

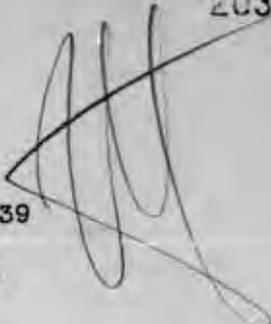
REB

GRAY

London

Dated June 5, 1939

Rec'd 2:40 p. m.



Secretary of State,
Washington.

779, June 5, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

One. The Chancellor of the Exchequer today made another statement in the House of Commons regarding the Czech gold affair. He emphasized (a) that the Bank of England in holding from time to time gold or cash balances to the order of the B. I. S. has no knowledge whether it holds in fact the absolute property of the B. I. S. or whether it is in whole or in part for the account of others and (b) that legally the British Government is precluded by the terms of the protocols of 1930 and 1936 from taking any step by way of legislation or otherwise to prevent the Bank of England from obeying the instructions given it by its customer, the B. I. S.

Simon avoided answering the question whether he would make representations to the two British directors of the B. I. S. that they should go to Basel and ask for a re-consideration of its decision and merely said that he did not

REB

2-#779, From London, June 5, 6p.m.

not want to see these assets going to Germany because of the conquest of Czechoslovakia.

Mr. Pethick Lawrence (Labor) asked whether in future he cannot undertake to see that the policy of these British representatives on matters of high international importance will be in accordance with the policy of His Majesty's Government?"

Simon replied: "Mr. Lawrence shows some confusion when he speaks of British representatives. They are not British representatives in the relative sense. They do not represent the British Government and do not represent British policy. They are individuals who by virtue of their office are members of the directorate of the B. I. S. and I really cannot be asked to undertake what their policy will be."

Mr. Lawrence further asked: "does he really mean to convey that the Bank of England is to be allowed to have directors who act on the B. I. S. on matters of high policy contrary to the policy of His Majesty's Government?"

Simon replied "when an international bank located in Switzerland has its directorate, the members of that directorate must act according to their authority and judgment and they do not get that authority from the British Government."

REB

3-#779, From London, June 5, 6p.m.

Government."

Two. Due to the difficulties in negotiating the Anglo-Russian alliance the giltedged market was weaker, war loan closing $5/8$ ths down at $95-1/8$. British equities were still firm and strong.

The foreign exchange market was fairly quiet. The dollar was offered and the British authorities bought dollars from time to time at $4.68-7/16$ -- $15/32$ -- $1/2$. They acquired a couple of million dollars. 122 bars were sold at gold fixing at parity of which 52 were married, the British fund supplying 23. Pixley and Abel as well as Samuel Montagu were purchasers.

KENNEDY

WWC

GW

RECEIVED

JUN 8 1918

TRINITY SAVINGS SOCIETY
Office of the Secretary
1000 Broadway, New York

EG

GRAY

Paris

Dated June 5, 1939

Rec'd 1:35 p.m.

Secretary of State,
Washington.

1065, June 5, 5 p.m.

FOR THE TREASURY.

Speaking before the Executive Committee of the Radical Socialist Party yesterday Daladier gave figures in illustration of the general improvement in the financial and economic situation. Notably he pointed to higher tax revenue resulting from more effective control and savings of the Treasury resulting from reduced short term money rates. He also pointed to the increase in trade reflected in the production index which had passed from 90 in January to 96 in April. The adverse trade balance of the first four months of 1939 was he said 25 per cent less in nominal value and 39 per cent less in gold value than for the same period of last year. He expressed the view that had it not been for the international crisis there would have been a really brilliant revival.

In LE TEMPS

-2- #1065, June 5, 5 p.m. from Paris

In LE TEMPS of today Frédéric Jenny refers to the controversy now raging around the B I S and observes that nevertheless this institution remains "a first class observatory" for the study of development in international currency and that its yearly reports are unquestionably of value. Jenny particularly mentions the study of gold production and movements and the study of interest rates embodied in the report of this institution for the year 1938-39.

(END SECTION ONE)

BULLITT

HPD

EG

GRAY

Paris

Dated June 5, 1939

Rec'd 5:40 p.m.

Secretary of State,
Washington.

1065, June 5, 5 p.m. (SECTION TWO).

The financial press has lately commented upon indications that daily repatriations of capital include a certain proportion of strictly foreign funds which are quietly being invested in French securities and real estate and in this respect the period between 1926 and 1928 and especially after the legal stabilization of 1928 is recalled when foreign investors were the first to realize the attractive features of French securities and real estate following the depreciation of the franc. AGENCE ECONOMIC of today carries a lengthy editorial inviting attention to the opportunities offered on the French security market. This editorial contends that the index of securities on the basis of 100 in 1913, should be about 1200 today, if account is taken of the depreciation of the currency or at least 700 if account is only taken of the increase in prices. Today this index stands at 236 and it is observed that a larger margin exists between this figure and 1200.

Trading

-2- #1065, June 5, 5 p.m. (SECTION TWO) from Paris

Trading was dull on the exchange market. The dollar was offered and the fund obtained a small amount through Chase. The florin showed further weakness. The undertone of the security market was firm and active at the opening but a reaction which set in later brought lowering prices all round. (END MESSAGE).

BULLET

HPD

RECEIVED

JUN 6 1938

TREASURY DEPARTMENT
Office of the Secretary
Technical Section in the Treasury

FEDERAL RESERVE BANK
OF NEW YORK

210

OFFICE CORRESPONDENCE
CONFIDENTIAL FILESDATE June 5, 1939.SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.TO
FROM L. W. Knoks

Mr. Bolton called at 10:25 a.m. Their markets had been dead with no form of financial activity. However, there was a slightly better tendency for sterling and after acquiring no spot dollars until the end of last week, he had been able to buy \$3,000,000 this morning plus \$1,500,000 from the Bank of Greece, making a total for the day so far of \$4,500,000 (Bolton's subsequent cable mentioned a total of \$8,000,000 bought today). As a result of today's purchases their short position in dollars was now down to \$50,000,000; if this tendency continued, he hoped to cover that position completely in the near future. In reply to my comment that he seemed to be very optimistic, Bolton said that he was not necessarily optimistic but believed that no trouble need be expected until the autumn. That being so and bearing in mind the enormous long position in dollars the world over, he hoped that he would be able to cover his short position and thus free the gold which he had in New York. Hitler's speech yesterday, he agreed with me, was not at all disturbing. What they believed in London was that within Germany there were a great number of stresses and strains developing. This talk of encirclement probably served the purpose of holding things together in that country; they had turned on their propoganda in full blast, realizing that it took a long time to get around.

London had been disappointed in the great delay over the Anglo-Russian agreement. In Paris, which seemed to know much more

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE June 5, 1939.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

TO: L. W. Knoke

FROM:

3

about Russian conditions than London, the feeling prevailed that the negotiations would ultimately lead to a successful agreement. This, in turn had brought about a much stronger stock market in London and was responsible for the improved tone of sterling.

In France there had, of course, been an enormous relative improvement in conditions as evidenced by the great success of the latest loan which had made it possible for the French Treasury to stay out of the loan market for the next six or nine months.

The weakness of the guilder was due to two reasons: (1) the French loan just placed in Holland for guilders 100,000,000 which was being used, in part at least, to repay a Swiss loan. In this connection Cariguel had been selling guilders and buying Swiss francs; (2) the resignation of the Dutch Minister of Finance, signifying the distrust of the older conservative element in Holland for the new managerial methods now advocated and pushed by a new group favoring a new deal philosophy.

The Belgians were still gaining gold through London which they were shipping to New York, making the speculator pay the cost of shipment. During the past 15 working days they had acquired about 2500,000 of gold every day, making a total of from £7,000,000 to £10,000,000; in spite of that the belga continued strong in the market.

LWK:HW

JUN 8 1939
FEDERAL RESERVE BANK
OF NEW YORK

MJD

GRAY

Paris

Dated June 6, 1939.

Rec'd. 4:42 p. m.

Secretary of State,
Washington.

1077, June 6, 6 p. m.

FOR THE TREASURY.

Business on the exchange market was inactive with interest centered chiefly on the guilder which was again under pressure. While it is recognized in financial circles here that the situation of The Netherlands is an embarrassing one in that, on the one hand, it is anxious to maintain a balanced budget, and on the other hand it is faced with the necessity to approve substantial outlays for national defense, it is considered that alarm about the future of the florin apparent in certain quarters, is excessive. In this connection the belief is expressed that Colijn will continue a conservative policy, the soundness of Holland's credit is emphasized, and it is pointed out that the Bank of The Netherlands is rich and powerful and need not revalue its gold holdings.

The security market was irregular and depressed.

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BULLITT

JUN 6 1939

NPL
EMB

TREASURY DEPARTMENT
Office of the Secretary
Financial Assistant to the Secretary

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: June 6, 1939, 3 p.m.

NO.: 450

I refer to my telegram No. 425 of May 28, noon.

A reliable source of information has told us that the main feature of the Economic Agreement between Germany and Italy recently consummated was to provide for Italian industry increased quantities of raw materials from Germany, such as iron and steel products, coal and coke, because the most pressing problem of German-Italian commercial relations at present is the supply of German raw materials to Italy.

There seems to be little fluctuation in the value of the yearly exports of Germany to Italy, according to official German statistics. These exports amounted to 311,000,000 marks in 1937. They amounted to 301,000,000 marks in 1938, and to 74,000,000 marks for the first quarter of this year. Italian exports to Germany, however, have shown a steady increase from 221,000,000 marks in 1937 to 245.6 million marks in 1938; for the first quarter of 1939 they were 74,000,000. Until the middle of 1938 with the trade balance in Germany's favor, the balance of payments in the clearing account over which Italo-German trade is conducted was in Germany's favor. However, Germany's indebtedness to Italy on the clearing account

has

- 2 -

has increased with the growth of imports from Italy, together with the additional admissions of Italian laborers attended by a consequent greater volume of immigrant remittances and the increased German tourist expenditures in Italy. Germany owed Italy 342,000,000 lire (about 45,000,000 marks) by May 19.

This situation, it is understood, has been increasingly the subject for complaint by Italy, and it may be necessary for Germany to be forced to wipe out her clearing debt by giving to Italy more of the coal and other products which Germany needs so urgently for herself in her present situation of full employment and ambitious plans for industry and armament.

It is requested that this telegram be repeated to Treasury as Heath's No. 33.

KIRK.

RECEIVED

MAY 19 1933

THEATRE DE L'OPERA
 12, rue de la Harpe
 PARIS

EA:LWW

REB

PLAIN

London

Dated June 6, 1939

Rec'd 2:35 p. m.

Secretary of State,
Washington.

785, June 6, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

1. The following is the text of the resolution passed at a meeting yesterday of American brokerage houses in London, and conveyed to the Bank of England:

"That New York Stock Exchange firms represented in London recognizing the wishes of His Majesty's Government as stated by the Chancellor of the Exchequer in the House of Commons that the purchase by British subjects of foreign securities be discouraged are desirous of complying with such wishes. Furthermore, in order to implement the position taken by them, they hereby resolve that the distribution in the United Kingdom of lists quoting dollar securities or cables whether daily, weekly or monthly commenting on American security markets be discontinued and that any communications issued from time to time by them containing statistical or political comments or information relative to particular dollar securities sent to clients interested

REB

2-#785, From London, June 6, 6p.m.

interested in such securities bear a legend conspicuously printed thereon reading: In view of the announcement by His Majesty's Government relative to the purchase of foreign securities the information presented above is not to be taken as an invitation to clients to increase their holdings of dollar securities."

2. Following the successful flotation of the £5 million South African loan reported in the second section of my 749, May 26, 6 p. m., and the £2.5 million loan to Northern Ireland over-subscribed the other day, a £6 million 4 per cent 1961-64 loan was floated today for the Commonwealth of Australia "the proceeds to be used to meet expenditure in the United Kingdom in connection with the Australian Government's defence program". This loan was successfully absorbed by the market today but not without some difficulty, having followed rather closely on the other two issues. Sentiment on the stock exchange was irregular today, gilt-edged showing the influence of the new trustee securities but prices holding fairly firm.

3. The replies to the question made in the House of Commons by the Chancellor of the Exchequer, reported in my 779 of June 5, 6 p. m., has evoked the following question by
a labor

REB

3-#785, From London, June 6, 6p.m.

a labor member who asked in the House of Commons today: "In view of the large borrowing operations which will have to be undertaken by His Majesty's Government in the future, with its consequential effect on credit facilities, has the Chancellor of the Exchequer any proposals for more direct control of the Bank of England and the removal of the anomalous position of the Central Bank being allowed to remain in the hands of private financial interests".

Sir John Simon replied: "No sir, the Government do not accept the implications of the question and have no intention of putting forward such proposals."

4. The foreign exchange market was comparatively quiet again today. The dollar was offered up to 4.68 23/32 in the morning but was bid in the afternoon around 19/32. Eighty six bars of gold were sold at the fixing 12 of which were married and 35 supplied by the British fund.

KENNEDY

KLP

RECEIVED

JUN 7 1944

TREASURY DEPARTMENT
Office of the Secretary
Federal Reserve Bank of New York

HRE

GRAY

LONDON

Dated June 6, 1939

Rec'd 6:25 p.m.

Secretary of State

Washington

786, June 6, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

In the course of a conversation at the British Treasury the following information was elicited.

One. As regards the House prohibitions on the purchasing of foreign securities by British nationals the purport of my talk with the Treasury confirmed the general conclusions set forth in my 768, June 2, 6 p.m. The British Treasury stated it had not wished to impose an elaborate statutory system which in any case would in peace time be subject to evasion. Therefore it resorted to a general appeal to patriotism which it did not think it wise precisely to define. The basic aim was to prevent a drain on sterling and if possible to cause some repatriation of funds. The Treasury's own vagueness about the matter was well illustrated when I inquired about the issuance of new fixed trust units, the reply being that if only 1% of the investments were put in Wall Street there would be no objection but if the overwhelming majority were put in Wall Street there would be, that

HRE

2-#786 From London June 6, 6 p.m.

that they really did not themselves know precisely where the line would be drawn and did not wish to have to pass on the rights and wrongs of a given transaction, that at the present time it could be left to the "conscience" of the persons concerned. The Treasury added, however, that if Wall Street showed a strong upward tendency there would arise a difficult moment when British capitalists would have to decide between their conscience and their pocket-book. Incidentally I did not gather that the British Treasury felt that difficult moment was near.

Two. Rutter who headed the German delegation for the discussion reported in the second section of my 694, May 16, 9 p.m. returned to Berlin to report on the British "demands" with his government. The British Treasury is awaiting a reply. In the meantime the recent debate and questions in the House of Commons have indicated the strength of the "not a penny for Hitler" movement and the British Treasury is faced with the possibility of having to take the unilateral action mentioned in second paragraph of 712 of May 19, 5 p.m. This they obviously do not wish to do if they can help it.

Three. All of Great Britain's new found allies, Poland, Roumania, Greece, and Turkey want more money and the factors mentioned in the third section of my 483 of

April

HRE

3-#786 From London, June 6, 6 p.m.

April 14, 7 p.m. are obviously operating but the British Treasury's power to resist or limit such monetary demands is being weakened by political and diplomatic considerations.

Poland has emphasized her military needs and the desirability of balancing her budget and is asking for "enormous sums." The British Treasury in effect replied by indicating that it was too bad about her budget and asking the Poles to send representatives to discuss the question of obtaining British material. The British Treasury takes the view that Poland is bound to be a belligerent in any European war and that she has a strong case particularly as she can by her own decision involve Great Britain in such a European war. Therefore in the last analysis they are prepared to do a great deal for her but I felt mainly in terms of supplying British materials.

The Rumanian delegation which is here is asking for more than the agreed upon £5,000,000. The British Treasury is opposed to increasing the amount. They recognize that there is a valid argument in spending money on armaments for Rumania but also maintain that there is a corresponding argument that the Rumanian's will not use them. Both Greece and Turkey want more money and as in the case of Rumania the Treasury really is not sure whether it will be allowed to resist these claims.

Four.

HRC

4-#786 From London June 6, 6 p.m.

