft. On the one hand there is something like the decreasing rate of population growth. You could correct that I suppose but you are not likely to.

Viner: This conceivably might be issued to the public. Is that right?

H.M.Jr: I would never send anything to the White House that could not see the light of day.

Viner: I would say 95 per cent of the people, at least, who would read this document would not have a clear conception of that.

-40-

- H.M.Jr: May I make a suggestion? We are laying down certain principles. I think that last sentence could be left out entirely. I don't think it adds anything. Would you be willing to leave that off at this point? Do you feel I was the one arguing about it?
- Viner: It's all right providing the last sentence in the other draft is left out too.
- Haas: I would take it out after the comma.
- H.M.Jr: We are just laying down facts. You are beginning to argue about it here and I don't want to argue about it at this point.
- Haas: This is No. 5.
- Viner: The last sentence in four.
- H.M.Jr: 'Some of these maladjustments are subject to correction, others may be compensated for.'
- Viner: I think what that sentence means to say is we are not helpless.
- Duffield: That is what I hoped to say - that some can be corrected, some can be compensated for.
- H.M.Jr: Harry, I don't think this is the place. Leave that out.
- 'Five. Some of the basic changes which are partly responsible for the lower level of business activity during the 30's are as follows: (a) We have for the first sustained period in our history a volume of savings which at a high level of national income is considerably in excess of the profitable outlets for such savings.' I would be much happier if you don't say that - bring that thing in at this time.
- Eccles: I can't help but feel that is basic.
- Viner: You mean that even at a high level - obviously at a low level of national income it would be even more true.
- White ; No, no.
- Foley: No, no.

-41-

- Viner: Even if we had an \$80 billion income we would have the present volume of savings.
- Gaston: You are talking about current savings. At a high level of income the current savings would be greater.
- Currie: The higher the income the higher the savings. If you go down far enough you don't have any savings at all.
- H.M.Jr: Can you understand that, Viner?
- Duffield: May I ask, Harry, how you had that in here before? You didn't have it under five.
- White: No.
- Duffield: The draft before?
- White: The one before this was just above five and it was commented that the explanation would appear to apply to everything that followed, so we moved it below No. 5 and made it part of the explanation.
- Viner: I don't understand this. Is it that the present volume of savings is larger than profits? You are saying that if we had an \$80 billion income we couldn't invest our free volume of savings.
- Accles: Your savings would increase and the problem of investment would be greater than today. If you had a national income of \$40 billion you wouldn't have excessive savings.
- Currie: The potential volume of income.
- Viner: You can say we have a propensity to save greater than investment opportunities. Now I know what you are trying to say.
- H.M.Jr: This is very important to me. If this is what they say, Jake, do you think I ought to say this?
- Viner: If you were to ask me how could I say it, since I believe it to be probably true, I would say we have in this country a disposition to save, that it is so intense as to create a difficult problem to keep all of our resources at work.

- H.M.Jr: This is the most difficult one. Let's take the time to put this down. Otherwise we will have to put it in a footnote. This is the thing that I have never been able to swallow.
- Eccles: We talked about what we need is more new investment to meet the unemployment problem, to keep the economy going, and to get full employment. Of course, new investment is made out of savings. It is that part of the national income which doesn't go into consumption, such new bank credit as may be extended; generally speaking, new investment should come at this stage of recovery.
- Viner: No, no. At this stage of recovery new investments should be made out of accumulated savings, not out of new savings.
- Eccles: No, not new savings. What I mean is the idle - use of existing savings. For instance, your insurance companies, your mutual savings banks, your trusts, your corporations have all got idle funds. Those are the savings.
- Viner: Past savings.
- Eccles: I know but they are accumulating every day. In other words, if you don't get your savings invested currently you don't get a velocity turnover of your deposits. Now we have a volume of money but we don't have a velocity of money and the reason you are not getting it is because of the fact that you are not getting the investment of what has been saved and I think the whole thing is fundamental and without that you've got no place to go.
- Gaston: In other words, expenditures plus investments are not equal to income.
- Viner: You are using that in the meaning of funds and I thought it was used in another sense - current income.
- H.M.Jr: Let's take plenty of time. This is the only thing I remember that has bothered me on this whole business and it has bothered me for two years. In the first place should we say something in regard to that,

-43-

because I have never been able to swallow it? Can we state it in a way I could accept it? If you don't mind being a little patient with me on this point.

Eccles: I would just as soon spend all morning to get that fixed.

H.M.Jr: As I remember it, I think this is the only thing that bothered me.

Viner: I could state several propositions. I am not yet sure which one is intended. 'We have had for a sustained period or for the first sustained period in our history we have had a volume of accumulated investment funds which, even at a high level of national income, we would have found it difficult to invest.' That is one proposition. Is that the one meant?

White: It is current savings. That is what it says. That is what it means.

Currie: I think there is something wrong with these words, Mr. Secretary, because if you go down you will find - this is right down to J - you will find large things - population growth, new industries, changes in methods, investment outlets dwindled and disappeared in the past and yet our capacity to save and desire to save are as large as in the 20's.

H.M.Jr: Well, please don't think I'm being personal in the next few minutes. There is something wrong, most likely with me, because I admit that industry isn't investing. I have a memo here from George Haas based on new money raised by securities since '33. It shows that during that period the United States Government raised additional net funds of \$18,000,000,000 and all the other issues were only \$400,000 new money so the result shows the net new money raised during the last five years was \$18½ billion of which the Federal Government raised \$18,000,900,000. So that is the basis from where we jump, but the money is there. I agree with you on that. Some of that is in the form of savings but I don't want to be in the position of criticizing people because they want to save and that's what I have always felt.

Currie: No, no.

H.M.Jr: I think we can all come to an agreement. The trouble is the railroads haven't got enough traffic to spend more money, the public utilities are bothered by government competition, therefore they don't expand at a greater rate and there are a lot of reasons why industry doesn't go ahead, but I don't think the reason for it is because people want to save money. I think the trouble is with industry or the profit motive or something else and it isn't savings; we need to save.

Currie: I think I can put my finger on the issue here.

H.M.Jr: If you could it will be helpful.

Currie: Our position is even if you had all the investment you could reasonably expect in railroads, utilities, agriculture, etc., you would still not have enough to offset the current savings. In the 20's the total expenditures on plant and equipment, industry, agriculture, utilities, loans - all those things in the heydays of the 20's - they only offset about fifty per cent of our savings. We need other things: installment credits, foreign loans, bonds of municipalities, non-profit construction - we need those things to offset the savings. Some of those have disappeared now or have gone and we have nothing to take their places so even if we get all the expenditures you hope for we still will not exhaust the savings.

Viner: What happens to the savings then that shrink?

Currie: They have to shrink. That's why I suggested the word 'potential.'

Viner: You are not denying the proposition that savings equal investments.

Currie: No.

White: If you can offer some phraseology which at the same time will be understood by the layman and will satisfy the economist it will be very helpful.

-45-

Eccles: He doesn't want anything, does he?

H.M.Jr: Well, I think the first thing to do is to state it correctly technically first and, if it's necessary, to popularize it.

White: The word has some very different meanings.

H.M.Jr: It seems to me - I hope we are talking about the same thing - you keep referring to savings as though it's accursed to save and it seems to me the emphasis should be put on business so it will go ahead and expand as the savings are there. Point out that the savings are there and available, fine, but the pressure should be put on private enterprise to go ahead at its maximum and if they would go ahead at the maximum then we won't come along with the Federal Government in the competitive field and kick our investors. I am satisfied what I am trying to do is to do what the Swedes do. They go in and say this is the government's field but don't keep all the time infringing on private enterprise. But the line has become so vague that business doesn't know what is its field and what is the government's field and I don't know what is the government's field, but if you can start from that angle and say we need so much volume and so much business and the pool of capital is there but we are not using it - can it be done that way? Does that suit you?

Currie: Yes.

H.M.Jr: I don't see any difference but I have never been able to see it in the English language. I have never been able to get it down. My tax statement was acceptable because I had the best tax economists in America put it in technical language so nobody could point a finger and say that isn't acceptable to any tax economist. I didn't try to popularize it. No economist can question it because the economic language is correct. That's what I would like to have here so we would make it accurate in economic language.

Duffield: I hope you realize you have just given Harry a bouquet he's been looking for - that he's a tax economist.

H.M.Jr: He deserves a lot of credit.

- Viner: What 5 (a) means is 'for the first sustained period in our history a volume of savings which at a high level of national income is considerably in excess of the profitable outlets for such savings.'
- White: That doesn't meet the Secretary's objection and I get his objection. I think we can combine it with what we have and give not the slightest implication that we are saving too much, that saving is bad, but rather that private enterprise or business for the first sustained period in our history is not making or using large funds available.
- Eccles: And if they don't do it then the government has got to borrow or use these savings for public investment, pensions and otherwise, if the economy is going to keep going.
- Viner: That is, the idle investment issue - just another story.
- H.M.Jr: Could we have just a minute to do it the way White suggests?
- White: Let me tell what I think you have in mind and then check to see if the minutes - -. 'We have, for the first sustained period in our history, a situation wherein private enterprise and state and municipal governments are not utilizing the large pool of savings which currently become available for use.'
- Viner: Accumulated savings?
- White: No, we are talking about current saving.
- H.M.Jr: What is the significance of that? The difference between current and accumulated?
- Viner: There are two different concepts. One is monetary and one can be reduced to physical terms. There is available in banks and private deposits idle bank balances and unused bank credit not being used which could be used if the owners of these funds wanted to use them and that is not normal.
- H.M.Jr: Do you know is that accumulation or current?

- White: I would call that accumulation, the funds aspect, and the other aspect is out of current income. People are endeavoring to save more than there is any immediate investment outlet for and that depresses the national income.
- H.M.Jr: Even I can understand that.
- Eccles: The other, the excess reserves, we are not talking about that.
- White: We are really talking about both - they are interdependent.
- H.M.Jr: If Eccles will be satisfied not to talk about the accumulation picture, just the current one, it may be much easier.
- White: Jack doesn't want to talk about the current.
- Viner: No, no.
- Eccles: I am not thinking of the question of bank credit and that would increase the existing supply of currency and that isn't the problem here. Private funds already created as the result of government and foreign capital coming in is not the problem. The problem is to use the current income that the insurance companies and corporations, etc., are using to build up balances.
- Viner: It isn't nearly the current income. I would say the problem is these funds should be used - it's our low velocity.
- Eccles: It's a question of getting velocity of funds, wherever they are.

(This is the end of the first take by Mr. King)

- H.M.Jr: Well now, let's just see a minute. What - how could we start this question of the position from year to year? Take a couple minutes over there and just see if you can state it.
- I'm sorry, Smith, to have to do my homework here, but this has been going on for two years.
- White: This sentence is a key sentence.
- H.M.Jr: And if we can get by this, it will make me very happy. It ought to make these gentlemen very happy. Incidentally, (a) and (b) ought to really be combined.
- Currie: Except, Mr. Secretary, that (a) relates - really relates to (b), (c), (d), (e), (f), (g), (h), (i), (j).
- Viner: You mean (b) and (c) are reasons why (a) is a fact.
- Currie: Right down to (j) - are really reasons why (a) is a fact.
- Viner: You think the disposition to save has been stronger the past few years than it was from 1920 to 1929?
- Currie: I think so. According to my calculations, we have saved as large a percentage of our gross income in 1937 as we did in the average of the twenties - 19 percent - although we had 8 to 10 million unemployed in 1937.
- Eccles: The experience of the depression, I think, tended to encourage savings on the part of corporations in particular. The corporations have been more determined to get what they term a rainy day reserve and get out of debt, more than ever before.
- Viner: Savings by corporations would mean non-distribution of income in the form of dividends.
- Eccles: That's right, non-distribution of dividends and non-investment for maintenance, and so forth.
- Viner: Well, I'd say it's savings even if they invest it in maintenance - it's savings and not investment.