Four. As regards New Zealand, the British Treasury expressed the view that Nash was slowly but surely being "educated;" that naturally the process of education presented difficulties coming from a right government to a left but at any rate Nash had begun by thinking that to pay more than $3\frac{1}{2}\%$ interest on any loan was immoral and he was now paying more. The British Treasury felt that the problem of the £17,000,000 conversion should not prove insolvable "if Nash can convince the city that he is a conservative and at the same time his hot heads at home that he is far to the left."

KENNEDY

JRL:NPL

RECEIVED

JUN 7 1950

TREASURY DEPARTMENT
Office of the Secretary
Federal Reserve Bank of New York

June 6, 1939
2:41 p.m.

HMJr: Hello.

Operator: All right. Go ahead.

HMJr: Hello.

James P.
Pope: Mr. -- Mr. Secretary?

HMJr: Talking.

P: This is Pope talking of T.V.A.

HMJr: Yeah. How are you?

P: All right. Say, Mr. Secretary, I was just talking to Jere Cooper of the Tennessee delegation who has been talking to Mr. Doughton and of course this legislation up on the Hill authorizing the T.V. deal is -- is so urgent we -- we are just trying our best, of course, to get it through so we can complete the deal, and we have to do so immediately if we complete the deal on June the 20th. And so in talking with Cooper, he said that Mr. Doughton was waiting to hear from you before the Rules Committee would act or report out a rule on the -- on the legislation, and that you, in turn, were going to get in touch with -- with us, or with the T.V.A. officials. And I just wanted to try to expedite that matter and see what we could do, if anything, or if you had some question in your mind that you want to ask us, why then take -- get the answer.....

HMJr: Well, here's the situation, Senator.

P: Yeah.

HMJr: We've been watching it, naturally, because it's attached to our bill.

P: Yes.

HMJr: And also I'd like to see you get the money that you actually need.

P: Yes.

HMJr: Now, we sat tight because we were chasing John Blandford all over the United States yesterday.

P: Oh!

HMJr: And only got him last night -- Mr. Bell.

P: Yeah.

HMJr: And Bell spoke to him again today.

P: Yeah.

HMJr: And he was to get here in Washington this -- tomorrow morning and/let us know.
to

P: Yes, he's coming.

HMJr: So we were sitting tight, and he knew that -- that I was interested and wanted to get an expression from T.V.A.

P: Yes.

HMJr: Now, at lunch I asked the President about it.

P: Yes.

HMJr: And he said he had written a personal note to Mr. Doughton.

P: Yes.

HMJr: Telling him where he stood.

P: Yes.

HMJr: And the President said on account of the legislative situation he would let the bill go through for a hundred million dollars.

P: Yeah.

HMJr: But would give Mr. Doughton a letter.....

P: Yeah.

HMJr:or write a letter to the T.V.A. saying that none of this money should be spent except for this one deal.

P: Yes.

HMJr: And that -- that the money -- that they must -- T.V.A. must keep within the seventy or seventy-five million that you need.

P: Yes. Well, that, of course, we expect to do.

HMJr: Yeah. Well, the President will give this word. Now -- but -- so when the President told me this, that he had communicated directly with Mr. Doughton.....

P: Yes.

HMJr:why, I simply said, "Well then, there's nothing more for me to do."

P: Yes.

HMJr: Now that's just where -- so I would say that as long as he's in direct touch with Mr. Doughton, why I think I better drop out of it.

P: Well now, here is just the point. Of course, we -- we expect to use only enough money to complete this deal and the deal in north Alabama and Mississippi, plus the amount necessary there to rehabilitate the system, which would be two, or three, or four million dollars, which would bring it altogether up to around sixty. Now that -- that, of course, is always used in connection with it. However, that includes the financing of these cities -- some of these cities that can't sell their bonds, and in order to complete this deal, and that might, or might not, mean another million or two, or a little money. There now, that's the situation. But here is the point that I think is holding the matter up in the Rules Committee, Doughton told Jere Cooper that he was waiting to hear from you and he said, "Of course I won't move until I hear from Secretary Morgenthau", and nothing was said about the President's communication. Maybe he didn't have it then.

HMJr: Who is this, Cooper?

P: Cooper -- Jere Cooper.

HMJr: How long ago did you talk to him?

P: About five minutes ago. About five minutes ago. I called you up immediately after that. So Jere said that Doughton was just holding -- holding it there.....

HMJr: Well, I'll call up the White House, see?

P: Yeah.

HMJr: And tell them of my conversation with you.

P: Yeah.

- HMJr: And tell them -- somebody there please call Mr. Doughton and tell him verbally what the President told me.
- P: Yes. Well, I think that's a good idea because I -- Jere said.....
- HMJr: But I'll follow through and I'll -- first call the White House and then I'll call Doughton and tell him if he doesn't hear from the White House within an hour to let me know.
- P: That's fine.
- HMJr: How's that?
- P: All right.
- HMJr: O. K.?
- P: All right.
- HMJr: And if you don't hear, you call me back. Don't hesitate, I'm very much interested. I want you to -- I want to see you get the money.
- P: Yes. Well, it's -- it's quite a desperate situation and I think it's very important that.....
- HMJr: I want you to get the money and consummate the deal.....
- P: Yeah.
- HMJr:but I'd like to have it so that the money is limited to what you have in mind, and we have a figure of seventy or seventy-five million.
- P: That's right. Well now, we -- it runs up to just about that. If we do supply the funds to the municipalities, to some of the municipalities, to pay their part of the deal -- you see, because of interest in carrying out this deal....
- HMJr: Yes.
- P: That may amount to a million dollars; it may amount to several million dollars, we can't tell for certain, but the other matter -- you see, there's about forty-four million, Mr. Secretary, in -- our immediate part of this deal. Then it will take, oh, three, or four, or five million dollars for rehabilitation. We have to have that

much money. Then these north Alabama, north Mississippi properties which are important, would be another five, six or eight million dollars, whatever it takes.

HMJr: Yes.

P: Now, that ought to be included with whatever we might use to furnish these municipalities.

HMJr: Right!

P: You see that'd run up maybe to sixty-five or seventy million dollars.

HMJr: Where are you located now? I mean, where are you talking?

P: Well, I happen to be talking from Senator McKellar's committee room

HMJr: Well.....

P: I was over here to see the Senator.

HMJr: Well now, I'll -- I'll call the White House; I'll call Doughton, and if you don't get action within the hour, call me back.

P: Fine business!

HMJr: O. K.

P: All right. Thank you.

June 6, 1939
3:05 p.m.

227

HMJr: Hello.

Operator: Congressman Doughton is on the floor making a speech.

HMJr: Well, get him. Send in word I want to talk to him.

O: Oh!

HMJr: Well, I mean.....

O: After he's through.

HMJr: Pardon?

O: After he's through?

HMJr: Well, just get word that whenever he's through I want to talk to him.

O: All right.

HMJr: Please.

3:12 p.m.

Robert
Doughton: All right.

Operator: Just a minute, please, Congressman.

HMJr: Hello.

D: Hello, Mr. Secretary.

HMJr: Bob.....

D: Uh-huh.

HMJr:Senator Pope called me up about this hundred million dollars for T.V.A.

D: Yeah.

HMJr: And I told him that their message had gone from the White House from the President to you.....

D: Yeah.

HMJr:about an hour ago. Have you got it?

D: No, I have not.

RMJr: Well, it must be at your office.

B: Well, I don't see why they didn't call me. Go ahead.

RMJr: Well, I -- the President -- I don't know -- he told me he -- he sent you a message, and Sam Rayburn and the Speaker.....

B: All right.

RMJr:saying just what he wanted. And I think if -- if it isn't at your office, I just talked to General Watson and he said it left an hour and a half ago.

B: Well, I'll phone over there and see. I don't understand that.

RMJr: Yeah. He said -- I don't -- he told me about what was in it, and he said for legislative reasons, better let the hundred million dollars come out.

B: Better let it come up?

RMJr: Yes.

B: If that's what the message was -- you see, you'd have to get a rule to get it up, you know. We've got out Social Security.....

RMJr: Well.....

B:bill on you now and your tax bill too, you know.

RMJr: Well, you better read the message from the President.

B: I will, I'll get in touch and get it right now.

RMJr: And if you don't get it, will you let -- if it isn't -- it isn't there, will you let me know?

B: I'll call you right back if I don't get it.

RMJr: Thank you.

B: All right. If you don't hear from me, you know I've got it.

RMJr: Thank you.

B: Thank you very much.

RMJr: Good bye.

B: Good bye.

June 6, 1939
3:54 p.m.

229

HMJr: Hello.

Operator: Secretary Hull.

HMJr: Thank you.

O: Go ahead.

Cordell
Hull: Hello.

HMJr: Cordell.....

H: Yes, sir.

HMJr: How are you?

H: Good!

HMJr: I'm calling up again about this St. Louis, the German boat.

H: Yes.

HMJr: And my friends called me from New York and they said they were having some trouble, the Cubans were demanding cash.

H: Yes, they haven't been able to work out that question.

HMJr: Uh-huh.

H: Of course, the situation, you see, is that the -- the folks in New York don't want any money to get in the hands of the Cubans and the Cubans do.

HMJr: Yeah.

H: That's the problem -- that's the problem we've got.

HMJr: Well, are the people in New York right or wrong?

H: Well, it's a question. I -- of course, we would like to have it worked out that way. I'd like to see it worked out that way; if we -- if we can't get them to do it, I don't know -- then it's a question of some kind of a compromise proposition, you see.

HMJr: Put up half cash and half.....

H: Well, something that way -- yes.

HMJr: I see.

H: Yes. That's the way it would seem.

HMJr: Uh-huh. They also tell me they don't know where the boat is.

H: Well, I -- of course, I take it that it won't get -- it won't get away far. I don't imagine so.

HMJr: Do you think it would be proper to have Coast Guard look for it?

H: For the boat? I don't see any reason, if they -- if they haven't found it, I don't see any reason why it couldn't.

HMJr: Yeah. Well, I thought -- I read in the papers that.....

H: You wouldn't have to put that in the newspapers.

HMJr: Oh, no. No, no. They would just -- oh, they might send a plane out to do patrol work.

H: Yes, yes, of course.

HMJr: There would be nothing in the papers.

H: No.

HMJr: No.

H: Oh, that would be all right.

HMJr: But you -- are they doing everything, you think, from New York, that they should?

H: So far as I have been able to see.

HMJr: I see.

H: My men -- I've talked with them two or three times today in here, and they are keeping in touch with the Government side and they are working down there.....

HMJr: Yeah.

H:with the -- with the man who represents the New York people.

HMJr: That's right.

H: I forget his name.

HMJr: Well -- well then, you haven't -- you haven't -- there's nothing that I could do, or that they should do?

H: Nothing I see right now. If I can find out anything I'll let you know in a half an hour or so.

HMJr: Thank you so much.

H: Yeah.

HMJr: Thank you.

H: Yeah.

HMJr: Good bye.

June 6, 1939
3:57 p.m.

Operator: Go ahead.

HMJr: Hello -- hello.

John
Fahey: Hello, Henry.

HMJr: Yes.

F: I took -- you were busy and so I talked with Dan.

HMJr: Good.

F: So it's perhaps unnecessary to repeat the conversation except to tell you briefly that at the hearing before Banking and Currency Committee this morning Martin of Illinois requested the Chairman to ask you for your opinion on this Federal Home Loan Bank bill.

HMJr: Oh.

F: Several weeks ago, in talking with the President about other matters, I spoke to him about it. He said that, in principle, he didn't -- he would rather let the committees of Congress deal with this legislation without any suggestions or recommendations on it. I mean, so far as he was concerned.

HMJr: Yeah.

F: But that he, personally, saw no objection to one, under proper conditions, giving the Secretary authority to take debentures in an emergency, or to adjusting that insurance premium.

HMJr: I'm not familiar with this, John, at all.

F: I know it.

HMJr: But if you've talked to Bell, let me get it from Bell.

F: Yeah. Well, the point about it is he suggested -- he asked me how you, personally, felt about it, and I said that the Treasury had not been in harmony with us on the thing.

HMJr: Who -- who asked?

F: The President.

HMJr: Oh!

F: And he said, "Well, suppose you talk it over with Henry and see if he isn't disposed to go along." But, of course, you've been so tied up and so have I, I haven't had any chance to talk with you about it.

HMJr: Well now.....

F: I explained the situation to Dan.....

HMJr: Good!

F:and Dan can talk to you about it.

HMJr: Fine!

F: All right.

HMJr: Thank you.

F: Good bye.

HMJr: Good bye.

June 6, 1939
3:59 p.m.

HMJr: Hello.

Operator: Commander Rose, acting in Admiral Waesche's place.

HMJr: All right. Hello.

E. G.
Rose: Hello. Commander Rose, sir.

HMJr: Oh, yes. Commander Rose, this is the Secretary speaking.

R: Yes, sir.

HMJr: I've seen in the papers that out of Fort Lauderdale you've been trailing the German ship, the St. Louis.

R: Yes, sir.

HMJr: Do you know where she's located now?

R: I haven't seen anything on it today, but I believe the first was off Miami and the vessel turned back from trailing her somewhere down toward Key West.

HMJr: Well, I'd -- I'd like to know, if you can find out where she is. Hello?

R: Yes, sir.

HMJr: I don't -- I want you to treat it confidentially, see, so that nothing gets out that I'm interested.

R: I see.

HMJr: But I -- I spoke to Mr. Hull about it and I understand they can't locate the boat, you see?

R: All right, sir.

HMJr: Now, I'd like -- if you can handle this mission confidentially send a -- a radio both to Lauderdale and Miami, would you? I suppose you work out of St. Petersburg?

R: No, St. Petersburg, Key West, Miami, ^{and} Fort Lauderdale.

HMJr: Yeah, but -- but handle the thing so there will be no kick-back and no publicity on it.

R: I see. Well, we can send it in a tight code and safeguard it, I'm quite sure.

- 2 -

HMJr: Yes, and see if they can locate the St. Louis.

R: All right, sir. And would you like to be notified.....

HMJr: Yes.

R:when the mission comes in or will.....

HMJr: Yes, I want to be notified right away.

R: All right, sir. I'll take care of it.

HMJr: And if I'm out -- at the dinner tonight, let McKay get word to me when I get back.

R: All right, sir.

HMJr: But handle it so that there's no comeback on it, please.

R: All right, sir. I'll take care of that.

HMJr: You can understand.

R: Yes, sir.

HMJr: Thank you. But I want -- I want to locate it.

R: All right, sir; we'll do all we can.

HMJr: Thank you.

R: All right, sir.

June 6, 1939
4:42 p.m.

Turner
Gatledge: Hello.

HMJr: How are you?

C: Fine, thank you. How are you?

HMJr: Fine! I feel much better after reading your very fine article Sunday.

C: Well, I'm glad you did.

HMJr: And I want to say, "Thank you". All my family likes it.

C: Well, thank you very much. I'm glad when I can do things that people like occasionally.

HMJr: Well, they all liked it. My father called me up from Saratoga to say how much he liked it.

C: Well, fine!

HMJr: And I just wanted to let you know.

C: Fine! Thank you very much. I'm glad it turned out that way. I had, as I told you the other night, -- had to re-write it with some inserts and so on at the last minute and it wasn't as smoothly written as I would like it from a literary standpoint, but I thought I got most of the things in there I wanted to say.....

HMJr: And it was.....

C:with that space of words.

HMJr: And it proved to be very timely.

C: All right, sir.

HMJr: Thank you.

C: Glad you liked it, and thank you very much for calling.

HMJr: Good bye.

C: Yes.

237 shared this with the
President
June 6, 1959

THE REA PROGRAM

HOW IT WOULD BE AFFECTED BY ITS NORMAL
FISCAL 1940 APPROPRIATION OR BY A SUB-
STANTIALLY LARGER APPROPRIATION.

I - Under normal conditions with its normal appropriation of \$40,000,000
REA would expect to lend:

\$36,000,000	for	construction of 36,000 miles of rural line	
\$ 1,000,000	for	generating plant and equipment	
\$ 2,500,000	for	farm wiring	
\$ 500,000	for	plumbing	
<hr/>			
\$40,000,000			TOTAL

II - In the event that:

- 1) Additional funds were available for lending;
- 2) Additional funds were available for advising the farmer how to make adequate and profitable use of electricity, and for other additional administrative expenses;
- 3) Electric appliance financing were to be done by REA on a reasonably secure basis with maturities up to five years;

Then:

REA would expect to lend approximately \$110,000,000 for the following purposes:

\$72,000,000	for	construction of 72,000 miles of rural line	
\$ 2,000,000	for	generating plant and equipment	
\$ 5,000,000	for	farm wiring	
\$ 4,500,000	for	plumbing and water systems	
\$24,000,000	for	electric appliances for farm and home use	
\$ 2,500,000	for	cold storage locker plants	
<hr/>			
\$110,000,000			TOTAL

RECOVERY

June 6, 1939.
2:45 P.M.