- Eccles: But not to the extent of maintaining plant.  
If it's a question of just continuing to maintain their....
- Viner: Book values?
- Eccles: That's right.
- Viner: That is savings. But they can then maintain their book values by either building up a cash reserve or maintaining plant, and the difference between those two ways of maintaining their book values is the difference between saving without investment and saving with investment, so that the problem is investments.
- Eccles: There's no disagreement.
- Viner: The question I'm asking is, have you shown that it's savings which is the problem and not investment?
- Eccles: Well, one is a part of....
- Haas: You can say they have not entered into any capital formation.
- Viner: You can state the problem that people are saving too much or you can state it that people aren't investing enough. Those are two different problems with different situations.
- Currie: Or you can state it that people are not consuming enough.
- Eccles: If they consumed more, there would be less of the national income saved and more consumed.
- Viner: But those three ought to be distinguished so it's quite clear which one of these, or which combination of these, we're talking about. In other words, is it our problem that people are saving without investing or spending, you see? All of these combinations.
- Haas: Or you can state the whole problem in terms of distribution of national income.

-50-

White: That's one of the conclusions. I think it takes care of at least part of that. You say "As a consequence of these basic changes we are faced with the inevitability of a low national income unless either or both of the following happen." Shall I read on?

H.M.Jr: Please.

White: "(a) The development or appearance of sufficient investment outlets to absorb the savings of a high national income.

"(b) An increased proportion of the national income is spent on consumers goods, thereby reducing the volume of idle funds and increasing the profitable outlets for savings."

Those are the two possibilities.

H.M.Jr: That's at the end.

White: That's the conclusion which we would draw from this statement and certain other factors. Those are the two ways of getting a higher national income.

H.M.Jr: Now, what have you got there?

White: This is the possible statement - two ways I might suggest:

"For the first sustained period in our history private enterprise and local governments together are not fully utilizing savings which become currently available for investment and which must be invested if ...." - now, there are two ways of stating this, and they are different - "...if national income is to be maintained" is one way; the other way is "...if national income is to attain a high level."

Gaston: The other way would be "if there is to be full employment."

H.M.Jr: May I see that a minute?

White: I don't think you can read my writing.

-51-

H.M.Jr: Let me try it.

Eccles: Using "employment" is the best one, I think; that's what we're talking about, what we're interested in.

H.M.Jr: That's all right.

"For the first sustained period...." - can you use another word than "sustained"?

White: Well, there have been brief periods.

Duffield: "Prolonged"?

H.M.Jr: "Prolonged." I don't like the word "sustained."

White: "For the first prolonged period...."

H.M.Jr: "For the first prolonged period in our history, private enterprise and local governments together...."

White: "...can not fully...."

H.M.Jr: "Can not" or "have not"?

White: You can say "have not."

H.M.Jr: "...have not." They have not - I mean it's a fact.

White: There is a difference between "have not" and "can not."

Eccles: I think they're both right.

H.M.Jr: You can decide which you want.

White: They both mean different things.

H.M.Jr: I prefer "have not."

Just a second. Can you (Viner) just hold your thought a minute?

Viner: It's a question, not a thought.

H.M.Jr: What?

Viner: It's a question, not a thought. I have to hold a question, not a thought.

H.M.Jr: All right, I can wait, can you?

Viner: Oh, sure.

H.M.Jr: "....have not fully utilized...." - I mean I can say "have not." I don't want to say that they can not. I mean they have not fully utilized savings.

White: "....savings which have become currently available for investment."

H.M.Jr: If you could change the word "savings."

White: Say "idle funds" or "have not used funds"?

Viner: "....available funds...."

H.M.Jr: Well, if you could say - if you want to combine them and say "available idle funds."

White: Well, if they're idle....

Viner: "Have not utilized" means they're idle.

H.M.Jr: "....have not utilized...."

Viner: "....available funds" or "funds."

White: The way it's stated here is "have not fully utilized savings" or "funds" - "have not fully utilized funds which have become currently available for investment."

H.M.Jr: If you could use the word "funds" instead of "savings" - is that all right with you, Currie?

Currie: Yes.

H.M.Jr: Use the word "funds" instead of "savings".

Viner: Is that true, Currie?

Currie: Well, I think it means about the same.

-53-

- Viner: No, no, is it true that for the first time in our history....
- White: Prolonged.
- Currie: First prolonged.
- Viner: We've had a ten-year depression before.
- Currie: But when you go back and examine them, they weren't comparable. The index of production in the nineties - I have read a lot about the nineties....
- Viner: Look at '37.
- Currie: Agricultural economy.
- Viner: But the industrial part of it - I'm not sure; I'm just wondering whether that was the question.
- Currie: That may be true, but there was such a small segment of your economy subject to this thing that this didn't make such a difference. You can't spell it all out here.
- H.M.Jr: Well, what have you got, Harry?
- White: I wanted to show it to Jake.
- H.M.Jr: Would you listen?
- White: "For the first prolonged period in our history private enterprise and local governments together...." - and here we're having a difficulty; we say "...have not fully utilized funds which become currently available for investment and hence we were unable to obtain a high level of national income." You see, that's necessary if you change the tense from "have" to "were." The way I have it here is "For the first prolonged period in our history private enterprise and local governments together are not fully utilizing funds which become currently available for investment and which must be invested if national income is to attain a high level."
- Viner: You can go further. If they're not fully utilizing the funds which become available for investment, you

-54-

can't even maintain a low national income. The income will shrink.

White: I wanted to....

Viner: It's very....

White: That's even better from our point of view.

Viner: Mr. Secretary, it's not easy to frame that proposition. The difficulties are very great.

H.M.Jr: I appreciate that. I've been struggling with it for two years.

Viner: That's an attempt to state our whole economic philosophy in one sentence. Very difficult, you see. After we are through stating it satisfactorily on the basis of its own assumptions, I would then question the assumptions, you see.

Currie: Well, the assumptions follow in the next half dozen, ten points.

Viner: Yes. But I imagine that my opinion of what the assumptions are is probably different.

White: I don't know, Jake, it seems to me you've got to answer the question whether you accept this or not without knowing, after all, the assumptions. The Secretary is asking whether he can make this statement and be economically sound. I don't think you can dodge that question by saying you don't know the assumptions.

Viner: I say you can't make it without proper assumptions. It isn't a sound - it's a partial statement which needs assumptions to be conceivably sound.

White: He's making this in the year 1939, in the assumptions in which we find ourselves; all the assumptions are present. All you have to do is look around. They are realities, not assumptions. The question is, can he make this statement?

Currie: There's another possible way. You can say "For the first prolonged period in our history private enterprise and local governments have not invested enough

to offset the savings of a high national income."

Viner: "...the attempted savings...."

White: Or "offset the funds set aside for investment."

Viner: Even for a low national income.

H.M.Jr: I think we can say - just say it again. I'll tell you where to stop.

Currie: "For the first prolonged period in our history private enterprise and local governments have not made sufficient investments to offset the savings" or "to absorb...."

H.M.Jr: Do you mind - let's - no, just let's put it "For the first time in our history private enterprise and municipal and State governments have not...." - would you use the word "spent"?

Currie: Yes.

H.M.Jr: "...have not spent sufficient funds...." - now, I'd like to switch here - "...in order to absorb our unemployed."

Currie: "...unemployed" - but you can't put it....

H.M.Jr: Or "in order to give...." - or put it this way: "in order to create enough work to give them jobs."

Viner: You'd have to put it "have not invested" or "spent."

H.M.Jr: "...have not invested or spent sufficient funds in order to give every able bodied person work."

Currie: That becomes a true statement but rather banal, I think, Mr. Secretary. I mean it's a truism. It leaves out the point of how much....

H.M.Jr: I'm willing to put it....

Currie: ....why you have to spend. How much spending is there necessary to give you full employment; that depends on the amount of savings there is in the community.

- H.M.Jr: Well - "they haven't spent or invested sufficient funds in order to give us a sufficiently large national income in order to take care of our unemployment problem or give people work."
- Viner: You've got to bring in - give them the volume of savings.
- Currie: Otherwise it becomes a rather trite statement.
- H.M.Jr: Let's try it once more. Let's see if we can get the thing. I don't think we're very far apart. I think the trouble is that I'm not skillful enough to put it into English.
- Currie: That also applies to us.
- H.M.Jr: I don't think we're far apart. I admit the premises, that private enterprise and States and municipalities haven't invested and spent enough money to put this country on a basis where we can go ahead. That's the whole thing. Just where to put - just how to put that thing....
- White: I think the way you have it here gets at that very thought that you have in mind; that is, together they have not fully spent or invested funds which become currently available for such expenditure and investment.
- H.M.Jr: That's all right with me, but it doesn't seem to satisfy Viner.
- Viner: That's all right. It's a statement of fact.
- H.M.Jr: What?
- Viner: I think that's true.
- H.M.Jr: Well, let's do it again very slowly now, Harry.
- White: "For the first prolonged period in our history private enterprise and local governments together have not spent or invested the funds which have been currently set aside for such expenditure and investment...."

-57-

- Viner: "....which have currently become available for...."
- White: "....become available for," if you like - "and which must be invested or spent if national income is to be maintained."
- Eccles: Now I think you've got it.
- Haas: Or you can put it in terms of employment.
- White: We can add that - "....is to be maintained and full employment attained."
- Viner: It's right if you stop at the income. The other would raise other questions of the prevailing price structure and wage structure.
- H.M.Jr: I think the less qualifications the stronger the statement, and if you begin to qualify it every qualification begins to weaken it.
- White: "....for such expenditure or investment...."
- H.M.Jr: Why can't we write that out?
- White: I don't know if I can say it just that way again.
- (Reporter reads back sentence under discussion as last stated by Mr. White; Mr. Duffield copies it in longhand)
- H.M.Jr: Have you got it?
- Duffield: Yes.
- H.M.Jr: Now Jake thinks we're close enough together that we can go forward from here. Just read it once more for me.
- Duffield: "For the first prolonged period in our history private enterprise and local governments together have not spent or invested the funds which have become available currently for such spending or investment and which must be invested or spent if the national income is to be maintained."
- H.M.Jr: O. K.

-58-

Eccles: "...maintained and increased." It isn't only going to be maintained. If they are spent currently as they come, why, it's going to be increased.

Foley: "...maintained and expanded."

Eccles: It isn't the idea that you get a national income at sixty billion and then if you spend current funds as they become available that it's just going to be sustained at sixty. In order to be sustained it's got to be invested, but if you do that it's going to be increased.

H.M.Jr: Would you say "maintained or increased"?

Eccles: Yes. We're not interested in just maintaining the national income at some level.

E.M.Jr: "...maintained or increased."

Eccles: That's right. That is, it wouldn't even be maintained if it isn't spent; if it is spent it will not only be maintained but increased.

H.M.Jr: All right?

Eccles: I can accept it.

H.M.Jr: That statement - can you?

Eccles: Yes.

H.M.Jr: All right. Smith?

Smith: (Nods yes).