Present: Mrs. Klotz
Dr. Viner
Dr. Haas
Mr. Duffield
Mr. Lochhead
Mr. Foley
Mr. McReynolds
Mr. Hanes
Mr. Bell

H.M.Jr: What I want to say now is this - I want to surround it with as much secrecy as possible. Where's Gaston?

(Calls for Gaston on phone)

Well, anyway, Eccles, Director of the Budget Smith and I went over to see the President and we read this memorandum and he liked it enormously. The only thing he questioned was where we said, "the local authorities hadn't done their share of investing and spending. He felt they reached their debt limit. He kept saying, "Where is the white rabbit and where is the cabbage to feed the white rabbit". He said, "This is a good come-on".

The President told us to have a Recovery Program ready for him to send to Congress not later than the 1st of July and to surround it with all kinds of secrecy - no leaks.

I showed him at length my program, which he likes enormously, and he said, "Let's try and make it a self-liquidating program entirely". I said to him, "Now, Mr. President, I also want it, in no way, to compete with business" and he said, "In no way compete with business".

To my amazement, he likes the food tickets the least because he is afraid it is inching in on the dole and the one that he likes the most is the self-help co-op. He's crazy about that. He thinks it is a grand one and that a man who wants to work - we should help him to work; to get the training; get a job and establish himself. He's very enthusiastic about this self-help co-op.

H.M.Jr: So we are to go back a week from tomorrow with a program and the thing that pleases me so much is I have been saying now for a month we had to do it now - next June was too late - and I have been told consistently the President would not agree to it and he has. He said that on the one hand they will tell him that they will use the argument that if you do it now they will forget about it next year. That's the argument he has been using against me. I said, "The answer to that is, Mr. President, you have to do it now to have it effective next year and at last I got that across.

I think this - that I will be here off and on in between the King and Queen and we ought to all put our minds to this thing. I will be back next Tuesday morning but Eccles asked him, "Supposing we can't agree on things, can we bring that in as a tentative program" and he (The President) said, "Yes".

I asked the President at length about the additional money for old age. He said, "Leave it alone. That is entirely a separate matter". And he wouldn't dream of sending up any message on it but he would like it as much as possible self-liquidating and out of the budget. And to make it fit he said, "I will take the money for the self-help co-ops out of the WPA - no additional money".

Note: At this point Mr. Gaston entered the room.

H.M.Jr: I am extremely happy because on this basis, after all, if it has to be self-liquidating non-competitive why I can put my shoulder to it 100 per cent.

Dr.White: Did he turn down the stamps?

H.M.Jr: No - and he would not keep anything. He said I should keep everything. He wouldn't keep a thing.

Note: After making the above statement, Secretary Morgenthau turned a black book and some papers over to Mrs. Klotz.

H.M.Jr: So why don't we put our mind to this thing. To-day is Tuesday. I would like to meet on this Mead Bill.

Gaston: We found out where everybody stood - that's all.

Note: At this point Secretary Morgenthau read to those present the following item which appeared on the Dow Jones ticker:

36

HOPKINS CONFERS ON BUSINESS CREDIT WITH NEW OFFICIALS 240

WASHN -

JUN 6 1939

2 50 PM

JUN 6 1939

ADD HOPKINS

WASHN - SECY OF COMMERCE HOPKINS TODAY MET AT A LUNCHEON CONFERENCE WITH SEVEN OF HIGHEST NEW DEAL OFFICIALS TO DISCUSS METHODS OF EXTENDING CREDIT TO BUSINESS - A LARGE PART OF DISCUSSION WILL CENTER AROUND THE MEAD BILL TO INSURE BUSINESS LOANS DEPT OFFICIALS SAID THOSE ATTENDING CONFERENCE ARE RESERVE BOARD GOVERNOR ECCLES BENJAMIN COHEN COUNSEL FOR THE POWER POLICY COMMITTEE HERBERT GASTON ASSISTANT TO THE SECRETARY OF THE TREASURY S E C CHAIRMAN AND S E C COMMISSIONER LEON HENDERSON R F C CHAIRMAN JONES AND EMIL SCHRAM R F C DIRECTOR

-0-

- 4 -

H.M.Jr: Is it agreeable for my people to meet with me at 10:15 tomorrow morning. John, (Hanes) I very much want you here.

(To Duffield) Let your people know. If Hanes can't be here we will call it off - otherwise, it will be at 10:15 tomorrow morning.

Hanes: I'm sure I can be here.

H.M.Jr: We will meet at 10:15 on the Mead bill tomorrow. And then let every fellow be thinking about a program which is self-liquidating and does not compete with private enterprise. This is our chance; we are asked for it and if we haven't a good program, we have no one to blame but ourselves.

Dr.Viner: No Mead bill would fit into such a program.

Foley: What you could do also is to set up a corporation which would have authority to issue its own obligations.

Dr.White: Why couldn't we bring in whatever suggestions there are Tuesday?

H.M.Jr: I am going to hit this a couple of times this week.

I thank each and all of you for what you have done to help me on this. I think this is the final culmination of what I have been working for. I am very serious. It has knocked me physically flatter than a pancake but it is worth it. We have to have enough ingenuity to call on friends like Viner to help us get up a program which we really need; something that the President can go to bat on and that we all need. Nothing on his mind that I could get at and that he wants nor what we call an old-fashioned pump priming. I am very happy. Give Senator Pepper my regards. (Laughter) And tell him the pump priming is dry.

Jun 6, 1949

all to
meeting

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 the objective of an \$80 billion national income is due to the existence of certain fundamental maladjustments which have been developing.

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) 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 or increased.

(b) Certain large industries have now reached a stage of growth relative to their potential markets which eliminates them in the foreseeable future as potential users of large amounts of investment funds. Though we expect a continued growth of most of these industries the rate of expansion and the absolute volume of new investment funds 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 out 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 net.

(f) State and local bodies which in the 20's provided an outlet for investment funds of nearly a billion dollars a year have in recent years actually added to the current volume of funds available for investment through a net reduction in their outstanding debt.

(g) Sharply curtailed expenditure on non-profit private building, i.e., churches, universities, non-governmental schools, charitable institutions, clubs, etc. In some years in the 20's these accounted for as much as 700 million a year, whereas 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 have been taken up for several years more.

(i) 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.

(j) 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.

(k) The situation is aggravated by the fact that those who have or control the nation's funds for investment appraise the risk of investment as greater now than hitherto and are less willing to assume risks. 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

- 3 -

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 industrially advanced European countries have experienced the same contraction of outlets for their investment funds. 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 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 funds available for investment at 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 investment.

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 favorable:

(a) Inventory reduction has been proceeding for some months and a cessation or reversal of this trend would be a temporary stimulus to production.

(b) Expenditure on consumers goods has been maintained despite the decline in business activity.

- 4 -

Elements in the situation which are either neutral or unfavorable:

(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 seems to be little 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 utility investment.

(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 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 remain acute.

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 all effort possible to eliminate 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 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 sustained prosperity.

- 6 -

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 a significant increase in the national income 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 after a short recess it would reconvene prepared to deal with these major programs, some of which have been before us for a long time.

6/6/39

Mr. Delano

Mr. Gaston
Mr. Bell
Mr. White
Mr. Duffield
Mr. Upham
Mr. Foley
Mr. O'Connell
Mr. Haas
Mr. Kades
Mr. Mulroney
Mr. Lindow
Mr. Glasser
Mr. Tietjens

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June 6, 1939

MEMORANDUM FOR THE SECRETARY

I. It is the consensus of this group that there is an unfilled need for business loans lying mainly in the area between the types of loans being made by the most conservative bankers and the types of loans being made by the most progressive bankers. This need is sufficiently large to warrant new measures to supply that need. This group considers this to be a proper banking field -- to be taken care of by bank credit.

II. It is the consensus of this group that the Mead Bill will contribute toward a stimulation of loans to small business within the zone of need as defined above.

III. It is the consensus of this group that the Mead Bill needs careful study and examination as to its mechanical features.

IV. Supplementing the objective of the Mead Bill, we believe there should be further examination of the adequacy of the machinery for supplying the equity capital needs of small and medium-sized business.

June 6, 1939.

To: Secretary Morgenthau
From: Jacob Viner
Subject: Mead Bill

1. The wording of the bill should be changed so as to make it clear that it is intended to provide insurance only for marginal loans, i.e., loans which probably would not be made in the absence of insurance, and not for loans in general, nor even for any class of loans in general.

2. In order not to remove or even seriously to weaken the concern of the banks about the quality of loans, they should be required to retain a substantial but residual portion of the risk, i. e., the R.F.C. should bear only say 10 per cent, but the first 10 per cent, of the loss in connection with any one loan. On this basis, the R.F.C. need not undertake to appraise each particular loan.

3. Any limitations on the rate of interest charged by the banks should not be such as to prevent the banks from charging higher rates on risky than on safe loans. Even with the insurance, if it is only partial as here recommended, the banks will regard loans of the type here in question as more risky to themselves than their ordinary commercial loans.

4. I question the wisdom of extending rediscount privileges with the Federal Reserve banks to non-member banks. The rediscount privileges of member banks are already so extensive, that I see no urgent need for adding to them. I would omit Section 5.

25v

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 5, 1939.

TO Secretary Morgenthau
FROM Mr. Foley

For your information.

Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System, appeared today before a Subcommittee of the Senate Committee on Banking and Currency and expressed his views with respect to the Mead bill.

He stated that there is a definite need for supplying small and medium sized business enterprises with intermediate and long term credit but that the Mead bill would not accomplish the purposes for which it is designed. It is his belief that the requirement that the banks assume any loss up to 10 per cent of the amount of the loan would discourage them from making loans for business purposes and that the 4 per cent interest rate contemplated by the bill is too low. He also expressed the view that the proposed legislation would add little, if anything, to powers now possessed by the Reconstruction Finance Corporation. He recommended that section 5 of the bill, which provides for the rediscount by the Federal Reserve banks of insured loans for business purposes, be deleted, since the Federal Reserve banks now extend adequate credit facilities to member banks and there is no sound reason why such facilities should be extended to non-member banks. Moreover, paper of governmental agencies, such as the Federal Housing Administration, is not given preferred treatment and he feels that there is no reason why such treatment should be accorded to paper arising under the provisions of the proposed legislation.

To meet the credit and capital needs of small and medium sized business enterprises, Mr. Eccles advocates the creation of an industrial loan corporation as an integral part of the Federal Reserve System. This corporation would act as an agent of the Federal Reserve System and its Board of Directors would be composed of the Board of Governors of the Federal Reserve System. The corporation would have a capital of \$100,000,000 and a surplus of \$12,000,000. This sum would be advanced by the Secretary of the Treasury and would represent the unexpended balance of the sum authorized to be advanced under section 13b of the Federal Reserve Act by the Secretary of the Treasury to the Federal Reserve banks for the purpose of making industrial loans and created by the increment resulting from the reduction of the weight of the gold dollar. Mr. Eccles seemed to indicate that the \$27,000,000 advanced by the Secretary of the Treasury to the Federal Reserve banks under the provisions of section 13b of the Federal Reserve Act would be cancelled and that the \$139,000,000 of stock of the Federal Deposit Insurance Corporation which was purchased by the Federal Reserve banks would be turned over to the Secretary of the Treasury. The corporation would be authorized to issue debentures up to five times the amount of its capital, a total authorization of \$500,000,000, which would be guaranteed as to principal and interest by the United States and would have the tax exemption features usually attaching to such obligations.

The corporation would be authorized (1) to make non-insured long term loans and purchase the preferred stock of corporations with an upper limit of \$1,000,000 for any one enterprise and (2) to insure loans made by banks for

business purposes up to \$25,000 for any one enterprise. With respect to the first class of advances, Mr. Eccles recommended that the Federal Reserve banks be authorized for a premium of 1 per cent to make commitments to assume up to 80 per cent of the amount of the loan. Under this arrangement the lending bank could at any time call upon the Federal Reserve bank to take up its commitment and thus in case of default on the part of the borrower the loss would be pro-rated between the lending bank and the Federal Reserve bank making the commitment. In connection with the insurance of small loans under \$25,000 made by banks, \$25,000,000 of the capital of the corporation would be set aside as a revolving fund to be used in insuring such loans. The insurance would cover all losses sustained so long as the losses were no larger than 10 per cent of the aggregate insured loans of any lending bank.

Mr. Eccles stated that if the Congress does not desire to enact his proposal then section 13b of the Federal Reserve Act, which authorizes loans by Federal Reserve banks for industrial purposes, should be repealed since the provision serves no useful purpose due to the restrictions that the loans shall be made only to established business enterprises for working capital and for periods not in excess of five years.

In response to a question of Senator Townsend of Delaware, Mr. Eccles stated that his proposal was a result of careful study by the staff of the Federal Reserve Board but that it had not as yet been considered by the Board of Governors as a whole.

Jesse Jones of the Reconstruction Finance Corporation, who was scheduled to testify this morning, was unable to appear. The next meeting of the Subcommittee considering the bill will be held at the call of its chairman, Senator Wagner.

E. N. F. H.

June 6, 1939.

Secretary Morgenthau

Mr. Foley

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- 2 -

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The corporation would be authorized (1) to make non-insured long term loans and purchase the preferred stock of corporations with an upper limit of \$1,000,000 for any one enterprise and (2) to insure loans made by banks for

- 3 -

business purposes up to \$25,000 for any one enterprise. With respect to the first class of advances, Mr. Eccles recommended that the Federal Reserve banks be authorized for a premium of 1 per cent to make commitments to assume up to 80 per cent of the amount of the loan. Under this arrangement the lending bank could at any time call upon the Federal Reserve bank to take up its commitment and thus in case of default on the part of the borrower the loss would be pro-rated between the lending bank and the Federal Reserve bank making the commitment. In connection with the insurance of small loans under \$25,000 made by banks, \$25,000,000 of the capital of the corporation would be set aside as a revolving fund to be used in insuring such loans. The insurance would cover all losses sustained so long as the losses were no larger than 10 per cent of the aggregate insured loans of any lending bank.

Mr. Eccles stated that if the Congress does not desire to enact his proposal then section 13b of the Federal Reserve Act, which authorizes loans by Federal Reserve banks for industrial purposes, should be repealed since the provision serves no useful purpose; due to the restrictions that the loans shall be made only to established business enterprises for working capital and for periods not in excess of five years.

In response to a question of Senator Townsend of Delaware, Mr. Eccles stated that his proposal was a result of careful study by the staff of the Federal Reserve Board but that it had not as yet been considered by the Board of Governors as a whole.

Jesse Jones of the Reconstruction Finance Corporation, who was scheduled to testify this morning, was unable to appear. The next meeting of the Subcommittee considering the bill will be held at the call of its chairman, Senator Wagner.

GFR:ims
6/5/39

Mead — 255
lyff

**FEDERAL RESERVE BANK
OF NEW YORK**

June 6, 1939

Dear Mr. Secretary:

Since receiving your telegram of June 1, I have had to spend most of my time in Cambridge on university work, but before leaving for home last week, I had a conference with some of my associates in the bank about the Mead Bill and the Berle memorandum, and we now have ready an analysis of each one of them, which I enclose.

The Mead Bill is of course much more specific and detailed than the Berle memorandum. We have accordingly dealt with it in more detail. Personally, while the principle of the bill may be questionable, I doubt if it would do much harm; but I also doubt if it would accomplish much. It is not greatly different in character from the present Reconstruction Finance Corporation procedure, and in some ways is really more restrictive.

The Berle memorandum seems to me to contain a good deal of faulty reasoning and considerable lack of knowledge about the current supply of investable funds, as our memorandum points out in some detail. When boiled down to his actual recommendations, Berle's memorandum suggests to me two main comments: first, for the most part he is not suggesting new financial machinery so much as a further extension of certain procedures already in use, such as financing public works outside the budget in the same way as is now done for the Reconstruction Finance Corporation and the United States Housing Authority, and insuring loans to small businesses (dealt with in our memorandum on the Mead Bill); and second, his recommendation for "capital credit banks" does suggest the creation of new financial machinery.