H.M.Jr: Jake?

Viner: It's all right.

Bell: Did you change number 5: "Some of the basic changes which are partly responsible for the lower level of business activity during the thirties are as follows"?

Eccles: Let me just raise one other point on that. We say "private enterprise and local governments." Why

-59-

do we say "local." Why don't we say "private enterprise and public bodies"?

Viner: You don't want to condemn your own....

H.M.Jr: Because the Federal Government has increased its investment by 19 billion.

Eccles: That may be, but the expenditure has not been sufficient, therefore you haven't got a further recovery.

H.M.Jr: But, Marriner, it directs the attention on the local.

White: You're quite right. George raised that point, too, and we both agreed at once that that would imply, when you include the Federal, that the Federal Government hasn't done enough. It's spent 19 billion.

Eccles: You're getting your implication first.

White: You're correct, but I think for strategic reasons....

Eccles: I just didn't want to overlook that, but if you're speaking of getting into the hands of the public I think we'd just as well leave it out.

White: I didn't get what you said, Danny.

Bell: It seems to me what you're stating in 5 is that the following factors are so and so, and the first part of this is all right, but when you say "to maintain" something - and then you're getting into - not stating a factor but a theory, isn't it?

White: There is some theory mixed in.

Bell: I was wondering if you didn't want to confine it to factors.

Viner: There is theory, of course, but I don't think it's controversial as it stands now, although....

Bell: You're talking about the past, see? Now what you're saying, "to maintain" a national income - that's the future. It's all right if you're all agreed to it.

-60-

- White: We haven't been absolutely consistent all the way through.
- Bell: You ought not to mix in the past....
- White: We're not going - we say something about the future.
- Cooles: We're not going to be through by 12:30 if we're going to make this a whole economic treatise on every aspect of this problem, if we have to satisfy everybody. There's got to be some give and take here, and we've got to consider the problem in a pretty broad, general way. We're getting too technical.
- Viner: You give and I take it.
- Smith: I applaud that statement.
- H.M.Jr: What?
- Smith: I applaud that statement.
- H.M.Jr: Well, I just - all I want to do is - I mean I want to be a hundred percent satisfied that what I'm putting my name to....
- White: It doesn't apply to that statement. That statement must be carefully worded, because that applies to much of what follows. That's the key.
- H.M.Jr: Now do we go on with (b) next, is that it?
- White: (b) is the next. Is that O. K.?
- H.M.Jr: "(b) Certain large industries experienced the major portion of their expansion during the twenties. These have now reached a stage of growth relative to their potential markets which eliminates them in the foreseeable future as potential outlets for large amounts of new savings."
- Can't you just change that around, Harry - "...as potential users of idle funds"?
- White: Yes.

-61-

H.M.Jr: What?

White: "...and potential employers"?

H.M.Jr: "...employers of idle funds." Does that satisfy you, Currie?

Currie: Not - I guess so, Mr. Secretary. It is again this question of idle funds as compared to current savings.

Viner: Let me point out that using "idle funds" would answer a question in my mind. Some of these have probably got fairly big reserve funds, depreciation funds, which there may be no use for.

H.M.Jr: I think I'm doing you a kindness in that I'm trying to take the curse off this thing. We've constantly used the word "savings."

Viner: And if you say "new savings" it's weaker than saying "idle funds."

H.M.Jr: "...and idle funds in their own treasury."

Viner: There are depreciation reserves which they may never use.

Currie: That's satisfactory.

H.M.Jr: What?

Eccles: But idle funds....

Viner: Their own idle funds.

Eccles: But they're saved, they're not....

Bell: They're not new savings.

Viner: They're not new savings, no.

H.M.Jr: Well, isn't "idle funds"....

Viner: It's worse. They may not only....

- H.M.Jr: Does it bother you, saying that, Marriner?
- Eccles: Yes, a little bit. I haven't....
- White: I think, Marriner, there is the difference, but I don't think it matters for the point at issue.
- Viner: "Investment funds."
- White: If they used their idle funds....
- Viner: "Investment funds." Don't say "idle."
- White: Say "potential employers of large amounts of investment funds." That would get it.
- H.M.Jr: I'm satisfied with it.
- White: That's better.
- H.M.Jr: But didn't the President in his letter to the O'Mahoney Committee speak of idle funds? Didn't he use that word?
- Currie: "Idle men and idle money."
- H.M.Jr: I mean it's at least in tune with what he said. What?
- Currie: Yes.
- H.M.Jr: How have you got it now?
- White: "Certain large industries experienced the major portion of their expansion during the twenties. These have now reached a stage of growth relative to their potential markets which eliminates them in the foreseeable future as potential employers of large amounts of investment funds."
- Viner: I'd take out the history there, just say they have reached this stage without referring to the twenties. The railroads probably reached it before the twenties, didn't they? You don't need that history as to whether it was the twenties or when it was.
- H.M.Jr: You don't like the words "idle funds." You prefer what?

-63-

Viner: "Investment funds."

H.M.Jr: Is that all right, Smith?

Smith: Yes.

H.M.Jr: Does that make you happier, Marriner - "investment funds" rather than "idle funds"?

Eccles: I think that's more correct. Everyone that has a balance in a bank - five hundred or a thousand or ten thousand dollars - and it averages that - those funds are temporarily idle.

H.M.Jr: But you prefer "investment funds."

Eccles: That's right.

H.M.Jr: All right. It's all right.

White: The way it reads now, to meet Jake's objection - "Certain large industries have now reached a stage of growth relative to their potential markets which eliminate them in the foreseeable future as potential users of large amounts of investment funds."

H.M.Jr: All right, Smith?

Smith: O. K.

H.M.Jr: All right. Is that all right, everybody?

"(c) Basic difficulties in certain important...."

White: Wait, there is "new savings" there again. We can change that.

H.M.Jr: "Though we expect a continued growth of most of these industries the rate of expansion...."

Viner: "...large amounts of investment" or "fields for...." - make them "fields for large amounts of investment."

H.M.Jr: "...the absolute volume of new investment funds they will absorb will be less than it was in the twenties."

-64-

All right, gentlemen?

"(c) Basic difficulties in certain important industries which for special reasons do not provide nearly so important an outlet for capital as they did in prior decades, e.g., railroads, agriculture, coal.

"(d) The rate of population increase has been cut in half as compared with the twenties.

"(e) The virtual cessation of foreign investment which in the twenties accounted for about one-half billion a year."

Eccles: Didn't it exceed half a billion?

White: Some years it ran up to 700 million. There was one year in which it was very low. It averaged a half billion, slightly over.

Currie: There was some offsetting figure for investments here. This is the net figure.

Viner: Say "Accounted net for about one-half."

Eccles: I think if you don't, that's not correct.

Viner: It seemed small to me. I asked about that.

Currie: "...one-half billion a year net."

Viner: Whichever way - as long as you get the "net" in somewhere.

H.M.Jr: All right? Harry, do you want somebody to come from your office so you could give them a page? Who do you want?

White: Mrs. Shanahan.

H.M.Jr: Who?

White: Ask Mrs. Shanahan.

H.M.Jr: (On phone) Ask Mrs. Shanahan from Mr. White's office to come into my office please.

"...virtual cessation of foreign...." - you can change that.

"(f) State and local bodies which in the twenties provided an outlet for savings of nearly a billion dollars a year...." - "an outlet for investment funds"?

White: Just as good in each case.

Viner: "...which engaged in investment expenditures of nearly a billion dollars a year...."

Currie: That's not quite the same thing, because you might do that with their tax receipts. I think the....

Viner: Well, if you....

Currie: I think the Secretary's suggestion is a little better.

H.M.Jr: I'm just suggesting that wherever you have the word "savings" you use the words "investment funds" if that's agreeable to Eccles and Smith.

Smith: Instead of the word "savings."

H.M.Jr: "State and local bodies which in the twenties provided an outlet for investment funds of nearly a billion dollars a year have in recent years actually added a little to the current volume of...." - what?

White: "....funds available...."

Currie: "....for investment...."

White: "....funds available for investment...."

H.M.Jr: Right. "....through a net reduction in their outstanding debt."

In other words, I don't want to say, "Look at that! They ought to be ashamed of themselves for saving a little money." What? I don't want to be put in the position of saying, "Look at Cincinnati; they ought to be ashamed of themselves for saving a little money."

- Viner: The new morality.
- Eccles: Well, that may be. I was just saying to Jake that in reading Schacht's annual report and also McKenna's of the Midland Bank - in discussing this problem of difficulty of investment, they both used - they both used "savings" right through - savings and investments, public and private.
- Currie: I'd like to suggest the elimination of the words "a little." Spent about three billion dollars in '32.
- Eccles: Huh?
- H.M.Jr: All right.
- Currie: I think three billion dollars is more than a little - "a little" in this sentence.
- Eccles: You mean the pay-off. Has there been that much?
- Currie: Haven't paid that much off, but added to the cash balance in addition to paying off, so it amounts to that much.
- Eccles: In other words, the Government's expenditures in those communities has enabled them to build up their own cash balances and retire the debt.
- Viner: They've shifted their debt to Washington.
- White: That's where it belongs. Danny can take better care of it than they can.
- Bell: I couldn't vouch for that.
- H.M.Jr: Are we all right? Where were we?
- White: (g).
- H.M.Jr: "(g) Sharp curtailed expenditure on non-profit private building..." - what's that mean? - "i.e., churches, clubs, universities, etc. In the twenties these accounted for a half billion to a billion dollars a year and they are now less than 200 million."

- Eccles: There's a half billion to a billion; that's an awful spread - each year for churches and clubs.
- Currie: Two or three years it was 700 million a year.
- Duffield: What's the average?
- Viner: I'd put the clubs last. But it can't be any more....
- Eccles: I'd put an average in there of half a billion. It looks to me like it's an awfully broad guess - from half a billion to a billion.
- Viner: It's a range, not an average. These range from - this may be based on actual figures.
- Currie: Yes, they are based on actual figures.
- Eccles: Put "range."
- White: "In the twenties these ranged from..." We didn't put in, you'll notice, the miniature golf courses. Your 700 million....
- Eccles: If you're talking about "ranged from...."
- Currie: You can say "Some years in the twenties these amounted to 700 million...."
- Viner: "....to as much as...."
- Currie: "....to as much as 700 million dollars."
- Eccles: And when you say "et cetera...."
- Viner: "Et cetera" is hospitals. You can put in hospitals.
- Eccles: You don't put schools in.
- Viner: Private schools.
- Eccles: That's it - "churches, clubs, private schools and hospitals."
- Viner: Sounds awfully big to me.

-68-

(The second portion taken by Mr. King follows:)

- H.M.Jr: Are we all right, gentlemen, on this?
- Eccles: Change it to \$700 million and take out 'et cetera,' add on there and make it look a little larger.
- Viner: Private schools and hospitals?
- Eccles: Private schools and hospitals.
- Viner: Non-governmental schools and hospitals. You've got the parochial schools.
- Eccles: And hospitals, et cetera.
- H.M.Jr: Where are we now?
- Viner: Put non-governmental charitable institutions. The purpose is to make the \$700 million figure look more reasonable to the ordinary reader; and I would put clubs further, of course.
- Currie: \$700 million seems a small figure to us, Jack.
- H.M.Jr: May I remind you we have six pages. All right? We could not drop the last three pages. '(h) The slack created by the over-production of commercial buildings in the late 20's will not be taken up for several years at least.'
- Viner: It will not have been taken up for several years more, at least.
- H.M.Jr: All right.
- Viner: Pursuit of elegance.
- H.M.Jr: '(i) The trend of technological change over much of industry has been in the direction of a reduced amount of capital consumption per unit of output.' Now what the hell does that mean?
- Viner: For a pair of shoes you need a smaller amount of equipment.
- Duffield: Is that true?