Whether it would be wise to finance public works outside the budget is part of the whole general question which is now being agitated concerning budgetary procedure. Personally I am dubious about it on the ground that leaving important items of expenditure and their financing out of the regular budget may make it more difficult for us to know just what the budgetary position is. I see no objection to a classified budget, but that is very different from leaving items out of the budget or the debt statement.

About the "capital credit banks" my feeling is that while they would indeed be new machinery, I do not see what services they could usefully perform. In the first place, it seems unwise to have the same institutions make such loans both to public and to private bodies, since the nature of the work would probably be quite different in the two cases, and the public loans would be mainly duplicating financial arrangements we already have. The one new and distinctive service that the "capital credit banks" could render would be to provide equity capital to private business concerns. But that seems to me to be a very large step for the government to take and I doubt very much if it could be done effectively.

I should like to conclude with one general comment on both of these proposals. As I have said, both represent mainly extensions of already existing procedures. They ask us to go farther on the road we are already traveling. But the broad fact today is that we have gone much farther than this or any other country has ever gone before in expanding the money supply, reducing interest rates, creating government lending agencies, and deficit spending. I do not object to these policies in themselves, but what disappoints me is that after a decade of such experience, all that a Congressional hearing on recovery measures can bring out is merely that we should go farther in the same direction. A much more pertinent and challenging question, it seems to me, is why these policies, already carried to such unprecedented lengths, have not been more effective. If that question were frankly faced it would, I should think, lead the inquiry in a

quite different direction. As I remember it, the Temporary National Economic Committee was set up especially to investigate monopoly costs and prices. There has certainly been a sharp increase of costs since 1953 and the increase in wages in the first half of 1957 is probably without parallel in our history. The general cost and wage conditions in the building industry are notorious, and I think it is generally agreed that a substantial revival in the building industry would do more than any other one thing to give us a full recovery. Another important field for investigation, in which I know you are specially interested, is our tax system; and another is the question of possible amendments to the National Labor Relations Act. So long as we continue to avoid facing major problems of this character, I do not think we will get very far by suggesting new lending or spending devices.

Faithfully yours,

John H. Williams

John H. Williams,
Vice President.

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

2 Enclosures

P. S. We have seen today newspaper references to Mr. Eccles' testimony but have not received the text, and think it better not to delay sending you these memoranda.

THE MEAD BILLPurpose and Outline of Provisions

The apparent purpose of this bill is to increase the amount of credit available to the smaller businesses of the country, by providing for insurance of bank loans to such businesses by the Reconstruction Finance Corporation.

The principal provisions of the bill are as follows:

1. R.F.C. authorized to insure any bank against the whole or any part of the loss or losses, in respect of principal or interest or both, which such bank may sustain in excess of an amount equal to 10 per cent of the principal amount of any loan for any business purpose.
2. Insurance premium to be not less than $1/4$ of 1 per cent nor more than 1 per cent per annum on the unpaid balance, (except that the R.F.C. may charge a higher premium or may refuse to grant insurance on loans of any bank, which, in the judgment of the R.F.C., pursues a policy of insuring only the more doubtful of its loans eligible for insurance).
3. Insured indebtedness of any borrower not to exceed \$1,000,000.
4. Only loans for a period of one year or more, but not more than ten years, to be insured.
5. Insured loans to bear interest not exceeding 4 per cent of the unpaid balance outstanding, (except that the R.F.C., by regulation, may decrease or increase the permissible rate of interest, if and to the extent that it finds such decrease or increase necessary to insure the adequate use, or to deter the excessive use, of the insurance facilities).
6. No service charge, fee, or commission aggregating more than $1/4$ per cent of the principal to be made on an insured loan during the life of the loan.
7. Loans which are subordinated to short-term indebtedness incurred in the ordinary course of business may be insured.
8. Insured loans may be assigned or sold to other institutions by the banks making the loans.

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9. Upon the endorsement of any bank, any insured loan shall be eligible for rediscount by the Federal Reserve Bank of the district in which the bank is located, and for purposes of rediscount the loan shall be valued at not less than the full amount of the insurance payable by the R.F.C. in respect of such loan.
10. Federal Reserve Banks empowered to buy and sell "obligations evidencing loans insured under this Act".

Comparison of the Provisions of the Mead Bill with Present Powers and Practices of the R.F.C. with respect to Participation in Industrial Loans made by Banks.

In general it appears that the Mead Bill authorizes and makes a number of detailed provisions for a type of business which the R.F.C. is already authorized to do under a different name. The present practice, in effect, provides insurance on bank loans for amounts up to 90 per cent of the original amount of the loans, by offering R.F.C. commitments to banks to assume up to 90 per cent of the liability for approved loans. Some comparisons of present practices with the provisions of the Mead Bill are as follows:

1. Extent of liability assumed - At present R.F.C. will agree to purchase, during a stated period, a participation up to 90 per cent of an approved loan made by a bank; the R.F.C. therefore shares any loss on a loan in the same proportion as it participates in the loan. On the other hand, the Mead Bill authorizes the R.F.C. to provide insurance against the whole or any part of any loss in excess of 10 per cent of the principal of a loan. In other words, the bank making a loan would have to take all of the loss up to 10 per cent of the principal, and insurance would, at most, cover only losses in excess of that amount. In practice this would mean that if the loss on a loan amounted to 25 per cent of the principal, the lending bank would sustain at least 40 per cent of the loss (10 per cent of the principal) and the R.F.C. not more than 60 per cent (15 per cent of the principal), whereas under the present practice, if a commitment had been given by the R.F.C. to take 90 per cent of the loan, the lending bank would sustain 10 per cent of the loss and the R.F.C. 90 per cent.

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2. Insurance rates compared with commitment rates - The Mead Bill provides for insurance premiums of 1/4 per cent to 1 per cent, subject to the exception noted in the preceding section of this memorandum; up to the present time the R.F.C. has made a commitment charge of 1 per cent where the proportion of liability assumed by the R.F.C. has not been in excess of 50 per cent, 1 1/2 per cent where the liability assumed has been 50 to 75 per cent of a loan, and 2 per cent where the liability assumed has been 75 to 90 per cent.
3. Interest rate to be charged on loans - The interest rate to be charged by banks on loans, to be eligible for insurance under the Mead Bill, is 4 per cent, subject to the authority given the R.F.C., as noted in the preceding section of this memorandum, to fix a higher or a lower rate under certain conditions; the R.F.C. rate for direct loans to industry was recently reduced to 4 per cent, but banks making industrial loans, with commitments by the R.F.C. to purchase participations, may charge 5 per cent, or even, in some cases, 6 per cent. Insurance premiums under the Mead Bill are additional, however, whereas the present R.F.C. commitment charge must be paid by a bank out of the interest it receives from the borrower.
4. Maturities - The Mead Bill limits insurance to loans of 1 to 10 year maturities; the R.F.C. has no such legal limitation on maturities.
5. Size of loans - The Mead Bill limits the amount of insured loans to any borrower to \$1,000,000; the R.F.C. has no such limitation on its loans to any borrower.
6. Security - The Mead Bill contains no specific requirement as to the soundness or security of loans to be insured; the R.F.C. Act requires that loans shall be "of such sound value, or so secured, as reasonably to assure retirement or repayment".

Possible Results of Enactment of the Mead Bill

While the Mead Bill only provides in greater detail, and in somewhat different form, for a type of business which the R.F.C. has already been conducting, it is quite possible that if the bill were enacted, the insurance pro-

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visions might become more widely known and understood by the banks than the present arrangements for R.F.C. commitments to take participations in approved loans. If that is so, the banks might possibly make some additional loans in border-line cases, or some loans of longer maturities than they are now disposed to make without commitments by the R.F.C. and without any insurance. It must be borne in mind, however, that as long as banks must suffer the first 10 per cent loss on any loan, the Mead Bill will probably not prove to be a strong inducement to the banks to make loans which they would not otherwise make.

While it is possible that some banks might elect to get insurance by the R.F.C. on loans on loans which they would otherwise make without insurance, nevertheless, except in doubtful cases, they would probably rather make an uninsured loan at $4 \frac{1}{4}$ to 5 per cent interest, for example, than an insured loan at 4 per cent interest, with an additional charge for the insurance premium of $\frac{1}{4}$ to 1 per cent. In other words, it is likely that the banks would not apply for insurance on loans in the goodness of which they had confidence, but would apply for insurance only on the more doubtful loans. It is questionable, therefore, whether the R.F.C. could, in fact, extend insurance on the types of loans presented for insurance on a sound basis at the rates of $\frac{1}{4}$ per cent to 1 per cent suggested by the Mead Bill. The experience of the Federal Reserve Bank of New York, as recorded in its annual report for 1938, may be pertinent in this connection; the report indicated that against total loans of \$26,200,000 the bank had set up reserves against estimated losses of \$915,000, or $3 \frac{1}{2}$ per cent of the loans. The actual losses, of course, will not be known until the loans are finally liquidated.

If the assumption is correct, therefore, that banks would be disposed to apply for insurance chiefly on doubtful loans, it seems likely that insurance

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premiums above the 1 per cent maximum, suggested in the Mead Bill, would be necessary to cover the risks fully. If the insurance premiums were fixed at levels that did not adequately cover the risks, the insurance of loans by the R.F.C. would, in effect, constitute a subsidy to marginal businesses, which in a number of cases would probably not be successful in preventing the failure of such businesses. However, although the Mead Bill would not actually enlarge the existing powers of the R.F.C. to assist banks in providing credit for small businesses, the new system of loan insurance proposed in the Mead Bill would do no harm if the insurance of loans were conducted on a sound basis.

It is apparent that much would depend upon the administration of the act by the R.F.C., as the insurance of loans is permissive rather than mandatory, and the R.F.C. is given wide latitude in determining whether it will insure a bank's industrial loans or not, what proportion of the risk it will assume, what insurance premiums it will charge, and even, with certain qualifications, what interest rates the banks may charge on insured loans. It is conceivable that the R.F.C. might issue a regulation permitting the banks merely to report loans they were making in order to have them insured, as was the procedure in F.H.A. insurance of home modernization loans, and depend for safety upon the share of the risk retained by the banks; or, on the other hand, it might continue to require submission of each individual loan, with full information, for approval before insurance was granted. Undoubtedly a much larger volume of loans would be insured by the banks if the former procedure were followed, although it is problematical how many more loans would be made by the banks owing to the fact that they would have to take at least the first 10 per cent of loss on any loan.

In considering the probability of any great increase in the amount of

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credit extended to the smaller businesses, if the Mead Bill were enacted, it is pertinent to ask why the R.F.C. under existing legislation, and the Federal Reserve Banks, have not already extended more credit to such businesses. In the case of the Federal Reserve Banks, it is true that there have been legal limitations as to the purposes for which the Reserve Banks could make loans to industries, and also as to maturities, etc. which have made certain applications for loans ineligible. These limitations, however, have not applied to the R.F.C. The principal deterrent to more extensive granting of loans by both organizations appears to have been the unfavorable prospects for many of the applicants, because of which it appeared questionable whether loans could be made safely, or, even if they could be made safely, whether the applicants could successfully continue in business if they did obtain the credit applied for.

The primary difficulty that has prevented a greater demand for loans by the smaller businesses, and that has prevented approval of a greater proportion of loans for which applications have been made to lending agencies, appears to have been the unpromising prospect for profitable operations, which has made borrowers in many cases reluctant to incur further debts, or, if they were willing to incur debts, has made lenders doubtful of the ability of the applicants to use additional credit successfully and profitably.

Consequently, expectations of a great expansion of loans to the smaller businesses of the country, if the Mead Bill is enacted, are likely to lead to disappointment. It is not probable, therefore, that enactment of the Mead Bill would constitute an important influence in promoting business recovery, but it would appear, rather, that further business recovery and improvement in business profits are the essential requirements needed to provide a sound basis for a material expansion of bank loans to business.

H.V.R.
6/6/39

Comments upon A. A. Berle's
"A Banking System for Capital and Capital Credit"

1. The proposals made by Mr. Berle to the Temporary National Economic Committee in his memorandum on "A Banking System for Capital and Capital Credit" are designed to remedy what he believes to be a serious flaw in our existing financial arrangements. According to Mr. Berle, business recovery is held back by a deficiency in the supply of funds available for financing long-term capital expenditure. While industry's short-term, working capital requirements can be met by the commercial banks through creation of credit and expansion of deposits, there are no institutions capable of performing a comparable function in the field of long-term financing, by creating new funds to meet long-term capital requirements. Because no such institutions exist, Mr. Berle holds that the supply of funds available for long-term capital purposes is limited to current savings. He holds, further, that since savings are necessarily restricted when business conditions are depressed and incomes low, the supply of funds to finance new long-term capital outlays is seriously inadequate. In the task of achieving recovery we are, therefore, caught in a vicious circle. Recovery from depression depends upon a marked revival of capital goods activity, but owing to the non-existence of financing agencies capable of creating new funds for long-term capital purposes, a shortage of investable funds checks the revival of capital goods activity.

2. As a means of remedying this defect in our present financial organization, Mr. Berle proposes (a) the establishment of a Public Works Finance Corporation, (b) Government insurance of loans

for small business, and (c) the establishment of capital credit banks. Each of these recommendations will be discussed in some detail later in this memorandum. Before proceeding, however, to a discussion of the individual recommendations, it is important to emphasize that Mr. Berle puts forward these proposals not as a means of modifying and broadening financial facilities which already exist, but rather as a means of permitting wholly new and hitherto neglected financing functions to be performed. His proposals are supposed to fill a major gap in our long-term financing facilities which he thinks he has discovered.

Viewing these proposals in Mr. Berle's own terms, it is difficult to escape the conclusion that his case is extremely weak. In the first place, the contention that the supply of investable funds is deficient, and that this deficiency can be corrected only by the establishment of new credit creating agencies, is an economic fallacy of the most naive sort. In the second place, the principal function of the financing agencies which Mr. Berle wishes to establish would not be to create new funds, but rather to promote the flow of existing investable funds into channels which the Government may desire to encourage. Mr. Berle's proposals, instead of invoking Government action to perform wholly new financing functions, would merely permit an extension of Government participation in fields in which the Government has already become active. These points will be further developed in the subsequent paragraphs.

3. The present supply of funds available for financing long-term capital outlays is vastly larger than in any previous period of our economic development. The following table compares the money supply and the national income in 1938 with the corresponding

figures ten years earlier, and indicates the change which has occurred in the relationship between these two quantities.

(In Billions of Dollars)

	<u>Demand deposits plus currency</u>	<u>National Income</u>	<u>Ratio of income to money supply</u>
1928	26.3	78.6	2.99
1938	32.8	63.6	1.94
Per cent change	+ 25.0	- 19.2	- 35.1

The money supply was 25 per cent larger in 1938 than in 1928 and the national money income was almost 20 per cent smaller. If the 1928 relationship of 1 to 3 between money supply and national income had continued, we would have required only 21 billion dollars of demand deposits plus currency to transact business at our 1938 level of income. Instead we had almost 33 billion dollars. A major portion of this additional 12 billion dollars represents funds which are potentially available for long-term financing purposes. In addition to the cash held by industrial corporations and business concerns themselves, some of which could be used for capital expenditures, extraordinarily large amounts of idle cash are held by institutional investors, by trust funds, and by well-to-do individuals. Moreover, the commercial banks, whose role in providing long-term capital funds Mr. Berle greatly underrates, are in an unprecedentedly easy condition. The excess reserves of commercial banks belonging to the Federal Reserve System are in the neighborhood of 4.3 billion dollars.

The large amounts of excess reserves held by the banking system and of idle cash held by the public find their reflection in the present low level of interest rates. Yields are low not only on the

highest grade obligations, but also on many types of securities - both bonds and equities - offering a less assured return. Yields have remained high only where the risk factor has been especially large, as in the case of railroad and foreign bonds, or where special rigidities have operated to retard the downward adjustment of rates, as in the case of residential mortgage loans.

Mr. Berle's misapprehensions concerning the supply of investable funds are based upon two errors. In the first place, as noted earlier, he underestimates the role of the commercial banking system in providing credit for long-term capital purposes. That their role in this field is of considerable importance is indicated in the following table, which shows the composition of member bank loans and investments at the end of 1928 and of 1938.

(In Billions of Dollars)

	<u>1928</u>	<u>1938</u>
"Other loans" (largely commercial)	12.1	7.0
Loans on securities	9.9	3.5
Real estate loans	3.1	2.7
U. S. Govt. securities (direct and guaranteed)	4.3	13.2
Other securities	<u>6.2</u>	<u>5.6</u>
	35.7	32.1

"Other loans" of member banks, which consists largely of commercial loans, represented scarcely more than one-third of total loans and investments in 1928, and less than one-fourth in 1938. Besides providing in recent years an important part of the market for Government securities, the commercial banks have in the past provided large amounts of funds for long-term capital purposes through

loans on securities and real estate, and through investment in securities. The secular tendency of commercial loans in proportion to total bank assets appears to have been downward since before the war, and when commercial loans bulked larger in bank portfolios than at present, a considerable portion of these loans was not truly short term in character.

Mr. Berle's second misconception consists in identifying the supply of investable funds with the current volume of savings. Under present conditions the ability of institutional investors and of individuals to finance long-term capital outlays by expanding their holdings of earning assets is measured by the supply of idle cash at their disposal. The supply of current savings operates to limit industrial capital expenditure only if expansion of bank credit is restricted and the supply of idle funds in the hands of the public is small. In putting forward the proposition that recovery is impeded by a deficiency in the supply of investable funds, Mr. Berle has disregarded one of the most striking features of our present economic position, namely, the persistence of low economic activity despite the presence of a supply of funds much more than sufficient to provide the monetary basis for full recovery.

4. As was mentioned earlier, Mr. Berle's proposed measures, instead of giving a wholly new direction to the Government's financial policy, would principally serve to promote the flow of existing investable funds into channels which the Government may desire to encourage, thus proceeding further in the general direction of policy which has been pursued during the past few years. To be sure, Mr. Berle does establish, in his first and third recommendations, some

connection between his analysis and his proposals by providing that rediscount privileges at the Federal Reserve Banks be extended to both the Public Works Finance Corporation and the capital credit banks, and by suggesting vaguely that the capital credit banks might be authorized to receive special long-term deposits from the public. Neither of these features would be in any way essential, however, nor would they be sufficient to make these agencies money-creating institutions on a par with the commercial banks. It may be presumed, although Mr. Berle is vague on this score, that their principal means of obtaining funds would be by issuing Government guaranteed securities, thus tapping existing supplies of investable funds rather than creating new funds. In the second recommendation, insurance of loans to small business, a designated Government agency would intervene merely as guarantor between a private lender and a private borrower. As the activities and the financing methods envisaged in Mr. Berle's proposals are strikingly similar to those of existing Government agencies, the contention that his proposed measures will fulfill a wholly new and previously neglected financial function cannot be accepted.

Mr. Berle's recommendation cannot be judged in terms of his analysis. Each of them would carry Government activities somewhat farther in certain areas in which the Government has been active in recent years, and would involve a further extension of certain types of financing methods which are now in use. Mr. Berle's proposals will be discussed from this point of view in the following sections.

5. Public Works Finance Corporation. The function of the proposed Public Works Finance Corporation would be to finance construction projects undertaken by the Federal Government and by

States and localities. The Corporation would raise its own funds, thus relieving the Treasury of the task of financing public works outlays. Although it is proposed that it should have rediscount facilities at the Federal Reserve Banks, this feature of the arrangements is quite superfluous since the Corporation's principal means of obtaining funds would doubtless be through the flotation of Government-guaranteed obligations, for which a ready market would be found. The portion of the Corporation's debt service charges not covered by its revenues from loans and from public works which yield a money return would be met by an annual appropriation of funds from the Treasury. Through the establishment of an autonomous financing agency for public works, this major sector of Government capital outlays would be placed outside the Treasury's budget. Thus the financing methods now being used for the Reconstruction Finance Corporation and the United States Housing Authority would be extended over the whole public works field.

The Public Works Finance Corporation, besides providing funds for Federal public works, would make loans to States and local governments for construction projects. In the case of State and local undertakings of a type which will provide a direct money return, something like a "commercial" rate of interest would be charged by the Corporation, but for the wide range of projects which provide no direct cash income - roads, schools, public hospitals, sewage disposal plants, public buildings - the interest rate would be very low or even zero, so that virtually the only charge on the State or locality would consist of periodic instalments for amortization of principal. Despite differences in financial details, the Corporation's role in

scrutinizing and financing public works projects applied for by States and localities would be broadly comparable to the role now performed by the Public Works Administration. The present method of combined loans and grants would be replaced by a straight system of loans at very low interest.

The essential significance of this proposal is that it would place the Federal Government's enlarged participation in the public works field over recent years on a more permanent basis than at present. Judgment on the proposal will, therefore, depend upon the view which is taken regarding the desirability of making permanent the Federal Government's recently enlarged participation in public works. This question lies outside the scope of this memorandum, but it may be appropriate to point out that States and localities can scarcely be expected in the future to finance out of their revenues and ordinary borrowing powers anything like as large an amount of public construction as in the past. During the 1920's State and local governments spent an average of 2 billion dollars a year on public works, nearly one-half of which was financed by net additions to debt. These expenditures were sharply contracted after 1930 and have been below one billion dollars since 1933, while State and local debt has undergone a reduction. The strain imposed by relief charges upon State and local budgets has made it necessary not only to curtail construction outlays but also to resort to types of taxation generally considered undesirable - such as sales taxes - to supplement normal revenues, and the statutory borrowing limits have in many cases been approached. As a result, the increase in Federal construction outlays, including WPA on a "regular equivalent" basis, has served merely to restore total public construction to something like the pre-depression

volume. If it is desired to maintain public construction at something like the pre-depression volume, it is probable that an enlarged volume of Federal expenditures of this type will permanently be necessary. Since the incurring of debt for this type of expenditure has considerable precedent, the view may be taken that Federal expenditures of this type, if maintained at a sufficiently high level to offset the contraction in State and local outlays, should be financed through an autonomous agency and should not be reflected in the regular Treasury budget. As noted earlier, this financing device is now being used by several Federal agencies responsible for capital outlays of certain types.

6. Insurance of Loans to Small Business. (This proposal is analysed in a memorandum on the Mead Bill being prepared by Mr. Roelse.)

7. Capital Credit Banks. The third of Mr. Berle's proposals is that a special subcommittee of the Temporary National Economic Committee should be appointed to draft and report to the next Congress, a bill "providing for capital credit banks, whose business it should be to provide capital for those enterprises which need it, when they need it; and it should make that capital equally available to the Government or to local units for public work, when public enterprise went into action, or to private enterprise when private enterprise, either new or old, needed the assistance." This is both the most sweeping and the least explicit of Mr. Berle's three recommendations, and it is doubtless because it raises so many difficult questions that he suggests that the task of drafting a bill be given to a special Congressional subcommittee.

The functions and methods of operation of the capital credit banks are so vaguely defined that the proposal can be commented upon only in the most general terms. The first question which arises

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in considering this recommendation concerns the workability of a setup under which one agency would have full responsibility both for financing and supervising public capital outlays, and for providing funds to stimulate private capital expenditure. Though a coordination of policy in these two fields is wholly desirable, the tasks themselves seem to be quite distinct, and reasons for combining them in a single agency are by no means evident.

Second, over a wide area the functions of the proposed agency appear merely to duplicate those of existing Government agencies. In the field of public construction, it is difficult to see what additional functions would be performed besides those which are to be assigned to Mr. Berle's Public Works Finance Corporation or which are now being performed by the P.W.A., the U.S.H.A., the R.E.A., and several others.

In the private financing field, the functions of the capital credit banks would overlap those of the R.F.C., F.H.A., the agricultural credit agencies, and others. In addition, however, the capital credit banks would have the new function of providing long-term and equity capital for small business.

The desirability of assigning a function of this sort to a Government agency seems highly questionable. In the first place, the capital expenditures of small businesses undoubtedly represent only a minor part of total expenditures for producers' goods. An approximate measure of the relative importance of "small business" is provided by data given by the Census of Manufactures. According to the 1929 Census, only 19 per cent of all wage earners employed in manufacturing industries were in establishments employing not more than fifty workers. When account is taken of the fact (a) that some of these small establishments were units in larger concerns, and (b) that small concerns

predominate chiefly in those types of manufacturing industry in which the required capital investment per worker employed is small, it is clear that the actual economic importance of capital outlays by small businesses is rather slight. It is difficult to avoid the impression that the prevailing solicitude for the alleged financing difficulties of the small manufacturer rests upon social and political rather than purely economic considerations. Though the lending experiences of the Federal Reserve Banks and of the R.F.C. with respect to small business loans may not be directly pertinent when the question of providing equity capital is being considered, the guess may be ventured that the outlets for equity capital investment in small business would be found to be rather limited so long as any semblance of prudence is maintained.

Moreover, consideration of the difficulties involved in undertaking an equity participation in a number of small enterprises suggests that this is the least appropriate field for governmental financing activity. Any adequate appraisal of applications for capital funds would raise forcibly a whole range of questions which arise to only a limited degree in making short-term or intermediate-term loans. Detailed familiarity with local conditions, with the conditions in the applicant's field of business, and with the ability and character of the applicant himself, would seem essential. The task of following the operating results of a number of small enterprises after capital funds had been provided would be difficult, especially as small businesses frequently cannot afford elaborate accounting systems. Finally, substantial equity participation would carry with it a partial responsibility for control of the enterprise.

This particular type of compromise between public and private ownership and control of a number of small businesses would present extraordinary complexities and offers no apparent offsetting advantages.

ED:MM

REC'D IN 1-11-62
6:40
SECRETARIA OF AGRICULTURE
OFFICE

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE

June 6, 1939

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

For your information

The vote in the Senate Finance Committee to substitute and report favorably the House Bill extending the Treasury's monetary powers for an additional period of two years was 11 - 7.

I understand that the vote on Senator Adams' motion to strike out the provision of the bill continuing the power to revalue the dollar was 9 - 9. Two Democrats then switched and voted in favor of reporting the bill. We have been unable to find out definitely from the Clerk of the Committee the names of the Senators who changed their votes. The debate, from what we have been able to learn, was quite acrimonious, and the Clerk who has cooperated to the fullest on these matters in the past, gives every indication of having been instructed by Senator Wagner not to disclose the names of the Senators who changed their votes. However, it is our best guess that Senators Worth Clark and Radcliffe were the two who switched.

The only Senators who did not attend the Committee meeting were Brown and Maloney.

I understand the bill will be brought up in the Senate some time next week.

E. H. F. H.

Secretary Morgenthau

June 7, 1939

E. H. Foley, Jr.

Jim Rowe called this afternoon and said that he had a message from the President asking him to check with you and me as to the possibilities of finding a place for former Governor Olin Johnson of South Carolina in one of the tax units of the Treasury.

I told Jim Rowe I would speak to you and call him back.

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

I understand there are two vacancies on the Processing Tax Board.

EHF:s Typed 6/7/39

RE MEAD BILL

June 7, 1939
10:15 A. M.

Present: Mr. Hanes
Mr. Gaston
Mr. Foley
Mr. Preston Delano
Mr. Upham
Mr. Haas
Mr. White
Mr. Bell
Mr. Duffield
Mr. Lindow
Mr. Kades
Mr. O'Connell

H.M.Jr: "1. It is the consensus of this group that there is an unfilled need for business loans lying mainly in the area between the types of loans being made by the most conservative bankers and the types of loans being made by the most progressive bankers. This need is sufficiently large to warrant new measures to supply that need. This group considers this to be a proper banking field to be taken care of by bank credit.

"2. It is the consensus of this group that the Mead bill will contribute toward a stimulation of loans to small business within the zone of need as defined above.

"3. It is the consensus of this group that the Mead bill needs careful study and examination as to its mechanical features.

"4. Supplementing the objectives of the Mead bill, we believe that there should be further examination of the adequacy of the machinery for supplying equity capital needs to the small and medium-sized business."

Now, where is the Viner memorandum?

Duffield: He left this with me. He said to tell you that it had been pulled apart considerably by subsequent discussions, but that was the best he could leave you in the short time he had.

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Foley: We had a meeting with Jake Viner after he left that memorandum and he didn't have a chance to revise it.

Duffield: He didn't revise it.

H.M.Jr: "The wording of the bill should be changed so as to make it clear that it is intended to provide insurance only for marginal loans, i.e., loans which probably would not be made in the absence of insurance, and not for loans in general, nor even for any class of loans in general.

"2. In order not to remove or even seriously to weaken the concern of the banks about the quality of loans, they should be required to retain a substantial but residual portion of the risk, i.e., the RFC should bear only say ten percent, but the first ten percent, of the loss in connection with any one loan. On this basis, the RFC need not undertake to appraise each particular loan.

"3. Any limitations on the rate of interest charged by the bank should not be such as to prevent the bank from charging higher rates on risky than on safe loans. Even with the insurance, if it is only partial as here recommended, the banks will regard loans of the type here in question as more risky to themselves than their ordinary commercial loans.

"4. I question the wisdom of extending rediscount privileges with the Federal Reserve Banks to non-member banks. The rediscount privileges of member banks are already so extensive, that I see no urgent need for adding to them. I would omit section 5."

Now, I haven't talked with anybody but I have been doing a little reading, and I'd like to tell you how I feel about this thing, as though there was no Mead bill, see, for the moment. I mean I'm in agreement that there is a definite need both for small businesses, and when I say small businesses, we'll say people who want up to twenty-five thousand dollars, and then I think that there is a definite need for people who want to borrow any reasonable amount over a ten-year period. And I think, looking

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at it - I think the two things are two separate things, the way I look at it.

And, talking about the small fellow first, I don't know just what the answer is, I'd like to listen; but the man who wants a large sum for ten years, which I think is something separate - I'm very much worried about using some device of putting that into the banks, even though it is insured - as I say, a million dollar loan for ten years - because as long as the banks are set up the way they are, it is your (Delano) job to keep them liquid.

Delano: That's right.

H.M.Jr: And....

Duffield: I'm beginning to squirm a little, but that's all right.

H.M.Jr: All right. That's his job, as I understand it, and therefore on the ten-year loan of any size I'm leaning towards some other kind of banking institution which doesn't have checking accounts. I'm only thinking out loud. But it seems to me we're talking about two distinctly separate problems, the fellow who wants a ten-year million dollar loan and the fellow who wants five, ten, fifteen thousand, up to twenty-five thousand dollars. Does that - now I'm opening the discussion and I'd like to listen. My mind is entirely open.

Gaston: I think that's entirely sound.

H.M.Jr: What?

Gaston: I think that's entirely sound.

H.M.Jr: It's two distinct propositions.

Gaston: The way I feel and the way I think the majority feel is that - I may be wrong about that, but I know a number of them - that these loans made by banks have got to be examined by bank examiners and they can't approve loans that are not sound credit risks,

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regardless of the insurance feature. Therefore, I think the Mead bill might be of some help and probably would be of some help within the area of loans that a bank examiner could pass and loans that would stand up as good bank loans, and it's a rather limited field. Some banks are much more progressive than others, and there ought to be some stimulation in this field for banks that are not so progressive. But I don't think you can go beyond the field of sound bank credit.

But there is that other field that is probably of greater importance, of capital loans, that the banks can't make - or, rather, capital investments.

Delano:

I feel much the same way about it. I think there is an area in here, Mr. Secretary, which in the case of big business is filled by the underwriting houses. They underwrite large bond and preferred stock issues. Now, that area for the small businessman is practically a vacuum at the present time, and I think there should be some mechanism set up whereby the small businessman can go to that mechanism and get the same sort of accommodations that big business gets out of its large underwriting houses. I think that there is a vacuum there and we need something. I rather hate to see the banks, frankly, push into that area. I'd rather see it done some other way, because there are great problems involved of examination and of getting other agencies into banks as a result of all this.

So I feel that possibly some approach such as you suggest, possibly some financing corporation to provide that particular need, is a sound thing. I'd like to see it kept as much in private hands as it can be, rather than become simply a governmental institution.

W.A.Jr:

Well, for the moment, could we concentrate on some mechanism to make a loan up to twenty-five thousand dollars?