- Currie: It's true, Mr. Secretary. From '23 to '28 there was no increase at all in expenditures for industrial and commercial equipment despite the fact production increased rapidly.
- Haas: From steam power to electric power.
- Currie: These new conditions: Strip rolling mills produce far more per dollar investment than the old type did.
- Ecclcs: Per kilowatt hour, equipment requires more investment than it used to.
- Duffield: I thought this was still debatable among economists.
- White: If you ruled out everything that was debatable here among economists you would never have anything.
- Viner: The thing that is most stressed is the decrease of labor. Some people don't think there has been a tremendously fast rate.
- Currie: A ny increase at all would mean you've got greater expenditure.
- Viner: But not capital expenditure if it was a labor-saving device.
- White: That says for much of industry.
- Currie: There is this one fact that you didn't have. For that six-year period you didn't have any increase for equipment expenditures and yet you had a growing increase in production.
- Viner: You mean taking the over-all?
- Currie: '23 to '28, yes.
- Viner: I would say that was a question of fact that could be reasonably determined and I would assume which had been.
- White: You can still further watch it if you like.
- Viner: I would leave that to others. I don't pretend to know.
- H.M.Jr: Can we go ahead?

-79-

- Currie: I would like to suggest making it clearer - put capital investments instead of capital consumption.
- White: They are different things.
- Currie: But I think it's clearer.
- White: We can cut it out to be sure.
- Viner: You are cutting out the whole thing.
- H.M.Jr: I need a half an hour for another matter before we get through on this thing. We are going over there at 12:30.
- White: Let's give this up and we'll take something later.
- H.M.Jr: I think it's a good idea to get up at 8:30 in the morning. We will try it at 7:30.
- '(j) The Federal, State and local government tax structures now derive a greater proportion of total revenue from taxes that curtail consumption than was true in the 20's.' Well, it either is or isn't true. Is it true?
- Currie: It's true.
- Viner: Yes, it is because all taxes curtail consumption but it is true they have shifted to consumption taxes.
- Eccles: Sales taxes.
- H.M.Jr: '(k) The serious reduction of certain foreign markets for important export crops, e. g., cotton, wheat, tobacco and hog products, and the failure of foreign trade generally to revive to the level of the 20's. The curtailment of these markets is not due to temporary factors.' All right.
- '(l) The situation is aggravated by the fact that those who have or control the nation's savings ...'
- Eccles: Nation's funds for investment.
- H.M.Jr: Yes. '... are definitely more timid in undertaking business risk ventures.' New York doesn't say that. 'The increasing uncertainty, both economic, political

-71-

and social, which has characterized the past decade has made people more conservative...'

- Viner: If I face a mouse without shrinking but run from a lion, am I more timid in the second case?
- White: What's that again?
- Haas: Are you man or mouse?
- Eccles: I hope he sticks that down.
- Currie: I would just as soon take it out.
- Eccles: You mean is it a fact - what he just said.
- Viner: I wouldn't take it out - at least, I wouldn't pick this to take out.
- White: I had you in mind when I said this, Jack. But how would you ... definitely more reluctant to undertake business ventures?
- Viner: I would say the situation was aggravated by the fact that those who control the nation's investment funds see definitely greater risks to investors than they hitherto had. They are appraising the risks, expecting greater risks.
- White: That's all right - appraising the risks.
- Gaston: They definitely want security more than they did.
- H.M.Jr: Are we together?
- Currie: Definitely more risks in investment than hitherto.
- Viner: Appraise the risks as greater.
- Gaston: I think it was a desire for security that didn't exist before. I would change it to 'hesitant' possibly and let the thing stand because there is more than one factor in it.
- Viner: You want also to add then 'are less willing to assume risks'?
- White: We've got to make it sound so they will stop only at the lions.
- H.M.Jr: Are we by (i)?

-72-

White: You are down to (m).

Haas: He was reading (1) as (i).

H.M.Jr: Are we through with (1)? Is this my fault that we haven't done this earlier? Have you been all over this?

Eccles: No. I have read it all but I read it last night after midnight.

H.M.Jr: But you hadn't been over this before?

Eccles: No.

H.M.Jr: Is it just my fault we are doing this today?

Eccles: Well, I was up on the Hill.

H.M.Jr: I just wondered.

Eccles: Well, you have got one.

H.M.Jr: Can we go ahead with 6 now?

Currie: Yes.

H.M.Jr: 'The United States is not unique with regard to the changed nature of economy. The advanced European countries have experienced the same contraction of outlets for their savings.' What is an advanced European country?

White: Industrially advanced.

Eccles: Britain, Sweden, France.

H.M.Jr: Do you mean advanced in spending or saving? I just wanted to make sure.

Viner: Would you say most advanced or can you generalize? Probably most would be true, I should say.

H.M.Jr: 'Some of them have temporarily solved their problems by a new industry greater than all the new industries of the past period combined, i.e., armaments and complementary industries. In some of them the problem

-73-

has been rendered less acute by the fact that their tax program has resulted in a diversion of a larger portion of potential savings back into consumption.'

Gaston:

I think 'complementary industries' the way you have it is all right.

(This is the end of the second portion taken by Mr. King)

-74-

- Viner: Let's see - "...their tax program has resulted in the diversion...." - you mean they have taxed people who otherwise would have saved?
- Haas: Yes, distribution of national income.
- Viner: And spent it on current.... That "larger" means larger than what? Larger than previously in their distribution or than we do?
- Currie: Both.
- Duffield: I guess that answers the thing.
- Currie: We can say "large portion of potential savings back into consumption."
- Viner: It's not only the level to be....
- Gaston: That still isn't it. The level....
- Currie: That's all right.
- H.M.Jr: Can we go ahead, Jake?
- Viner: Yes.
- H.M.Jr: "7. As a consequence of these basic changes we are faced with the inevitability of a low national income unless either or both of the following happen:
- "(a) The development or appearance of sufficient investment outlets to absorb the savings of a high national income."
- Are you going to make that language comparable to the other language? Please.
- Duffield: Could I have a verb that is more active than "happen"?
- H.M.Jr: Well I don't know, but if you could - the (a) part....
- Viner: "Occur"?
- Duffield: I want to get some idea that you can do something about these things, don't just sit down and watch for them.

H.M.Jr: Get that. But can you make that (a)....

White: "....funds available for investment...."

H.M.Jr: Right.

"(b) An increased portion of the national income is spent on consumers goods, thereby reducing the volume of idle funds and increasing the profitable outlets for savings."

Bell: If we had a war that would be consumers.

Viner: If we had a war, that - a war is consumers goods.

H.M.Jr: Can you - are you fellows going to change (a) and (b) to make it fit in with that first thing we slaved over?

White: We did change it.

Currie: We have in (a) "funds available for investment from a high national income." And (b) - "increasing the profitable outlets for investments of funds."

H.M.Jr: That's all right.

Gaston: "....for investment."

Bell: At least the investment....

Gaston: "....for investment."

Bell: Yes - "for investment."

H.M.Jr: "8. Turning to the immediate situation there are numerous indications that the prospects for substantially increased national income in 1939 and 1940 are not good.

"There are two elements in the picture which are bullish" - "....which are, however, bullish"?

Currie: "Favorable."

Viner: I wouldn't call them "bullish."

H.M.Jr: "Favorable."

Viner: Let's keep away from stock market terminology.

H.M.Jr: Let's operate the market but not talk about it.

"(a) Inventory reduction has been proceeding for some months and a cessation or reversal of this trend would be a stimulus to production.

"(b) Expenditure on consumers goods has been maintained despite the decline in business activity.

"On the other side of the picture are the following:"

Viner: In (a) there I'd put in "would be a temporary stimulus to production."

Eccles: That's right. Certainly would.

Viner: I wouldn't indicate that that's....

Eccles: ....something that's basically sound.

Viner: No.

Eccles: I think that's right.

H.M.Jr: And if you don't mind, if there are only two of these and about ten of the others, I'd say "There are only two elements in the picture which are favorable."

Haas: You can't get any people to agree on those two.

Viner: On the two?

Haas: I mean exactly.

H.M.Jr: Oh, I see.

Viner: Say "We see two elements in the picture which are favorable."

Haas: Another element which I think is important is the prospect for advancing prices.

H.M.Jr: Advancing what?

Haas: Advancing prices.

H.M.Jr: Well, then you don't want to put in the word "only."

Viner: No. You see that prospect, you see other prospects.

H.M.Jr: "On the other side of the picture are the following:

"(a) The upturn which began in 1938 reached its peak in December and since that time the level of business activity has been downward.

"(b) No significant increase in the net contribution to buying power by the Federal Government under the existing program will occur this year and a reduction is anticipated in the fourth quarter."

Duffield: Mr. Secretary, that brings up - the introductory clause "On the other side of the picture are the following" - is that to mean that the unfavorable things are the following?

H.M.Jr: Well, they ought to say so - favorable and unfavorable.

Duffield: And of course, the (b) - whether it's unfavorable or not is a matter of opinion. If there is merely no reduction, maybe that's not unfavorable necessarily, but just one thing that's not hopeful.

H.M.Jr: Well, what do you suggest concretely?

Duffield: Well, it seems to me that all mixed up in this list there are some things which merely say "These don't give any prospect of increase" and there are other things which say "These give prospects of increase." I'd have to sort out the whole list.

Currie: Would this be satisfactory to you, to say under (b) that a net reduction in the net contribution to buying power by the Federal Government is anticipated in the fourth quarter?

Duffield: That would be better, yes.

Eccles: How does that read now?

-78-

- Currie: "A reduction in the net contribution to buying power by the Federal Government is anticipated in the fourth quarter."
- Eccles: Why? I mean that immediately....
- Duffield: "...under the existing program."
- Currie: "...under the existing program."
- Gaston: You could perhaps make that introduction read "elements which are negative or unfavorable are the following."
- Duffield: That's a good suggestion.
- White: What is that?
- Gaston: "Elements of the situation which are either negative or unfavorable are the following."
- Duffield: Then you could leave it alone, I wouldn't argue at all.
- White: "...either neutral or...."?
- Eccles: Of course, if they are neutral they shouldn't belong in here.
- Gaston: "Negative" means nothing either way.
- White: "Negative" - but "neutral" would have the other implication. "...negative or unfavorable...."
- Viner: "Negative" means minus. Zero is nothing, in algebra.
- Eccles: The question, though....
- Gaston: You say the influence is negative.
- White: "...either neutral or unfavorable." "Neutral" would be more accurate.
- Gaston: I think so. I'll take it.
- White: "...either neutral or unfavorable."