Duffield:

Well, Mr. Secretary, may I say something on that. If by your distinction you are meaning that there is a difference between the fellow who wants to

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borrow twenty-five thousand dollars and the fellow who wants to borrow up to a million dollars for ten years, in that the man who wants to borrow twenty-five thousand dollars usually wants it for a short period of time, I disagree. I don't think there is any evidence of that at all.

H.M.Jr:

No, I don't say - no, I don't say that. But I think that - I mean that, to be perfectly frank - I mean if in order to make a man a twenty-five thousand dollar loan, which is a risky loan, and somebody is going to have to take the rap on it - then let's be very frank about it and say, "All right, the Government may have to stand a certain amount of loss, but in order to help the little fellow we're going to do it openly, just the way we make a seed loan for a farmer and we collect 75 percent and lose 25 percent." But let's be very frank about this thing. But when you begin to talk in terms of half a million dollars or a million dollars, I think you're getting entirely into a different field, and I don't think we should subsidize that kind of people. I mean one thing is - I mean I think we're talking about - I mean we have low-cost housing and we subsidize it to the extent of the interest rate. Now, I'm trying just to be very frank. How much does the Government want to say we are willing to subsidize the man who needs up to twenty-five thousand, and that we are willing to take the bulk of the risk, whether he needs it for one year or one month or for ten years? But I think that the thinking - at least my thinking has been beclouded because we are mixing up a long-term credit with a political question of are we going to subsidize the small businessman?

White:

I'd like to support that point of view, Mr. Secretary, with one modification. I think too it is very important not to mix the two things up. One is that I think the success of capitalism, the success of democracy, depends upon the perpetuation of the small businessman and the independent farmer, and I think in view of the many difficulties they have to contend with in the way of high interest rates, the difficulty of borrowing, that the Federal Government has a fixed responsibility toward the small businessmen. Whether you want to call the small businessman a twenty-five or a fifteen or five is open to

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discussion - but somewhere in there.

H.M.Jr: Well; let's call them twenty-five.

White: Twenty-five. So I should say the motives which lead the Government to subsidize, help and aid that individual are different, as you pointed out, than those of half a million or a million. That does not mean - and that's why I'd like to modify it somewhat - that when we discuss the desirability of taking care of that group, we may not find other reasons which are sufficiently important to include him. Not for the same motive, but for very different ones. So I think it is well to separate these problems as indicated and take the fellow with twenty-five thousand, whether a one-year, ten-year or three-year loan, see if we can agree on that, and then consider larger amounts, see if there is sufficient justification and if this is the proper channel.

H.M.Jr: I'd like to concentrate on the little fellow first, because the other thing, I think, is so much more complicated. You immediately get into the question of how much does the SEC hold the fellow back, registration, and all the rest of that stuff, that whole question - all the rules and regulations, which is something I'm not familiar with.

Hanes: The fellow up to a hundred thousand dollars can sell securities without registration.

H.M.Jr: But the fellow over that - I mean you get into all kinds of other questions.

White: Well, as long as we have a chance to discuss that later....

H.M.Jr: Yes. I mean that has an entirely - and then there is the other thing - you'll have all the chance, but let's see who in this room knows of a plan whereby the Federal Government can help a man who wants to borrow up to twenty-five thousand dollars. Now, what's the best plan that's been suggested?

Delano: You mean for small business purposes.

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- H.M.Jr: Whatever a man needs the money for, he wants to borrow twenty-five thousand dollars. What's the best plan that's been suggested?
- Foley: Mead bill.
- H.M.Jr: What?
- Foley: Mead bill.
- H.M.Jr: Are you satisfied with the Mead bill?
- Foley: Yes.
- White: With some modification.
- Foley: We have to work it over. It has imperfections, but I think it's the best thing that's been suggested so far. If you want to put a limit to the amount of loans that can be insured, or reduce the amount of the loans that can be made with this insurance from a million dollars to twenty-five thousand dollars - I mean those are policy questions, but I still think that the mechanism of the Mead bill is the best thing that's been suggested for these small loans.
- H.M.Jr: Well, for my benefit, again state what the Mead bill would do.
- Foley: The Mead bill provides for insurance up to 90 percent of the loan. Let's say that a fellow in Watertown, New York, wants a loan of twenty-five thousand dollars to buy - I mean to purchase inventory. He would go to the First National Bank of Watertown and he would apply for the loan, and they'd look him over and look up his credit and what he was going to offer as security, and so on. And they accept the loan subject to approval of insurance by the RFC. The RFC would examine it, and then the RFC would say that they would insure the bank up to 90 percent of the twenty-five thousand dollars.
- H.M.Jr: Just a minute. The RFC has to examine it?

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- Foley: Yes, each individual loan; and each individual loan is insured by the RFC.
- H.M.Jr: Well then, would all those flow through Washington?
- Foley: I don't think it would be in Washington. I think it would be done in the regional offices in the States.
- Duffield: Title II of FHA is handled the same way, in the field.
- H.M.Jr: They insure up to 90 percent.
- Foley: That's right. And that means that the loss - the first 10 percent of the loss is actually borne by the bank and the RFC insures the bank against more than a 10 percent loss.
- H.M.Jr: It does?
- Foley: Yes.
- H.M.Jr: I thought you said it only insures them for 90 percent.
- Foley: It does insure them for 90 percent. I say it insures the bank against more than a 10 percent loss on the loan.
- Duffield: Well, express it in dollars in terms of the loan.
- Gaston: If the loss is a thousand dollars, it costs the bank a hundred - that is, if the loan is a thousand dollars and it's a total loss, it costs the bank a hundred and it costs the RFC nine hundred. If it's only a 50 percent loss, it costs the bank a hundred and it costs the RFC four hundred.
- Foley: The maximum amount - maximum rate that can be charged is four percent by the bank; it's a pretty good thing for the bank, because on the risk part of the advance I think the bank stands to make about - what is it, 22 percent, Harry?
- White: Twenty-two to twenty-five percent might be the estimate

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of the interest on the risk part of it, if you assume, as one might assume, that the other portion is riskless, and therefore is entitled only to a 2 $\frac{1}{2}$ percent rate. It's a very real effect.

H.M.Jr: Yes, but - but you get so you don't collect interest on that - I mean he collects the interest on the whole.

White: But it justifies - is part justification from the standpoint of the risk the banker takes.

Gaston: It's just as if 90 percent of the loan were supported by Government bonds.

Foley: That's right.

White: That is, 90 percent of the loan is made to the Government.

Foley: And the bank is liquid, because the stuff can be rediscounted with the Federal Reserve Bank.

White: Or sold. That is, it could be sold.

H.M.Jr: Well now, I asked, when we talked about this thing about a week ago, to get the opinion of the American Bankers Association. Has anybody done that?

Delano: Yes, we have canvassed them. And, Mr. Secretary, there's one thing I wanted to speak about; Mr. Wiggins is in town, would like to talk to you.

H.M.Jr: Who?

Delano: Mr. Wiggins. He's the Chairman of the Legislative Committee.

Hanes: South Carolina Wiggins.

Delano: They are opposed to the bill.

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

Delano: They are opposed to the bill.

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H.M.Jr: On what ground?

Delano: Well, on several grounds. I think the most important ground is that they feel very deeply that the bill provides an entrance into a socialization of credit. They feel that this is a step towards the ultimate taking over of some of the credit functions of the banks by the Government. That's one of the things. I'm just giving you what their reaction is.

H.M.Jr: I don't take much stock in that.

Delano: The second one is....

H.M.Jr: I mean we're not creating an RFC.

Foley: Not at all, and that's the step that they are faced with, Mr. Secretary, unless they are able to make these loans, so I say it's a step away from socialization of credit, because the next step is socialization of credit unless they do their job. This may be the bridge....

White: In fact, some of them recommend as an alternative the very thing that would be socialization of credit, possibly in the expectation that they can kill that when that's considered.

H.M.Jr: Who is "they"?

White: Well, the recommendation, for example, of some of the bankers and of Mr. Eccles has been to have an organization which will take on the function of lending - what is more akin to equity capital. And equity capital presupposes control, some measure of control, and that's what socialism is. And in order to get away from that, any type, except the most remote type of control over the kind of loans that banks make, I think that the insurance feature of this is helpful, and that's why I should say it is a step away rather than toward.

Delano: I was intending to answer the question. I was just attempting to answer the question as to what the bankers thought about this thing. I wasn't debating the issue.

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H.M.Jr: How would this thing be different than FHA when they were making their fifty thousand dollar loans for machinery? What title was that?

Duffield: Title I.

H.M.Jr: How does this approach Title I?

Delano: In the first place, the guaranty is very different. In Title I the FHA guaranteed 20 percent, took an over-all - made an over-all guaranty of 20 percent loss - against 20 percent loss on the part of the bank. This thing, of course, simply provides for the RFC to come in as a secondary - in a secondary position and take only a loss occurring after 10 percent has been taken. There is quite a distinction in there as to the validity of the guaranty - let's say the adequacy of the guaranty.

H.M.Jr: From the standpoint of the Government - I mean to make the banks take the 10 percent would make the banks more careful and more conservative.

Foley: Each loan has to stand on its own bottom. It's a guaranty against anything over a 10 percent loss, not an over-all insurance against loss.

Gaston: I think there is more substance to some of the other objections than the one he's mentioned.

H.M.Jr: Let's have them.

Delano: One of the other objections they stressed is the fact that there is nothing in this Mead bill in the way of powers that is not possible under the powers granted the Federal Reserve Board under 13-B and the powers already granted to the RFC.

Foley: I take exception to that, because there's no provision, for instance, either in the Federal Reserve Board or the RFC for insurance.

Hanes: That's just exactly what the RFC, in effect, has the power to do.

Foley: They can make the loan.

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- Delano: They can do it by participation.
- Hanes: They've got every power here except the rediscount at the Federal Reserve - every one.
- Foley: Well, not the insurance part, Johnny.
- Hanes: That's what they're doing.
- Foley: It isn't the same.
- Hanes: The point is that their lawyers tell them that they've got just the same insuring power that this bill gives. You may disagree with their lawyers.
- Foley: I do.
- Upham: They can insure 100 percent.
- Foley: They can underwrite it, but they don't insure it.
- Upham: What's the difference?
- Foley: A good deal of difference in the mechanism.
- Hanes: The underwriter says, "If you don't sell the obligation, it's mine."
- Foley: Good deal of difference in the legislative policy that Congress declares in providing for a system of bank loan insurance for small business, and that psychological difference is the difference between making these loans under the present system and making the loans as the sponsors of this bill hope they might be made if this bill goes through.
- Delano: One thing you want to bear in mind on this is just this, that the RFC, of course, in each one of these insured loans is going to examine them and rule on them the same way they do now about their own loans that are brought to them direct, aren't they? I mean unless they have a change of heart it will be exactly the same sort of a ruling and the same sort of a procedure that they have now.

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- Foley: That's my point, Mr. Delano. If you pass this legislation you've got a legislative declaration of policy that the system that the RFC is following, the rules and the regulations they have put out under their law are not satisfactory, and they want the RFC to make these loans and they provide a new machinery, a new mechanism for that, and it's up to the RFC to do something about it.
- Delano: In other words, your point is that the RFC will do things under this that it already has the power to do direct.
- Foley: That's right - that it won't do at the present time.
- Bell: There are certain restrictions in the act - both in 13-B and the RFC - that keep them from making certain of these loans.
- Delano: I don't agree with that; 13-B, yes, but not the RFC. The RFC has full power to do this.
- H.M.Jr: Well, I don't think - let me see if I understand what they're saying here. Is it that if the RFC wants to underwrite a bank loan to a 100 percent it can do so?
- Hanes: That's right.
- H.M.Jr: But it hasn't been doing so.
- Foley: Mr. Secretary, as the thing operates now under the regulations of the RFC, the loan has to be turned down three times by the local banker. It has to come to the RFC with the "No" three times. If this machinery is provided, it has to come to the RFC with the "Yes" of the banker.
- As it is now, it has to be turned down three times before the RFC gives them anything.
- H.M.Jr: That isn't in the law.
- Foley: No, that's Jesse's regulations. You get an approach of the local bankers, and under Jesse's system you've got to have three "No's." Then by the time

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it gets in here, by the time they agree to do it, the little fellow is either ruined or doesn't want the money anyway.

Delano: We're not^a debating their regulations. We're only debating....

Foley: Every little businessman who came before the Temporary National Economic Committee complained about the method the RFC is pursuing in connection with loans. Isn't that right, Joe?

O'Connell: Yes.

Hanes: Yes, that's a very good argument. The fellow who hasn't been able to borrow money, isn't entitled to credit, is liable to say anything. The fact in the matter is that the loans rejected by the RFC have been carefully examined by the Department of Commerce and I believe by the SEC - the rejected loans - and the report made on those rejected loans has been a pretty complete clearance of the policy of the RFC in not making these loans, unless the Government simply says, "Here are people that can't get money; we want to give them money, so we'll take the loan over and let it go at that, realizing full well that the risk is great, that the loss is inevitable, and that 90 percent of this money will never come back."

So it's a question there as to what - it seems to me, what we want to accomplish. Now, I agree with you a hundred percent that this is the best mechanism that can be devised as a subterfuge to fool people into believing they're going to get something when they're not.

Foley:- I don't follow that latter statement, John. I don't think it is a subterfuge to fool anybody.

Hanes: I'm not asking you to. I'm just stating my own opinion.

Foley: You said you agreed with my statement. I don't think it is a subterfuge to fool anybody. I think it is a very necessary thing, and I think that it

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will have a salutary effect on the operations of the RFC and on the amount of these loans.

Hanes:

It isn't going to have any salutary effect on any public official who takes the responsibility of operating the Mead bill, if he has any integrity whatsoever. It isn't going to change the thing one iota. That's my own personal belief.

I recognize if I were administrator of that thing, and I would have to make an accounting, and I'd have to make an accounting before the whole American people - and believe me when I say I don't believe any man who cares a tinker's damn about his reputation for either integrity or having any sane judgment, is going to make loans to these people.

If you go and examine the rejected loans of the RFC files - I'll read you the statement made by the Commerce Department on their conclusions as to what they found after making a completely impartial examination with the whole file at their disposal. It says:

"The evidence indicates that there can be no appreciable expansion of Government loans and no satisfaction of a substantial portion of the demands for credit unless lending policies are so relaxed as to permit favorable action on a large portion of applications which on the basis of the present study are unsatisfactory from more than one viewpoint."

Now, that included such things as applications for loans from grocery stores, clothing stores, drug stores, furniture stores, general merchandise, auto sales and service, and other retail establishments; various wholesalers, laundries and dry cleaners, cotton gins, coal mining, oil refineries; and a long list of manufacturers such as textiles, furniture, printing shops, manufacturers of machinery, saw mills, canneries, packing houses, foundries, and brick manufacturers, and so forth.

Now, they were taken at random from the rejected loans in the files of the RFC, and there were some four hundred loans examined.

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Foley: Who did this study, John? I never heard of it.

Hanes: The Commerce Department. Harry Hopkins sent a group of people over to the RFC to make an examination when they were studying this problem to find out just why these rejected loans were not made.

White: You mean that - did they have access to the files, Johnny, or is that what Jesse Jones or his lieutenants said in defending the position as to why they didn't make the loans?

Hanes: That's a very good question. I'm glad you asked it. Jesse didn't instruct his men. He said, "Here are the files. The reasons are here. Stay here as long as you like, do whatever you like, take whatever you like." His men never asked him a thing, except they asked him if they could do it in the first place. Purely impartial examination. He'll let you do the same thing if you want to go over and examine them.

Now, I just like to be honest about this thing and get the damn thing undressed and out in the open, and I just say that here is a - in my opinion, and it's nothing but my opinion - that this is the best mechanism that I have seen devised for doing something which I don't think is possible to do. I think it's like a boil on the shoulder. You're not attacking the blood stream. You can salve the boil, but....

Foley: Why not give it a try, Johnny?

Hanes: Eddie, I say I'm not objecting to the Mead bill because I don't think any fair-minded person can object to something that is already in the machinery to be done. I don't think you can be fair-minded and say, "I object to passing the Mead bill," which is exactly the same privilege as we've already got in the RFC, except for the principle of rediscount at the Federal Reserve Bank.

Now, you're saying, as Harry said the other day, that it may be a psychological impulse, it might be a push or a shove. If I were a banker, purely

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selfish, not thinking about the welfare of my country, and I just wanted to have my bad loans guaranteed by the Government, I'd be up there on the Hill shouting and hollering from the house-tops, "Please, for God's sake, guarantee my bad judgment for me." I'd be for this bill a 100 per-cent.

But I don't think this is an honest bill. I think it's dishonest and a political approach to the problem which is not attacking the blood stream. I am opposed to it on that ground.

Mr. Secretary, that's all I've got to say. I don't want - it's a conviction, it's deepseated, and there is no sense in anybody trying to change it, because that point of view is just - it's just grown up from the realities of the situation, and we're never going to.... And you talk about this equity financing business; that's been my business for 20 years, and I do know something about that. And I tell you, until you get this country back in the frame of mind where this group of men will sit around in a small local community and say, "Here's a good chance for profit in this enterprise. You put up one thousand, five thousand, ten thousand, and we'll finance this thing here, by God, because we've got confidence in our ability and in our judgment and in our community to put this thing across" - until you get people back in the frame of mind where they are willing to take that kind of risk, these things are palliatives that aren't going to do a damn bit of good.

So I think we are - I think that we're just none of us willing to face the damn issue which is staring us straight in the face, which is that we've got to get the psychology of this country back in the frame of mind where the men back in the local community will do the financing. And this talk about there being a hiatus between zero and a million dollars - that's always been in existence, and that's been my business, to try to finance little capital, for a period of 20 years, and I tell you, the grief in it is just something appalling, it's just - if every venturesome enterprise made a success, that's one thing, but

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five out of every six make a failure.

And to put the Government into common stocks or equities or financing people.... What about the fellow who has built up his business by sane management and good judgment? Are you going to come along and set up a competitor for him across the street and say, "This man never has made a living, he never will, but, by God, we're going to lend him fifty thousand dollars to go into business"? And it's the Government's money, not his money, going in there and making the money at the expense of the competitor across the street, the fellow who has been running a good grocery store, been serving his community well. "Let's set up some competition for him. This fellow doesn't have to make a living, because the Government is supporting him."

I don't subscribe to it. It's taking away every little incentive - spark of incentive to the businessman. I don't know - by God, the fellow that hasn't been in business and been through this sort of thing doesn't seem to recognize the frame of mind that attacks the businessman when you talk about making these loans to these people, and all at Government expense. And the fellow making money has got to pay for it some day, somehow, somewhere - or repudiation, one or the other. That may be a very, very ultra-conservative statement and it may be from a Tory, and I'll take all that criticism, but, by God, it's true.

Mr. Secretary, I'm through.

Delano: Mr. Secretary....

Hanes: I'm tired.

H.M.Jr: You're tired?

Hanes: I'm tired.

H.M.Jr: You don't sound tired to me.

Hanes: We're just not facing the issue.

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- Foley: Well, what is the issue, John?
- Hanes: The issue is that you're taking away and destroying the confidence of people in the community who have got ingenuity and want to go forward and want to invest.
- Foley: Johnny, I think it's deeper seated than that. I went to that dinner last week where the Business Advisory Council was present, and those fellows talked about your tax program a little bit. And Folsom said that, well, it didn't - well, they got everything they asked for, practically....
- Hanes: Did they?
- Foley: Yes, I think they did. And they said it came so grumblingly, it came so late, it didn't amount to anything. I mean they didn't - after they got it, they aren't satisfied, they're still grumbling. And I think that the lack of confidence comes from the competition you get from your tax-exempt securities, where they can put their money and get a tax-exempt return, plus the fact....
- Hanes: Let me stop you there. Just one second. Let me tell you something from actual experience. That's a theoretical statement you made which I don't think the facts will bear out. Now, I'll tell you, in my experience of raising small capital, which has been from one million to five million dollars, I've never gotten any money out of fellows who were able to own tax-exempt securities. It's the small fellow who has - I mean relatively small - who has from twenty to twenty-five, fifty thousand dollars a year and is able to save something out of that, who is the investor that supplies this venturesome capital. It's not this - there is competition from the tax-exempt securities, to be sure, but there are damn precious few people in this country that need to own tax-exempt securities - precious few of them.
- White: You mean they're not the ones who supply any substantial portion of venturesome capital.

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- Hanes: They're not supplying any at the moment.
- White: No, but I mean if they are the ones that are not likely to, I was just wondering why surtaxes had to be reduced. I thought the argument was on the other foot.
- Hanes: That's a psychological thing, pure and simple. There are only, I would say, probably a little handful of people who would be benefitted by the reduction from 79 percent to 60 percent. There's only a little handful of people. It's this great mass of capital which is under a hundred thousand dollar income, we'll say - that's where your great mass of capital comes for venturesome enterprise. That's been my experience. Now, maybe other people have had different experience and I don't say mine is the only one. But I say that's been my business for 20 years and I had four thousand people that I could go to and get capital from, and did, for things like the Glenn Martin Airplane Company, where I raised four million two hundred thousand dollars in a very short length of time and raised it entirely from people of the middle income group, not from any rich people with big incomes, because there is no further incentive for them to make any more money - as the Secretary said, what's the use?
- H.M.Jr: Let me just get back a minute, if I may. I'm trying to - I want help to make up my mind. That's what I'm trying to do. Is this a discussion - I mean is this the way the discussion - I'm going to keep it on a basis of twenty-five thousand dollars because - I don't know whether you agree with me or not - they're two separate problems.
- Hanes: I do agree with you, and I stated at first - my real objection to the bill is, a million dollars isn't little business.
- H.M.Jr: I think they're two distinct problems.
- Hanes: Sure they are.
- H.M.Jr: If we agree on that, let's just talk about the

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twenty-five thousand dollar fellow. Now, is this thing heading up this way - you people, I don't know, talk about socialization, all of that. Well, if it is, we crossed the bridge in '32 when we created the RFC and put them into this business. I mean this isn't anything that this Administration did. So we are in that business since '32, and Mr. Ogden Mills and Mr. Eugene Meyer put us in that business - I mean if you want to get down to calling names. And so is it a thing that the RFC can do this, or the Federal Reserve can do this, with slight modifications of their sections, and therefore that we don't need another mechanism? Is that the thing? I mean if the business is there, the RFC can do it under their present existing laws? Well, I'll ask anybody. I ask anybody.

Haas:

I think there is a distinction between the Mead bill and the present RFC law in this way, that under the present RFC law there is nothing there which recognizes the point which you made when you started the meeting. You said you have to classify these loans in different groups, somewhat like seed loans. Well, the RFC law doesn't assume there is going to be any loss. They're going to try to do a sound business. I think the law also states it shall not compete with private banking. So therefore, Jones has made a regulation that they have to check with three banks before they come in. And I think the recognition by the insurance provision would mean that it was the intent of Congress that there probably would be some loss in this business, and I think that's the main problem as you outlined it, that if the Administration comes to an agreement that in these loans to small business it is socially desirable, or for other reasons, that the Government should take some of this loss, then you can go ahead.

H.M.Jr:

That's what I stated. I mean I raised that point.

Haas:

That's right. That's the important point of the whole thing.

H.M.Jr:

I think that's the bridge we've got to cross. I mean, talking for myself, is this something that I want to do - I mean say that we want to subsidize,

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or whatever you want to call it....

Foley: Stimulate.

Haas: If you make up your mind on that....

Foley: I don't think it's a real subsidy, I think it's stimulation, Mr. Secretary.

H.M.Jr: Call it whatever you want. I think it's the way George put it. I've heard Jones say over and over again, and I'm sure he'd say it now, that he feels he is in business to make safe loans. Isn't that the word they use in their....

Duffield: "Reasonable prospect of repayment."

H.M.Jr: Whatever it is. And that is most likely why he hasn't made more of these so-called small loans.

Gaston: Of course, there is that same limitation on the banks under the Banking Act and on the examiners, to pass on these loans and say that they are safe loans. And that raises the question which is, I think, the most serious question, whether a stimulatory law like this, which allocates a ten percent portion of the risk to the bank - whether that's the right place to put that risk, whether it shouldn't be borne by the Government rather than by the depositors, or at least by the stockholders of the bank.

Delano: If the assumption is....

Hanes: The loan won't be made unless the banker thinks it's a safe and sound loan. I don't worry about that.

Gaston: It seems to me there is a field....

Hanes: I don't think any bank will make these loans; that's the reason I say this thing is a waste of time.

H.M.Jr: What I'm trying to do is to undress it and look at it naked. I mean - excuse me....

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Gaston: It occurs to me....

H.M.Jr: I mean whoever designs the thing, if he's doing it for social reasons - if he asks the banker to take the first hundred dollar loss and then uses the perfectly silly argument that the four-year interest rate would pay him back on the ten percent - I mean no banker is going to lend money on that basis.

White: Well, I think that belittles the intelligence of a banker, if a banker doesn't estimate in his evaluation of whether or not to make a loan the total amount of money that he might lose. I think most bankers would deny that fact.

H.M.Jr: Oh well, Harry, don't let's argue. I mean nobody's going to figure that his interest rate - that 90 percent of his money doesn't earn anything and that 10 percent of it is going to earn it all. I mean that just doesn't hold water.

White: I didn't say that.

H.M.Jr: That the 90 percent is idle and therefore all the interest rates for four years would set up a reserve on the 10 percent - that's the argument that's used, and whoever is arguing that way is just - and wants the bill - is hurting themselves.

White: Nobody concedes that, but you can let it pass.

H.M.Jr: Nobody in the banking business figures that way. If he did, he wouldn't stay in business very long.

White: Why does he buy Government bonds when he only gets 2½ percent or 2¼ percent? On a five-year note he only gets one percent.

Foley: Ninety percent of it is as good as Government bonds.

H.M.Jr: What?

Foley: Ninety percent of it is as good as Government bonds, and the other 10 percent is the risk involved, and

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that, it seems to me....

H.M.Jr: Well, if you don't mind, if that's the argument that the thing has to stand on, it's pretty sick.

Gaston: It seems to me under this bill a bank will still have to make sound loans. It occurs to me that there may be - and I don't know the facts - longer-time loans than the banks are accustomed to making, which they may consider sound loans - that they may make loans now which they wouldn't - they may make loans under this bill which they wouldn't otherwise make because the time that the loan was to run was too long for them to assume the full risk, and it might stimulate, I should think, some of that class of loans.

H.M.Jr: Where do you stand on this, Cy? Cy?

Upham: Well, there's so much difference of opinion among the people who favor the bill - but I really don't know what they're getting at.

H.M.Jr: What's your opinion - you, Cy Upham?

Upham: I think if you're going to make loans upon which you don't expect any very great loss, that the RFC and the Federal Reserve now can do a better job than can be done under the Mead bill. If you want to make loans upon which there will be a substantial loss, why, I think you better do it under the Mead bill. If you want to subsidize small business as a social measure, I think I couldn't object to the Mead bill as a means of doing that. Of course, I do think it's wrong to subsidize small business as a social measure, don't feel it's necessary.

H.M.Jr: Then you're not in favor of the Mead bill.

Upham: That's right.

H.M.Jr: What?

Upham: That's right, I'm not.

H.M.Jr: You're not in favor of it.

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- Uphan: I understood that the decision had been made.
- H.M.Jr: What decision?
- Uphan: Understood the President had already decided he wanted the Mead bill.
- H.M.Jr: But, as I once said before, it's still a democracy, I can still make up my own mind.
- Uphan: I'm not impressed by the desire or the necessity....
- H.M.Jr: I also understand he said he wanted the Mead bill as written?
- Gaston: He didn't say that. He wants to do something in the way of loans to small business.
- H.M.Jr: The job that I'm here for - nobody has even asked me for my opinion - I'm trying to clarify my own thinking in case I am asked, what am I going to say and what is the Treasury's position, because the chances are nine out of ten we will be asked. And I don't want to find myself out on the end of a limb and suddenly ask myself, "What do I think?" And somebody could perfectly well say, "Well, gosh, you ought to have had time enough, you ought to have an opinion." There's nobody - I'm just trying to take time by the forelock and say, what does the Treasury think? And that's all - I mean I - and whether it's the Mead bill or something else - nothing is passed and I have a completely open mind.
- Uphan: Mr. Secretary, I was out of the room from 11:00 to 1:00, so I didn't want to go all over that.
- H.M.Jr: You're used to that.
- Uphan: Yes.
- H.M.Jr: But I want to ask you because I didn't understand your attitude here.
- White: I didn't either, and I'd like to ask him another question. I didn't get the idea that he was opposed

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to it, but maybe he felt so overwhelmed that he didn't express his view there. Cy, I understood you to say very emphatically the other day....

- H.M.Jr: Hell, Cy, what's the matter with you, God damn it? If you're sitting around - we're a lot of human beings, you can go over, you can answer him, kiss him, or tell him to go to hell.
- Gaston: Cy ought to know.
- White: I'll do both, kiss him and kick him.
- H.M.Jr: I mean since when are you afraid of asserting your manhood? You never used to be when you were over here.
- White: The question that I'd like to ask....
- H.M.Jr: That was his chief value to me. He always spoke his mind.
- White: The question I'd like to ask was, I thought that Cy took the position a week ago very definitely that no bank would make a loan that he thought the bank would suffer the first 10 percent loss on, and that therefore this wouldn't accomplish very much. I find that a little difficult - to reconcile that position with the one he's just taken, which is that this bill by subsidizing small borrowing will result in large losses. I'm a little - don't quite see where he comes out in that, because they are two diametrically different positions. On the one hand he says they won't make loans, and on the other hand he says the losses will be large because they will make loans. Maybe he can resolve that.
- H.M.Jr: Say any damn thing you please, Cy.
- Upham: I say I don't understand that.
- White: Don't understand my question?
- Upham: No, and I don't understand your interpretation of my position, so I don't think we're qualified to discuss that.

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H.M.Jr: Well, we'll skip it.

White: Skip it.

H.M.Jr: I think I understand what you're saying. I mean as I understand it, you're - if I understand you correctly, that the Mead bill as written - that you're opposed to it.

Upham: That's right.

H.M.Jr: And that the reason you're opposed to it is because you feel that the Government will be stepping in and assuming undue risks. Is that the way you put it?

Upham: Well, I think all the loans that ought to be made can be made by the RFC and the Federal Reserve. If they are not being made, that's a matter of administration of those two agencies.

H.M.Jr: Of course, I just want to say in passing that I am the only person in the Government who is connected with any fiscal agency who has never criticized the bankers publicly for not making too many loans or too little loans. I have always said that responsibility rested with the Board of Directors of the bank, who were responsible to the depositors. And while everybody else in town has shouted from the housetops, criticizing them, I never have, and I still think it's a responsibility of the directors of the banks.

Foley: Well, even under the Mead bill, sir, the responsibility would still be with the directors, because the bank has to take the first 10 percent of the loss.

H.M.Jr: I know. I was thinking particularly of Jones, who again and again has criticized the bankers for not making more loans. But I just want to say that I just never happened to have joined in on that ballyhoo.

Dan, how would you advise me?

Bell: Well, I hardly know, Mr. Secretary. I think that

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in our discussion there seems to be a need for some mechanism to stimulate loans in this lower field. What it would amount to, I really don't know, and I don't think anybody else does. It seems also that the biggest field is in this equity field, and I think we're almost approaching from the standpoint of commercial loans the same field as we are in in the Farm Security Administration. We've got mechanisms to make loans to farmers carrying on their business; yet there is that lower rung that can't get in that credit field, and they created a Farm Security to take care of that crowd. Now, it seems to me that we're almost approaching that same rung here in the commercial side.

Now, whether we want to - the Government wants to go into that field - I have some doubt. I hate to see the Government go into it, but if that's the policy, why....

H.M.Jr:

Well, if they did, do you want to run it through the national banks?

Bell:

Not certainly in the equity field; I don't believe I would. I think I'd let the banks stick to sound loans.

H.M.Jr:

Well, what about this so-called - what I'm talking about, the twenty-five thousand dollar fellow?

Bell:

I think we might go that far, to the extent of insuring sound loans up to the 90 percent. That's pretty high. But what you're going to get is not only the loans that they are not now making, but you're going to get the loans that they are making in that field and you're going to insure those also.

H.M.Jr:

Of course, you could make it so that it wouldn't be retroactive. You could only make it for new business as of a certain date.