-79-

- H.M.Jr: I'm consciously glossing over a lot of things. I'd like a lot of time to argue, but I'd rather take the thing over and be seventy-five percent satisfied than take nothing over.
- White: Gene, will that paragraph be all right after that change?
- Duffield: Sure, sure, sure.
- H.M.Jr: Currie and White, just for the record, I say I'm about seventy-five percent satisfied, but I'd rather go over on that basis than to go over and have nothing.
- White: Well, that's part of the give and take.
- H.M.Jr: Yes.
- Gaston: They pass bills that way.
- Currie: Pretty high percentage.
- H.M.Jr: What?
- Currie: That's a pretty high percentage.
- White: I think the value of going over this now, Mr. Secretary, though it has some disadvantages because it's late - has the advantage of being right before some of these points may be discussed with the President. You may take up some of these points.
- H.M.Jr: Yes.
- "(c) There is little basis for the expectation that our exports in 1939 and 1940 will exceed the 1938 level despite the increased armaments program abroad."
- White: That's an opinion. It's based on rather an extensive analysis which we made. It remains an opinion. We made it two months ago. So far we've been right.
- H.M.Jr: All right, let her ride.
- "(d) Housing activities appear to have reached a plateau and there does not seem to be any prospect

-83-

of a further marked increase of home construction."

Duffield: I thought Mr. Lubin had another idea last time I heard him talk. I may be wrong.

H.W.Jr: On the home thing?

Duffield: On the housing activities.

Hass: There's a lot of people that won't agree with this. They'll say, "What do you mean by 'marked'?"

H.W.Jr: That's all right.

Currie: Lubin was pessimistic.

Duffield: Can't we leave out the last clause, that "there does not seem to be any prospect...."?

Currie: I thought Lubin was pessimistic.

Duffield: I thought one of his hopes for '40 and '41 was in the housing field.

Currie: He feared cost advances.

White: He said, "If you can take care of cost advances and the wage situation...."

Duffield: That's right.

White: That's a pretty big "if."

Evies: Right at the moment that's where you are. That's the way it appears to some of us. It certainly does to me. On every one of these points you can take and get into an argument.

Hass: There is some decline taking place right now.

White: "...there is...." - "there seems to be little prospect" - a little more weasel-worded.

H.W.Jr: "(e) No substantial increase in railroad equipment buying can be anticipated in the balance of the year.

-81-

"(f) There is little prospect of an expansion in public utilities. The present capacity of the industry is adequate to meet the needs of the country even with a moderate increase in the level of business activity."

- Viner: I'd raise the question there as to just what you mean by "the present capacity of the industry." Do you mean they can turn out enough kilowatts or do you mean the industry is sufficiently modernized so that....
- Eccles: Well, I think you mean you can turn out enough kilowatts. You can always argue on the point of modernization.
- Viner: I wondered in which sense - it may be both. Maybe it's a substantial....
- Currie: Meant in terms of generating capacity relative to output.
- Viner: Well, that's....
- Currie: Want to cut out that last sentence?
- Viner: Unless you can say both things, say they have enough generating capacity and it's fairly modern....
- White: Let's cut out the last sentence. All right?
- H.M.Jr: What are you cutting out?
- White: "There is little prospect of an expansion in public utilities" - that's all. ,
- Viner: "...in public utility facilities."
- White: "...in public utility investment"?
- Viner: Yes.
- Eccles: Avoid an argument.
- H.M.Jr: Where are we, what number?

-32-

White: (g) on page 4.

H.M.Jr: "Despite the increase in orders for armaments both domestic and from abroad, the heavy industries are still depressed.

"(h) There is nothing in the prospect of the agricultural situation to justify the expectation that it will supply a stimulating influence on business activity.

"(i) There is a further political factor, namely, there will probably develop a strong tendency on the part of certain groups to forego the prospects of immediate profit by postponing any investment or plant expansion until after the election."

Viner: Why not start that "There will probably develop...."?

H.M.Jr: (On phone) Have Mr. White's secretary come in again.

Viner: Take out "There is a further political factor, namely ...." or take out the "further" anyway. It's the first political factor that you had.

Eccles: Take out what?

Viner: Take out the first part and start "There will probably develop...." You think so, do you?

White: Don't you?

Eccles: I think as you get nearer to it - I don't think it's the factor today.

Currie: It's only the tendency of certain groups.

Viner: I think election years in general are that way.

H.M.Jr: Where are we?

White: Top of page 5.

H.M.Jr: "Even if there is a moderate increase in business activity next year the unemployment situation will be substantially the same in 1940 as it is now."

Viner: I think you ought to explain there: "Because of increase of available labor resources."

White: Well, it's explained in the next paragraph. But I think we can take Danny's suggestion and say "The unemployment situation will remain acute" and avoid that.

Eccles: That is, even though you get back to the 1937 volume. Harry, is that it?

White: Well, it depends on what you mean by "moderate." But both Danny and George question that you could regard a several billion dollar increase as moderate. You would decrease unemployment, but not enough to alter the situation from being acute. If you say that, I think you avoid that objection, since there's an explanation which follows. We did that in the earlier part and we will make it consistent by doing it this way now.

H.M.Jr: All right?

"In 1937, thirty-five million persons were employed in non-agricultural pursuits. Today less than thirty-five million are so employed. During 1940 we shall be doing well if we again reach the volume of employment of 1937, whereas the non-agricultural working population in 1940 will be about 2 million greater than in 1937.

"In addition to this unemployment situation in non-agricultural lines, there is known to be a surplus labor supply on farms perhaps as large as 1.5 million working persons that need to shift from farming into industrial opportunities.

"In view of the fact that there is no expectation for more than a moderate rise in national income for the next fifteen months, and in view of the further fact that a decline in business activity sometime during the next fifteen months is a possibility, and, most important, in view of the conviction that sustained full recovery is impossible unless action is taken to correct basic maladjustments:

-34-

"There is general agreement among the persons referred to above...." Referred to above?

Bell: Your opening paragraph.

H.M.Jr: Oh. "...that a comprehensive program of action should be initiated at once, such action to be designed to accomplish two things:

"1. Make some important contribution towards the elimination of the basic maladjustments which stand in the way of a sustained full recovery. Though the full effects of this program will not be felt for several years, it is vitally important that such a program be initiated at once for two reasons:

"(a) It will take a long time...."

Viner: I'd say that the "some" - I would object to the "some" as a gesture. I'd say "Make a contribution ...."

White: "Make some contribution...." - cut out the word "important."

Viner: No, cut out the "some."

White: "Make an important contribution...."

Eccles: "Make important contributions...." - as much as you can. You give a terribly black picture.

Viner: You seem to want to do something. Why not do all you can? I mean "some" is a limiting - has a limiting connotation.

White: You don't need the "an."

H.M.Jr: No, you don't need the "an."

White: That's still worse.

H.M.Jr: Just happened to look over my shoulder here, and if George doesn't mind - here's his weekly report; it says "1. Evidence is becoming more and more unmistakable that a pronounced rise in business

activity is getting under way."

Viner: "Evidence is becoming more and more...."?

H.M.Jr: "Evidence is becoming more and more unmistakable that a pronounced rise in business activity is getting under way."

Viner: That's an error in pronunciation, I'm afraid.

Haas: No. Got any money, Jake?

H.M.Jr: What did George say?

White: Wants to know whether he's got any money.

Viner: I hope you're right, George.

H.M.Jr: Oh well....

Haas: This makes a good setting for this program.

H.M.Jr: I hope that I don't take the wrong memorandum. I might just get them mixed.

Gaston: I would say "Make some effort...." or "Make all efforts possible to eliminate the basic maladjustments...."

Viner: That's right.

Gaston: "Make all efforts possible to eliminate the basic maladjustments...."

H.M.Jr: Have you got that, gentlemen?

White: "Make all efforts possible to...."

Gaston: "...to eliminate the basic maladjustments...."

White: That's - I think it's weaker, but if you think it's stronger, it's all right.

H.M.Jr: "1. Make some important...." - did I read one?

Viner: Yes.

- H.M.Jr: "(a) It will take a long time before such a program could be worked out and put into effect.
- "(b) It is important to make clear to the public that this Administration recognizes the existence of basic maladjustments and will take steps to correct them, that it will push towards a further extension of New Deal principles and will adopt measures designed to insure long-term prosperity."
- Viner: That "long time" - what does it mean?
- Currie: Long time.
- Eccles: Continuous.
- Viner: Ten months?
- Currie: Ten years.
- White: Ought to be long enough to get prosperity until 1941. We can cut out the "long-term," just have "sustained...."
- Viner: I'm not talking about "long-term." "It will take a long time...."
- Bell: Why not say "several months" or say it will take a couple of years?
- White: At least a year, I should think.
- Bell: Take a couple years.
- Viner: If it can be....
- White: Well, whatever time you take, it's a long time, long in proportion....
- Viner: Whatever it is, you can't do it over night.
- White: I think "long time" is better; whatever it is, it's long in reference to the task to be performed.
- Viner: Why not say that?

Gaston: Why not say "It will take at least six years...."  
That would mean we have to re-elect a Democratic  
Administration.

Eccles: It depends - you can start and get it in six months;  
you can still be working on any long-range program,  
possibly, in four years.

Viner: "It will take time...." I wouldn't say....

Eccles: Why say "long time"? Why not say "It will take  
time," cut out "long"?

Viner: Can't expect a 24-hour result.

H.M.Jr: Are we all right, gents?

White: Page 6.

H.M.Jr: Hooray, page 6.

Viner: Well, in (b) there - that could be put more factually.

White: Yes.

Viner: Huh?

White: Could be.

Viner: Suggests a guilty conscience as it's worded now.

H.M.Jr: All right, gents?

White: No, Jake is on (b), at the bottom of page 5.

Currie: You cheered too soon.

Eccles: It seems to me that this is important - what we're  
taking this over for is to make....

Viner: Good luck to you. I'm just telling you....

H.M.Jr: What's the matter with (b)? I like (b).

Eccles: For the purpose that we're using this memorandum  
for.

-88-

White: The fact that Jake accepted it so quickly ought to make us pause on this point: "It is important to make clear to the public that this Administration...."

Viner: "....that even this Administration...."

(Hearty laughter)

White: His point is that the President might bridle at that: haven't we been recognizing the existence of basic maladjustments?

H.M.Jr: No, that's the whole point of going over there. Right, Marriner?

Eccles: I agree with you. We've been talking all the way through about all the problems and now we're just saying it.

H.M.Jr: And if he says, "Professor Eccles, can you give me a few of them?" you've got them, haven't you?

Eccles: I've got a few of them.

H.M.Jr: All right. I like that. I mean after all, we're not giving this out to the public; if it sees the light of day, it's because he did it.

All right, gentlemen?

"2. A program of immediate action designed to insure a substantially increased national income in 1940 and to protect us against the possibility of a sharp downturn in business during the next fifteen months.

"Some of the measures which can be undertaken to correct basic maladjustments can be initiated with sufficient rapidity to raise the national income in 1940.

"If to the increase in national income that would result from measures undertaken to correct basic maladjustments there be added the further increases to the national income which would result from measures specifically designed to increase in 1940

investments and expenditures, then an increase in the national income of five billion dollars or so can be assured for next year."

White: That must be changed, that five billion - "...an increase in the national income is likely."

Viner: No, say "a significant increase in the national income."

White: It can be changed.

Viner: I would not put a precise figure.

H.M.Jr: I think that's a mistake.

"There appears to be general agreement in the group mentioned above that Congress should not adjourn until an adequate program has been inaugurated. Or, if Congress is to adjourn, it should do so only with the distinct understanding that it would reconvene after a short vacation prepared to deal with these major problems, some of which have been before us for a long time."

Now I'm willing to put my name after that last paragraph, which of course is the heart of the whole thing. You all right on that, Marriner?

Eccles: I agree fully, because if you don't do that, then, hell, anything you can do next year - you can't do anything, and why talk about all the problems? Might as well forget it unless he's perfectly willing to either keep Congress here or get them here a little later.

H.M.Jr: Now, if you're through with this, right along this line I've got something - wait a minute, I want to bring up right after this - if, then, the President says, "Well, what have you got?" I've got a program here.

Eccles: Have you?

Viner: Is it "vacation" or "recess"? Do they speak of a "vacation of Congress"? What's the technical term?

White: Recess means they're going to reconvene.

H.M.Jr: I want to explain, Marriner, I only started on this Sunday night, see? And this may or may not - you may be glad to lend your weight to it, Mr. Smith may be glad to. But my thought was that when we get down into how to do this thing - well, I only began to think of it Sunday evening, so - but this is the basis for the idea. I was trying to arrive at something which I could stand for publicly, trying to be realistic. I realize that there are a lot of programs floating around the air. I didn't want to be in the position, particularly on account of being in the Treasury, of not having something. So we concocted this, and this program rests really on three premises. One, it reaches the lower third. Two, it does not compete with private business. And three, it is almost entirely outside of the budget.

Eccles: I can agree on those three.

H.M.Jr: Now, "A. Projects which are in part or in whole self-liquidating: 1. Extension of the United States Housing Program." That's giving another 800 million dollars, which the President has not approved to date.

Eccles: I can agree on that.

H.M.Jr: "2. Self-liquidating toll road, tunnel, and bridge projects." Having a corporation organized to sell their own bonds, to finance this thing; giving this corporation to the Highway Department, you see, to MacDonald - I mean giving him a self-liquidating corporation.

Eccles: That's on the toll type of thing.

H.M.Jr: Roads, tunnels, toll bridges.

Eccles: Just to do with roads, that aspect of it.

Haas: Just to do with transportation.

White: Transportation.

Eccles: With transportation.

H.M.Jr: Give to MacDonald, of the Roads Bureau, a self-liquidating, self-financing....

Eccles: I think MacDonald is pretty strong for something like that.

H.M.Jr: I think so. It's a billion dollars, of which we figure three or four hundred million may go out in the calendar year '40 - may.

"Expansion of Farm Tenancy Program."

Eccles: Let me ask you this on that program. That would be - that would be entirely financed outside the budget, the same as United States Housing; public investment, in other words.

H.M.Jr: Yes. They'd have a corporation. The bonds would be sold like the Triborough bridge or any of those - the same thing, except just by the Federal Government instead of by the New York Port Authority. It's the Port Authority idea - the best way, wouldn't it be, of applying it to our Federal Highway Department? Wouldn't you say that was the thought, Ed?

Foley: That's right.

H.M.Jr: And Ed has grave doubts as to how fast it can get under way. I think he's right, but again it would - the plans are being made and the engineers have been figuring on it. Maybe we can get out two or three hundred million dollars. But it's a billion dollar program and I understand there are a billion dollars worth of projects available - by-passes around cities, new highway from Richmond to New York, stuff like that. I don't know all the stuff.

White: Mr. Secretary, the detailed program calls for several billion dollars....

H.M.Jr: Oh, does it?

White: ....but in subsequent years.

- H.M.Jr: "3. Expansion of Farm Tenancy Program for the fiscal year 1940 from 200 million to 350, including 30 million increase in rehabilitation loans and about 75 million in farm tenant purchases." And again putting this organization - giving them a self-liquidating corporation to finance themselves, Marriner.
- Eccles: Well now, that's being handled in Agriculture now.
- H.M.Jr: Yes.
- Eccles: And it's partially self-liquidating, isn't it? Not entirely so.
- White: Partly.
- H.M.Jr: But they don't go to the public for their funds.
- Eccles: No, I understand that. Your idea here would be that they would go to the public for their funds and such loss as they sustained would come into the budget as the loss was sustained.
- H.M.Jr: Be organized on exactly the model of Commodity Credit, where they are self-financing but once a year we make a report to Congress as to the deficit and Congress votes the deficit and reimburses Commodity Credit.
- Eccles: And that, of course, is sensible accounting.
- H.M.Jr: What?
- Eccles: That's sensible accounting procedure.
- H.M.Jr: We think here the Commodity Credit model is the best model we've been able to get out. Is that right, Dan?
- Bell: Yes.
- H.M.Jr: Yes.
- Eccles: How much did you figure to be able to get out on the farm tenancy?

-93-

- H.M.Jr: As near as we can figure, a hundred million dollars extra.
- Eccles: What will they get out this year?
- Bell: Somewhere - go ahead, Harry.
- White: I was going to say, their budget for 1940 calls - fiscal year - for two hundred million dollars.
- Eccles: For the fiscal year '40.
- Viner: Is that adding to that?
- White: This is 350.
- H.M.Jr: Well, that's 150 million over their present budgeted program.
- Eccles: But what they'll get out now comes in the budget.
- Bell: I say if you're going to set up this program you ought to relieve the budget....
- Eccles: The point is, relieve the budget of the 200 million that's in now, and put it all in this corporation.
- H.M.Jr: "Extension of short-term and long-term loans for the purpose of promoting foreign trade." That's five hundred million dollars - might shove out next year three hundred million.
- Eccles: That's all right, but....
- H.M.Jr: Now, all of these are outside of the budget, all of these call for creation of self-liquidating corporations.
- Eccles: Now, the foreign loan - you'd make that - you'd expand the Export-Import Bank.
- H.M.Jr: That's right.
- Eccles: The RFC could finance them or they could finance themselves. I would suppose they would have Government capital and any losses - they'd be guaranteed by the Government - whatever they put out.

H.M.Jr: That's right. I'm right on that, am I?

Foley: (Nods yes).

H.M.Jr: "Projects which are not self-liquidating;

"Rapid expansion of the Food Stamp Plan for distributing surplus commodities to all communities and extension to cover more commodities, including cotton textiles, clothing and dairy products."

Milo Perkins says that something like fifteen or twenty million people need to be served. "Rapid expansion of the Food Stamp Plan for distributing surplus...." - well, you're familiar with that plan.

Eccles: Yes, I heard Perkins present it to the Advisory Council. I want to say this, that he did an excellent job and practically sold that whole group. There was a good deal of enthusiasm for him and for the program.

H.M.Jr: Well, he hasn't got the money. Just means a hundred million dollars extra for textiles and fifty million dollars extra for food.

Eccles: That would have to come in the budget.

H.M.Jr: That would come in the budget, that's right.

And then: "Expansion on a nation-wide basis of the self- help cooperatives, now successfully operated in Washington, D. C., Richmond and many western States." That would be a hundred million dollars extra in the budget. I don't know whether you're familiar with that or not.

Eccles: I'm not.

H.M.Jr: Well, we have here in Washington and Richmond a thing called a Self-Help Co-op to serve people who are on relief who don't get enough money to live. Therefore, they go to this Cooperative. In Washington they have a fifty thousand dollar grant from WPA, from which they buy sewing machines, bakeries, et cetera, et cetera; and through exchange of work they can exchange -

-95-

put in eight hours' work, which gives them a ticket for which they can obtain food or....

Eccles: Well, it's a good deal of - what they were doing all over the country in '32 before there was any Government help.

H.M.Jr: Well, it's worked successfully, but there are more - for instance, in Washington the possible clientele is 10,000 people; they can't begin to serve them, but it takes care of the people at the very bottom rung of the ladder.

Eccles: It becomes - who would administer it?

H.M.Jr: The community.

Eccles: The what?

H.M.Jr: The community.

Eccles: But what I mean is - you're talking about a hundred million.

H.M.Jr: Through WPA.

Eccles: That's what I meant. It's part of WPA, for this particular purpose.

H.M.Jr: That's right.

Smith: There seems to be only a few thousand dollars in there now for that.

H.M.Jr: Pardon me?

Smith: Seems to be only 300 thousand in WPA now.

H.M.Jr: What do you mean?

Bell: In the billion and a half, you mean, they've set aside, put some 300 thousand dollars.

Smith: I mean they have only three or four places that they contemplate doing that. This would be a national program.

-96-

- Eccles: You want to put it on to what extent?
- H.M.Jr: National.
- Eccles: A hundred million?
- H.M.Jr: A hundred million dollars for next year.
- White: Three-quarters of a million workers by two years.
- H.M.Jr: With two hundred million dollars they could reach 750 thousand people. And what it does - I mean we won't admit there is a dole in the country, but there is - West Virginia, ten dollars per month per family. And it gives these families a chance through working to eke out an existence until they can find a job. Now, here in Washington, they've got twenty different trades - you can go down there and get trained. They place a lot of people back in work.
- Eccles: Those are the people not on WPA.
- H.M.Jr: That's right.
- Eccles: And they are the people that are not on State or local relief.
- Viner: They are on relief, but not on work projects.
- Eccles: That is, they're not on the WPA - that is, work projects. They are on State relief. This is merely to add....
- Viner: To add work and what they can produce with their work to relief.
- H.M.Jr: And none of the products of their work goes into private channels of trade. It's all exchanged amongst themselves. Here they are taking care of in Washington, I think, four or five hundred people.
- Eccles: What it does is assist the State in the State's relief work, which is outside of the WPA or work relief projects. That's what....

Viner: And it evades the price system and the price and wage rates, so on - enables them to.

H.M.Jr: Well, this calls for an additional expenditure of two billion eight; in the calendar year 1940, possibly - calendar year - a billion and a quarter. And we estimate that we'd absorb from 500,000 to 750,000 unemployed.

Viner: You mean it would serve....

H.M.Jr: Serve.

Bell: No, I don't get that.

White: What did you say?

Viner: It would serve them.

White: No, absorb.

Bell: Might serve three or four times that many.

Viner: You mean serve their families too.

White: No, no. He's talking about how much employment the total program will absorb.

H.M.Jr: Well now, Marriner, the thought on this is - I saw this in type this morning for the first time. I don't know how you'd like to handle it. I don't know how Mr. Smith would like to handle it.

Eccles: Well, I don't see anything in there that I couldn't approve. I have a program here....

H.M.Jr: You've got one too?

Eccles: ....that would be supplemental to it and, it seems to me, in no way conflicts. If you would like me - couple pages here, very short, just a general outline of some suggestions that would meet it.

"Continuation of a non-federal works program is highly desirable. Ways and means to continue this

program through financing methods that take the form of an annual subsidy of the servicing of non-federal obligations, rather than an outright grant of principal, as at present, should be thoroughly explored. If this method proves feasible, a program of a billion dollars could be financed with only thirty million annual charges in the budget."

In other words, that's just like the United States Housing Authority, but what you do there - if that's financed outside the Treasury, then each year there is this three and - what is it, three and three-quarters percent, which comes into the budget. Now in our public works our difficulty has been in the past that we make a fifty percent grant or a forty-five percent grant and that entire amount comes out of the budget, whereas if a municipality or State or county or city could go ahead and finance like they do public housing, hospitals or sewers or school systems, or whatever they may finance....

- Foley: Pay the interest on the debt.
- Eccles: And the Government would give the subsidy in the form of an annual payment which would have some relationship to the life of the project.
- H.M.Jr: Excuse me just a minute. Harry, why don't you take this - you were going to fix this - change that; and if you and Currie want to work on it - I take it you're both familiar with Mr. Eccles' statement.
- Eccles: I don't know whether Harry is. Of course, Currie is familiar with this.
- H.M.Jr: You better fix it up and be back, at the very latest, at 12:20, will you? I don't know whether you need Currie or not.
- White: Not on this.
- H.M.Jr: No, I mean what you're doing is all right.
- Eccles: There's going to be substantial - a lot of agitation for public works.

- H.M.Jr: I don't quite - think I quite understand you.
- Eccles: They're talking about 500 million for public works at the present time, or a billion for public works. They've got applications for public works grants of a billion and a half now. Now, instead of getting that whole thing in the budget, 500 million or a billion, and give as a grant to the city, county or State - 45 percent grant such as was done last year or the year before, you see, you have the - if a city is putting in a water system or they're putting in a sewer system, or if they're putting in a hospital or a school, instead of the Federal Government giving them 45 percent right now for that, the city goes out and finances a hundred percent of that cost. That would be just like Mr. Straus's project. He finances a hundred percent and the Federal Government over the life of the project gives them an annual grant....
- H.M.Jr: What do you suggest?
- Eccles: ....which pays the interest. What I am talking about is that under the same kind of a program you could get a billion dollars a year financed by the city, county or State that's outside the....
- H.M.Jr: Not charge them any interest?
- Foley: You'd give them the interest.
- Eccles: And the Federal Government - they'd go to the market and get the money and....
- H.M.Jr: We'd subsidize them to the extent of interest.
- Eccles: ....and you'd subsidize them annually to the extent of....
- Currie: Fifty percent, we'll say, of the interest and sinking fund requirement.
- Eccles: You've been giving them 45 percent cash outright; here you subsidize them the 45 or 50 percent, but you do it annually over the life of the project.

-100-

Foley: You'd amortize the grant over the life of the project, Mr. Secretary, instead of giving it to them outright, and you'd do it in the form of a refund of the service charge that they would make on their....

Eccles: You do it with Straus. It can be adapted to public works the same as you do it with Straus, and keep the thing outside the budget. But if you put 500 million or a billion for public works in the budget, everybody says, "That's all spent," see; they never figure the assets that you've got throughout the country.

Well, that's one suggestion. Now, another is: "Upon the passage of the pending FHA - Federal Housing - amendment, reduce the maximum rate of interest on the FHA mortgages from 5 percent to at least  $4\frac{1}{2}$ " or maybe  $4\frac{1}{4}$ . Now that doesn't sound like much, but over a twenty-year mortgage, it makes a very substantial reduction in the cost of housing. "This would mean an effective rate to the borrower, including the insurance, of...." - which is now  $5\frac{1}{2}$  - "...of  $4$  and three-quarters to not to exceed  $5$ , allowing...." - that allows for the insurance premium. "Make this change effective by having a Federal mortgage association purchase the FHA mortgages to yield  $3\frac{1}{2}$  percent instead of the present  $4\frac{1}{2}$  percent."

You take Jesse today and that Federal Mortgage - they stand ready to take these insured mortgages, but only at  $4\frac{1}{2}$  percent; well, hell, they're borrowing money at one percent, so they've just got a great big spread.

Bell: They're not borrowing money at one percent for twenty years.

Eccles: No, they can't borrow for twenty years.

Bell: That's what the mortgages are for.

Eccles: They are amortized in twenty years. They don't average ten. The amount outstanding....

Gaston: It's ten-year money.

Viner: Ten-year money.

Eccles: And Jesse can borrow ten-year money at less than  $4\frac{1}{2}$  percent.

Viner: I would support that very heartily.

Eccles: Now, it seems to me....

Viner: The rates are too high. You see, the banks are buying them from each other now at premiums, once they get insured.

Eccles: But here's the mortgage company. There's the place to catch it. Even at three they could do it. What if they don't have more than a one percent spread? And thus get the lending institutions to loan at four percent, because they've got a market at three and a quarter percent. Now, that's the way to get it down. Now, the banks won't like this a damn bit. They never liked it when we reduced it from five and a half to five. But they'll take it.

Now, I still haven't gotten away from that railroad equipment thing. "Additional railroad equipment would be urgently needed in the event of further recovery or in event of war. The supply of freight cars, for example, is nearly 700,000 below 1928. The potential demand could be made actual if the loan authorization of the RFC for equipment loans was increased, and if the RFC would announce that for a period ending, say, June 30, 1940, on equipment to be delivered before June 30, 1940...." - or you might even shorten the date to by the end of next year - "...it was prepared to make loans covering the full cost of the equipment for long maturities" - as long as twenty years, maybe twenty-five years - "at a low rate of interest."

Viner: These would be equipment certificates, I take it.

Eccles: Oh yes, equipment trust certificates. They could provide that the payments would not commence the

-102-

first year - I mean instead of the first six months, why, put it off and give them a year without payment on the principal.

"Such loans would be financed out of the proceeds of RFC...." - be financed outside of the budget.

Now, I know that Wagner, who is handling the RFC bill in the Committee, is - he's favorable to both an expansion of that loan possibility....

H.M.Jr: To railroads?

Eccles: To railroads.... And also he is in favor of an interest rate - a hundred percent loan on an interest rate of two percent, assuming that it's made applicable for a year - got to come in now and do it. But he will not do it unless the President will - he sent a memorandum down to the White House about two weeks ago to find out whether or not the President would assume responsibility for it, see, would come out for it, and he's got - when I saw him here about a week ago, he had received absolutely no reply.

And so - well, anyway, that's one - I'm sure you can stimulate some substantial private investment there.

White: Mr. Eccles, might I interrupt a moment? I want to finish something in the next few minutes; the Secretary wants to raise an additional one which he didn't raise before - another way of financing outside the budget.

H.M.Jr: Well, it's a rural electrification program. He said he could spend a hundred ten.

Bell: In addition to what he is spending now.

Viner: Isn't that competitive?

Foley: No, because it's in areas where there isn't anything now.

Duffield: Debatable. Debatable.

-103-

- Foley: It may be potentially....
- Viner: You're not sure it's not competitive.
- Bell: In some areas it may be.
- Gaston: In this way the customers pay for the line.
- White: They claim, on the contrary, that they aid and add to the power by building lines and what-not that would not otherwise be built.
- Foley: That's right.
- H.M.Jr: If Jake has any doubts, it's not important enough....
- Viner: No, I'd say in so far as non-competitive - well, I ran into a situation in Michigan where the electrification project and a private project were serving the same territory, found themselves serving the same territory.
- Eccles: I agree with that, that's true where they've got some of these private power plants that are trying to find an outlet; they do run into this thing. I would say let's recommend this with that condition, that the rural electrification, so far as it can be done....
- H.M.Jr: To supplement.
- Eccles: Non-competitive.
- H.M.Jr: Non-competitive.
- Eccles: Make that a condition.
- Viner: The experience I had in mind is that last summer I rented a summer home, and they came to see - thinking the owner was there, both parties came to solicit - in that area, a private company and a Government project - both came to solicit for a line along a certain road.
- White: We can put that qualifying phrase in the summary: "providing these are all employed for purposes,

or for projects which are non-competitive."

H.M.Jr: That's all right.

White: That means an increase of seventy million, not a hundred ten, since they had forty planned already.

H.M.Jr: Do we give them a chance to sell their bonds?

Currie: They can borrow now, Mr. Secretary, from the RFC.

Bell: Well, no, I think that goes out this year, doesn't it, and next year they're in the budget, I believe. Have to check on that.

H.M.Jr: We'll give them a self-liquidating corporation, give them a self-liquidating corporation, take them out of the budget. That's the whole thing. I wouldn't want to put it in unless we can do it on a self-liquidating basis and take it out....

Bell: It's a very popular project all over the country.

H.M.Jr: All right. Excuse me, Marriner. Non-competitive and a self-liquidating corporation.

White: Yes. And I'll find out how much of that can be spent in 1940.

Eccles: Well, it's being done outside of the budget now, isn't it?

Bell: No.

Eccles: Isn't it?

Bell: To the extent they got the money from the RFC last year, that's true, but now they're back in the budget on a direct appropriation basis, I think.

Eccles: All done through the RFC.

Bell: It was.

Eccles: Well, I think this equipment thing would be very popular with the steel companies.

-105-

- Foley: How much does Frank Wright think he can do that way?
- Eccles: Who?
- Foley: Frank Wright.
- Eccles: Well, I tell you, I don't - Frank Wright is pretty ultra-conservative and pretty pro-railroad, and particularly the Union Pacific and the big railroads. I'd want to discount quite a good deal what Wright says about it.
- Currie: Wright is quite enthusiastic about it.
- Eccles: Huh?
- Currie: Wright is quite enthusiastic about the possibilities. He got out 200 million in 1934 for rails and he thinks he could get out more.
- Foley: Some of them were equipment trust loans, but most of them were maintenance.
- Eccles: I think if you made a real drive for this, made the terms two percent, which is attractive, and give a deadline as to when they had to come in and do it - I think you'd get out 500 million dollars with no trouble at all. Don't you agree with that, Currie, from the studies we have made - at least 500 million?
- Currie: (Nods yes).
- Eccles: All right.
- Now, on the question of farm benefits - of course, that's going to go through anyway, but I merely had down here that those increased payments will come - they're rather well timed, it seems to me, if they're going to be made, because they'll come in the spring of next year, when other expenditures are falling off. So it does....
- Bell: That's true of parity payments.
- Eccles: That's what I'm thinking of.

-106-

Currie: I think the important point, Governor, is not whether we want them or not, but the question of financing them. Be very desirable that they should not swell the deficit and should not be financed out of processing taxes; should be financed out of middle income or inheritance taxes.

Eccles: That is, if they are going to be financed - I mean if they're going to swell the budget, then that's one thing; but if they are not going to, then certainly they shouldn't be financed out of processing taxes and they should be financed out of those taxes that would bear - well, that would reduce savings.

H.M.Jr: Well, what more have you got?

Eccles: All right.

"Public self-liquidating investments."

Of course, you've got in the budget now certain things that if they could be taken out, they would help the budget picture and give you those funds; and looking at it from a standpoint of the debt - and it would provide funds on the basis of self-liquidating assets that are held.

Now, we've got here a toll authority, which is the same thing that you have mentioned, you see - you've already read it in your memorandum.

H.M.Jr: The what?

Eccles: A toll authority.

H.M.Jr: Oh yes.

Eccles: Self-liquidating - for tunnels, roads, bridges, et cetera.

Now, the one thing that has not been mentioned that I think is almost as important as all the rest put together, is the pension picture - old-age pensions.

-107-

- H.N.Jr: Kamerad!
- Eccles: That's fundamental. Politically it's the most popular thing in the country today. Every poll indicates it. There is a demand for it, and with the present program that we have - although I know we're not increasing the tax for next year, that's negative; we just don't increase the consumer tax because we don't increase the payroll tax. But neither are there any substantial benefits paid out next year.
- H.M.Jr: Well, you and I are - on this one, we go just like that (indicating opposite directions).
- Eccles: I expected we would, but that doesn't change my opinion anyway.
- Gaston: Well, the pending bill, Marriner, calls for some....
- Viner: Liberalization.
- Eccles: You don't get your disbursements....
- Boston: Couple hundred million, at least.
- Eccles: Here's what you get next year in the budget - I mean in your Social Security program. You will add between five and six hundred million dollars to your reserve, under your present plan.
- Duffield: Remember, that's just on paper.
- Eccles: Paper, but it's a budget - it adds to your deficit, and you're interested here in not showing a deficit. If you're going to add that four or five hundred million, it comes out of consumption almost entirely. And, true, it goes into the reserve and then it's borrowed from the reserve for other purposes, instead of borrowing from the Metropolitan Life Insurance Company, so you borrow from your own savings in the reserve that you have accumulated, and it bears on consumption as you collect the tax and it increases the deficit when you build up - I mean it increases the deficit when you borrow the funds out of the reserve.

-108-

- Bell: Increases the debt, doesn't increase the deficit.
- Eccles: Huh?
- Bell: Increases the debt, not the deficit.
- Viner: It's neutral with respect to the budget.
- H.M.Jr: Well, listen - look, old man, I don't know whether as we called it, the "Curry-Comb plan" - whether they got it from you or you got it from them, not that it would make any difference, but I can't be sold on that one.
- Eccles: Well, I'm not sold on any particular plan. I'm not talking about a plan. I'm talking about the principle of the thing here. And it seems to me that our present program is entirely inadequate so far as next year is concerned; that it's the most deflationary thing we've got in the picture. And it's the most - here this Administration steps out to get a Social Security program, and instead of getting the benefits of it, it's building up a reserve and it's building up a system of which the benefits will only accrue to the other fellow possibly in 1942 or -3 or -4 or -5; that up to the present time there has been practically nothing paid out to the aged. We've been building up reserves here in a depression and we haven't reached the point where the out-payment is anywhere near what the collection is. In fact the out-payment won't be anything until next year, and next year it will be a very small part of the five to six hundred million that's collected. And I'd like to see us next year stop building up the reserve and revise the plan so as to pay out at least as much as we collect next year. And there is five - if you do that you won't affect the budget at all; you'll pay out 500 million more than you will otherwise pay out.
- H.M.Jr: Well, you don't expect - you'd have heart failure if I'd agree with you.
- Eccles: No, I didn't expect you to agree, but I just wanted to raise that as being the - I think the most important single element in this picture of increasing

consumer buying power, of reducing the adverse effects on the budget, of politically meeting the present public and popular demand.

- H.M.Jr: Smith is going to feel kind of lonesome when he goes over. You're going to have a plan, I'm going to have a plan. All he has is "balance the budget." You're going to be awful lonesome.
- Smith: I am very conscious of the fact that everybody else is figuring out ways of spending money. We don't have to.
- Viner: Spending without taxing or increasing the deficit.
- Eccles: I don't disagree on your program. I can endorse it. In fact, mine - a portion of it is the same thing, as I understand it. You wouldn't disagree, would you, on most of mine here, for instance, this housing?
- H.M.Jr: We are in agreement.
- Eccles: Railroad equipment, if we can get it.
- H.M.Jr: Well, I'd want a little more time, but the only thing where you and I would part company violently is on this old-age....
- Eccles: Social Security.
- H.M.Jr: Yes.
- Eccles: Yes.
- H.M.Jr: And on the railroad thing there is a difference of opinion. The railroads - I understand they won't use it. You think they will.
- Currie: If we got cheap enough loans, I think they would, yes.
- H.M.Jr: So the answer is, I suppose, if the President wants it, to hang it up on a tree and see whether they want it or not.
- Eccles: Well, what do you think of the public works?

- H.M.Jr: I'd want to talk that over in the shop a little bit.
- Eccles: It looks like there is going to be something on public works.
- H.M.Jr: I'm not sure, I'd like to talk about it.
- Eccles: If that can be financed in this way, it will certainly help the budget picture.
- H.M.Jr: I haven't had time enough, I don't want to commit myself. But - I mean there's no reason why we each can't leave ours with the President; he can do what he wants with it.
- Eccles: Well, the only place we are in, as you say, any real disagreement is on the Social Security program.
- Smith: I think I'll have to tell him that he'll have to - that we'll have to develop an investment budget to rationalize these points.
- Bell: Do that or shelve it.
- H.M.Jr: Well now, Eccles and Smith, I'll be over there by 12:25 with copies of these. They're being typed, you see. Is that all right? We'll meet over there?
- Eccles: All right. Now, as I understand it, we'll likely only have a half hour there, and so I don't think we should give him any solution. Here's what I'd like to see us do today, say, "Now, these are the problems. If you want us to try to get together and bring you a program, give us a little while here and we'll give you a - we'll bring you one." And then it will give us a chance to - I don't want to get in this one - I mean it's just a quick tentative thing, and I wouldn't want to say, without studying yours more - and I think it would be very much better if we say, "Well now, we're not ready with the answers, but give us a little time."
- Viner: Say you've done some preliminary work.
- Smith: That was the original idea, that we present the problems.
- Eccles: And neither of us gives him a program.

1. It is the general opinion among Administration officials and technicians in Washington who are on, or are cooperating with the Fiscal and Monetary Advisory Board, that there is little if any prospect for marked recovery during the next two years.
2. Even with a moderate improvement in business the unemployment situation will still be acute. With no improvement in business the number of unemployed will increase because of the annual accretion to the labor supply of more than half million a year, and because of continued technological change.
3. Some of them also recognize the possibility of a downturn in business activity before the end of 1940.
4. The inability of our economy to reach and maintain even the modest objective of an \$80 billion national income is due to the existence of certain fundamental maladjustments which have been developing. Some of these maladjustments are subject to correction, others may be compensated for.
5. Some of the basic changes which are partly responsible for the lower level of business activity during the 30's are as follows:
  - (a) We have for the first sustained period in our history a volume of savings which at a high level of national income is considerably in excess of the profitable outlets for such savings.
  - (b) Certain large industries experienced the major portion of their expansion during the 20's. These have now reached a stage of growth relative to their potential markets which eliminates them in the foreseeable future as potential outlets for large amounts of new savings. Though we expect a continued growth of most of these industries the rate of expansion and the absolute volume of new savings they will absorb will be less than it was in the 20's.
  - (c) Basic difficulties in certain important industries which for special reasons do not provide nearly so important an outlet for capital as they did in prior decades, e.g., railroads, agriculture, coal.

- 2 -

(d) The rate of population increase has been cut in half as compared with the 20's.

(e) The virtual cessation of foreign investment which in the 20's accounted for about one-half billion a year.

(f) State and local bodies which in the 20's provided an outlet for savings of nearly a billion dollars a year have in recent years actually added a little to the current volume of savings through a net reduction in their outstanding debt.

(g) Sharply curtailed expenditure on non-profit private building, i. e., churches, clubs, universities, etc. In the 20's these accounted for a half billion to a billion dollars a year and they now are less than 200 million.

(h) The slack created by the over-production of commercial buildings in the late 20's will not be taken up for several years at least.

(i) The trend of technological change over much of industry has been in the direction of a reduced amount of capital consumption per unit of output.

(j) The Federal, State and local government tax structures now derive a greater proportion of total revenue from taxes that curtail consumption than was true in the 20's.

(k) The serious reduction of certain foreign markets for important export crops, e.g., cotton, wheat, tobacco and hog products, and the failure of foreign trade generally to revive to the level of the 20's. The curtailment of these markets is not due to temporary factors.

(l) The situation is aggravated by the fact that those who have or control the nation's savings are definitely more timid in undertaking business risk ventures. The increasing uncertainty, both economic, political and social, which has characterized the past decade has made people more conservative in both expenditure on consumer goods

and in the investment of their savings. In addition, the tax burden has increased as compared with the 20's, thus reducing the net profits left to the investor or business entrepreneur and thereby in some instances reducing the incentive to undertake risks.

6. The United States is not unique with regard to the changed nature of the economy. The advanced European countries have experienced the same contraction of outlets for their savings. Some of them have temporarily solved their problems by a new industry greater than all the new industries of the past period combined, i.e., armaments and complimentary industries. In some of them the problem has been rendered less acute by the fact that their tax program has resulted in a diversion of a larger portion of potential savings back into consumption.

7. As a consequence of these basic changes we are faced with inevitability of a low national income unless either or both of the following happen:

(a) The development or appearance of sufficient investment outlets to absorb the savings of a high national income.

(b) An increased proportion of the national income is spent on consumers goods, thereby reducing the volume of idle funds and increasing the profitable outlets for savings.

8. Turning to the immediate situation there are numerous indications that the prospects for substantially increased national income in 1939 and 1940 are not good.

There are two elements in the picture which are bullish:

(a) Inventory reduction has been proceeding for some months and a cessation or reversal of this trend would be a stimulus to production.

(b) Expenditure on consumers goods has been maintained despite the decline in business activity.

- 4 -

On the other side of the picture are the following:

(a) The upturn which began in 1938 reached its peak in December and since that time the level of business activity has been downward.

(b) No significant increase in the net contribution to buying power by the Federal Government under the existing program will occur this year and a reduction is anticipated in the fourth quarter.

(c) There is little basis for the expectation that our exports in 1939 and 1940 will exceed the 1938 level despite the increased armament programs abroad.

(d) Housing activities appear to have reached a plateau and there does not seem to be any prospect of a further marked increase of home construction.

(e) No substantial increase in railroad equipment buying can be anticipated in the balance of the year.

(f) There is little prospect of an expansion in public utilities. The present capacity of the industry is adequate to meet the needs of the country even with a moderate increase in the level of business activity.

(g) Despite the increase in orders for armaments both domestic and from abroad, the heavy industries are still depressed.

(h) There is nothing in the prospects of the agricultural situation to justify the expectation that it will supply a stimulating influence on business activity.

(i) There is a further political factor, namely, there will probably develop a strong tendency on the part of certain groups to forego the prospects of immediate profits by postponing any investments or plant expansion until after the election.

- 5 -

9. Even if there is a moderate increase in business activity next year the unemployment situation will be substantially the same in 1940 as it is now.

In 1937, 35 million persons were employed in non-agricultural pursuits. Today less than 35 million are so employed. During 1940 we shall be doing well if we again reach the volume of employment of 1937, whereas the non-agricultural working population in 1940 will be about 2 million greater than in 1937.

In addition to this unemployment situation in non-agricultural lines, there is known to be a surplus labor supply on farms perhaps as large as 1.5 million working persons that need to shift from farming into industrial opportunities.

In view of the fact that there is no expectation for more than a moderate rise in national income for the next fifteen months, and in view of the further fact that a decline in business activity some time during the next fifteen months is a possibility, and, most important, in view of the conviction that sustained full recovery is impossible unless action is taken to correct basic maladjustments:

There is general agreement among the persons referred to above that a comprehensive program of action should be initiated at once, such action to be designed to accomplish two things:

1. Make some important contribution toward the elimination of the basic maladjustments which stand in the way of a sustained full recovery. Though the full effects of this program will not be felt for several years, it is vitally important that such a program be initiated at once for two reasons:

(a) It will take a long time before such a program could be worked out and put into effect.

(b) It is important to make clear to the public that this Administration recognizes the existence of basic maladjustments and will take steps to correct them, that it will push toward a further extension of New Deal principles and will adopt measures designed to insure long-term and sustained prosperity.

2. A program of immediate action designed to insure a substantially increased national income in 1940 and to protect us against the possibility of a sharp downturn in business during the next fifteen months.

Some of the measures which can be undertaken to correct basic maladjustments can be initiated with sufficient rapidity to raise the national income in 1940.

If to the increase in national income that would result from measures undertaken to correct basic maladjustments there be added the further increases to the national income which would result from measures specifically designed to increase in 1940 investment and expenditures, then an increase in the national income of \$5 billion or so can be assured for next year.

There appears to be general agreement in the group mentioned above that Congress should not adjourn until an adequate program has been inaugurated. Or, if Congress is to adjourn, it should do so only with the distinct understanding that it would reconvene after a short vacation prepared to deal with these major problems, some of which have been before us for a long time.