Bell:

I mean here's a man that can get a credit for twenty-five thousand dollars.

Foley:

He means it will reduce the interest rate on all loans under twenty-five thousand dollars, which is a very salutary thing.

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Bell: Is very what?

Foley: I think it's a very salutary thing; you're going to bring down your interest rate on all loans under twenty-five thousand dollars.

Bell: You're going to increase the Government insurance business, which is what you don't want to do. You want to stimulate new loans.

Foley: You want to make it easy for the small fellow to borrow money, easier than it is at the present time.

Bell: I don't think there is any doubt but what you're going to reduce the rate on current loans and you're going to get business that the banks wouldn't otherwise do.

White: Mr. Delano, did the banks give as one of the reasons - bankers give as one of the reasons....

H.M.Jr: Excuse me - I don't know whether Bell is through or not. Please wait. Well, Dan, when you say the banks - this business would flow through the banks and they'd get the rates - they'd get their interest on their money.

Bell: Yes, surely.

H.M.Jr: I mean it would go through them.

Bell: What I mean is that here's a man that's got a little business and he's got a banking credit up to twenty-five thousand, say; he gets money whenever he needs it from the bank without any insurance or Government guaranty.

H.M.Jr: Yes.

Bell: Now, if you come along with this bill, that loan is going to be guaranteed up to the 90 percent; the banks are going to place him in that category.

Foley: The bank might charge him six percent and he might not borrow at the present time. This will bring the rate down to four.

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- Bell: I think the incentive ought to be on the other side. I think if they can give this man credit at four percent without insurance, good, but if the man is a greater risk he ought to pay a higher rate.
- Foley: There will be some incentive, Dan, for four percent or less. There won't be the delay and there won't be the paper work and there won't be the service charge.
- Duffield: Premium.
- Foley: There won't be the premium. I think if a fellow's got good credit he's going to be able to get his money at four percent or less from the bank without any insurance, and I think that this will have the effect of bringing down the interest rate, and I think that's a good thing, because I think more of these little fellows will borrow than can borrow at the present time.
- Duffield: Mr. Secretary,....
- H.M.Jr: Now, wait a minute. Harry wanted to ask a question.
- Duffield: I just wanted to remind you if you were going to have Ed at the RFC at 11:30.
- H.M.Jr: That's right. Want to take somebody over with you?
- Foley: Yes, Bernie.
- H.M.Jr: Well, you watch the time.
- Foley: Yes, sir. May I call him?
- White: I was just wondering whether the banks advanced as one of the reasons for their opposition the fact they felt that the bulk, or most of their loans, following Danny's thought, would be driven down to four percent interest rates, where for many places and for most loans they get five and six. In fact, some of the evidence brought before the Committee was that some of the small men are paying anywhere from ten to twenty, but that's where the risk is greater.

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- Hanes: That was for finance companies, too.
- White: They were not in the banks. But some of those might be eligible under the insured risks.
- Delano: They haven't raised that point with me.
- Bell: You say they have not?
- Delano: I haven't heard that point.
- Hanes: On the contrary, I have heard them say that loans that were good sound loans, no matter what the amount - they would not be put into the guaranty. That would be perfectly obvious; if you were in business, you'd take the six percent loan if it were a sound one, without going through the guaranty.
- White: You don't think the bank would have a little difficult time charging the businessman whose credit is good six percent, then turning around and loaning somebody else who hasn't been able to get credit at four percent. It seems to me in time the banks would be forced to reduce their interest rate on all loans that might be eligible for insurance. And I'm wondering whether the bankers haven't got that in mind, and the very fact that they didn't mention it looks a little curious to me.
- Hanes: I think your position is absolutely tenable. I think it's absolutely sound.
- Delano: I think they probably feel that.
- Hanes: I never heard that advanced. As a matter of fact, I haven't talked to any bankers about this at all, so I haven't gotten any indication of what they think about it or feel about it, nor why they object to it. But I think - as I said before, I think the crux of the whole matter is that the banks, if they've got a ten percent risk, are not going to make anything but sound loans, and I think their history will be the same as the history of the Federal Reserve, where they have tried to make loans - in New York, for instance. I talked with George Harrison about it, talked to Mr. Young about it.

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They have tried to make these loans and haven't been able to make them because the credit risk wasn't good enough.

White: Then you don't think the losses will be great under the Mead bill for the Government?

Hanes: No. I never said they would.

White: You did. I was just wondering....

Hanes: I don't think the loss will be great because - I started out by saying it was a subterfuge, nothing would be done on it.

Foley: There was the same opposition, Mr. Secretary, from the same quarters when the FHA legislation was under consideration, and now it is pretty universally acclaimed as a very good thing. And all of the real estate loans are not done by the FHA. Many of the insurance companies are giving the money at rates that are as much as or less than the rates you can get on insured FHA loans. And I think that's one of the things that everybody approves.

Hanes: There's a wide difference in the type of loan the FHA makes. You've got something in hand to recapture. But here's a man, a businessman - when he goes out, you've got nothing to recapture. That's the difference there.

Bell: You have a lot of commercial loans that are made at a good deal less than four percent also.

H.M.Jr: Well, let me let this thing simmer a little bit, let's see what's going to happen. I want to think about it a little bit more. We can talk about it a little bit more. Personally, from what I've heard today, I think the way the Mead bill is written it won't accomplish its objective.

Hanes: Mr. Secretary, may I just say one more word, and then I'll shut up for good.

H.M.Jr: Don't do that, John. Say it, but don't do it.

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- Hanes: If I were in your position, which I am not - but if I were in your position, I don't think that I would make any fight on the Mead bill. That's the last thing I'd ever do. As far as I'm concerned, I'd make no fight on it. I say that here in this room; I'll keep my mouth shut when I go out. It's the second step - it's the next step which I think the time has come - where we're going to have to make a fight, and there's the point where I do think we're getting on terrifically unsound ground. And the Mead bill is innocuous, it's just an inching, a step forward on this thing. And it's the next step - that's the history of this sort of thing, so I think it's the next step....
- H.M.Jr: The equity one?
- Hanes: That's right. And then the Government comes in there - when the Government undertakes equity financing for any kind of enterprise, I don't care what it is, it is in my opinion wrong; but there is where I think the trouble is coming.
- H.M.Jr: Want to say something, Gene?
- Duffield: I agree.
- White: But you don't think that's in the Mead bill, do you?
- Hanes: I started out by saying the Mead bill amounted to exactly nothing, in my opinion.
- Duffield: I agree with everything John said about the equity financing. It is my hope for the Mead bill, however, that far from being a step in that direction, it will be a step back by shifting some of the lending now done by the RFC and the Federal Reserve Bank directly back into the private banking channel. I hope, as a matter of fact, that it will encourage the banks to make the loans which now come to the RFC and the Federal Reserve. I would like to see the Government get farther and farther away from this field. My hopes for the Mead bill are very modest as to the little fellow you mentioned first, if it does anything for him. I don't think we can

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see today in any measure just what it's going to do. But if you'll recall, the group of small businessmen you talked with when they were here - they wanted at that time a restoration of the Title I privileges in the FHA. That is what they thought would help them most.

Secondly, as to this other group of larger loans, I think the practice among banks is very uneven, with some banks doing quite a bit of that sort of thing and doing it pretty soundly. It's a matter of taking your losses when they occur. Other banks aren't doing it at all, and it is merely my hope that you'd push the laggard banks into the field that the other people are now occupying. Now, how large that field is going to be, how much lending is going to be done, I would hate to try to figure today and say; maybe very little.

- Foley: I think a great many people are for the Mead bill that won't be for any kind of Government equity financing.
- Duffield: You're certainly not going to find me in favor of Government equity financing.
- H.M.Jr: If we wanted to do Senator Mead a kindness we might be thinking this over - I'm not saying to do it, but be thinking about it - send him a suggestion to limit whatever he's going to do in that bill to twenty-five thousand dollars. Let's think about that. I mean let's think about that. See? I mean to send him a message - I mean not to do it, but let's think about it - to limit his bill to twenty-five thousand dollars.

June 7, 1939
2:20 p.m.

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HMJr: Hello.

Operator: Senator Mead is on the floor. Do you want me to get him there?

HMJr: Please.

O: Right!

2:23 p.m.

Operator: Go ahead.

HMJr: Hello.

James M.

Mead: Hello, Secretary.

HMJr: How are you?

M: Fine. How's yourself?

HMJr: I'm fine. Senator, I'm bold enough to call up and ask you whether you'd care to have any suggestions on your so-called Mead Bill.

M: Yes, I -- I'm very much interested in the suggestions that were made before Senator Wagner's committee except those that would be so influential and so substantive as to require further study and delay over the session.

HMJr: Well, I'd like to make one very simple suggestion, if I might.

M: Yes.

HMJr: And that is that if we're going to do this for the small business man, that we limit the loans to \$25,000.

M: Do you think twenty-five is enough?

HMJr: I -- I -- here we think that that's plenty.

M: Well, I thought from the beginning that a million was too high. In talking it over with Meyer Jacobstein of Brookings Institute, we arrived at \$50,000 as a good compromise.

HMJr: Yes.

M: But you think \$25,000 would be better?

- HMJr: Well, the reason I think so, everything we do here, around the Treasury -- I mean, for instance, the question of the surplus tax, twenty-five thousand dollars, and.....
- M: Oh, yes.
- HMJr: Everything we do is that and if -- if we really want to do something for the small business man, when he wants above twenty-five it isn't that.
- M: Yeah.
- HMJr: And it's always easier to raise it.
- M: This fits in with your -- the units that you adopt there in the Treasury with regard to business of its size.
- HMJr: That's the idea.
- M: I see. All right.
- HMJr: And.....
- M: Well now, I -- I'm going to confer with -- with Ben Cohen who has been working with me, and he and I will go over that. My first bill said two hundred thousand and the amendment that we made after a conference with and some of the boys, was a million.
- HMJr: Yeah.
- M: But that was merely a gesture.
- HMJr: Yeah.
- M: Now, Secretary -- Mr. Eccles has a proposal -- in fact, he has two. One pertains to the small business man and limits it to small loans, and the other is a corporation idea that he's got. Well, I'm for the first and against the second because.....
- HMJr: Yeah. Well.....
- M:the second would kill the bill.
- HMJr: Well now, that's what I'm thinking about. This question of getting ten-year money for a business, whether they want fifty thousand dollars or a million now is an entirely separate thing.

M: Yeah.

HMJr: And I think your bill is being hurt by mixing the two things up.

M: That's right.

HMJr: Now, if a man wanted a hundred thousand dollars or a million dollars for ten years, that's an entirely different problem.

M: Yeah.

HMJr: And -- and I take it, that what you're thinking of isn't what I'm thinking about, is getting -- the fellow that wants five or ten or up to twenty-five thousand and has difficulty in getting it, making it as easy as possible.

M: Fine!

HMJr: Is that right?

M: That's correct.

HMJr: And I think it would help your bill, in the eyes of, --more conservative people if you want to call them that -- if it was limited to twenty-five.

M: Fine! Well now, I'm for a bill that we can pass now, and the people you talk about are the ones that I'm anxious to help and they're in the worst position, financially, and therefore if we pass such a bill we could develop it and expand it if the need presented itself.

HMJr: That's right.

M: Yeah.

HMJr: And after all, you'll be meeting again in January.

M: That's right.

HMJr: My suggestion is a very sincere one from the standpoint of the little man.

M: Fine! I just came from a luncheon to the Polish Ambassador.

HMJr: Yeah.

M:which Joe Guffey was the host and Pat Harrison and several boys whom we were twitting and kidding about

taxes, said some very nice things about you.

HMJr: Who did?

M: Pat Harrison.

HMJr: Oh, I thought you.....

M: And one or two others who sat near him.

HMJr: That's nice.

M: And what I liked was they said that you have developed very fast. Now that's pretty good, isn't it?

HMJr: Very nice.

M: Fine! Now that's the spirit that will harmonize this party of ours.

HMJr: Oh, yes.

M: And win for us in two years from now, and it looks wonderful now.

HMJr: Well, I've got just one objective and that is I want to see 1940 the most prosperous year of the eight that Mr. Roosevelt has been President.

M: Fine.

HMJr: And everything that I'm doing here is to make 1940 a prosperous year.

M: Well, that's fine, and you're in an enviable position, because the conservatives are beginning to respect you more and more.....

HMJr: Well.....

M:and of course the Rooseveltian followers have always been in your corner.

HMJr: Well, I think you're doing -- making a fine fight on this and if I have any other suggestions I'm going to take the liberty of calling on you.

M: I wished you would and I'm going to talk this over with Ben Cohen tomorrow and we'll -- we'll work out a bill that'll be big enough to meet requirements and not too violent as to incur opposition.

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HMJr: Well, we may have some others, and if we have, I'm going to take the liberty of calling you.

M: I wish you would.

HMJr: Thank you.

M: Thank you very much, sir.

June 7, 1939

FOR THE SECRETARY:

You may be interested to know that Chairman Eccles during his testimony on the Mead Bill promised to return at a later date and to testify before the Committee on what he considers an adequate recovery program. Therefore, in view of his question to the President about what would happen if agreement could not be reached on the recovery program, it seems to me that he is planning to get his suggestions before Congress regardless of what happens to his suggestions within the Administration. Of course, he has followed this procedure in past cases, as on the bank examination question, for instance.

I understand the Ways and Means Committee is deliberately delaying action on the tax bill and has a definite plan of sending it to the Senate so late that the Senate will not have time to do much with it.

ESD

de
June 7, 1939

1-2-6

Work on Industrial Loans
Under
Secretary Morgenthau's Direction

1934 -- The Treasury worked out with the Federal Reserve System the arrangement under which the Federal Reserve banks' present authority to make industrial loans was enacted into law on June 14, 1934. Following enactment of the law, the Treasury entered into an arrangement with the Federal Reserve banks whereby \$139,000,000 of the gold profit was earmarked and matched Federal Reserve industrial loans dollar for dollar with a proviso that the Reserve banks repay the money at the rate of two per cent a year if earned.

1934-35 -- Secretary Morgenthau arranged for the special studies on the availability of bank credit in the Chicago and Cleveland Federal Reserve districts. These studies resulted in thirty recommendations, many of which have been adopted subsequently.

1937 -- Secretary Morgenthau directed the Research Division to study the question of whether the small business man is able to finance his business and raise new capital under present conditions. A memorandum was submitted September 4 stating that the primary need

- 2 -

is for proprietors' capital and that banks, although they were once willing to furnish such capital to small business in some degree, have become timid about doing so since the depression.

1937-38 -- Secretary Morgenthau requested the Investment Bankers Conference, Inc., to study the question of whether new capital has been available for the expansion of sound manufacturing enterprises. This study, published in April 1938, showed that of 124 small businesses which sought capital 34 per cent did not obtain it.

February 2, 1938 -- Secretary Morgenthau met with a committee of small business men who suggested that their financial needs would be met if the industrial loan section of Title I of the FHA were continued or if some other Federal insurance of business loans were adopted. As a result of this meeting, several specific cases of credit needs were investigated and solved by the Treasury.

February 1, 1938 -- Secretary Morgenthau inquired whether the costs of SEC registrations were deterring small business financing.

March 16 -- This subject was further explored at a meeting between Secretary Morgenthau and William O. Douglas of the SEC.

- 3 -

March 23, 1938 -- Secretary Morgenthau had as luncheon guests James Roosevelt, Jesse Jones, William O. Douglas, and several Treasury officials to discuss Government assistance for industrial financing as outlined in several proposals which the President had referred to Secretary Morgenthau and which had been made by Mr. Eccles, Mr. Douglas, and Mr. Wallace. An agenda for this meeting was prepared by the Treasury staff. As a result of the meeting, an interdepartmental committee was set up to report to the President.

April 4, 1938 -- The committee reported to the President that it favored doing nothing beyond supporting the enlargement of RFC lending authority. Mr. Douglas filed a separate memorandum stressing the need for strengthening the underwriting facilities available for floatation of equity capital. A subcommittee suggested an industrial credit plan modelled after the Farm Credit Administration "in case there proves to be a need for such a plan".

June 7, 1939

My dear Mr. President:

I thought the recent change
for the better in France and England
would be of interest to you.

Yours sincerely,

The President,
The White House.

June 7, 1939

My dear Mr. President:

I thought the recent change
for the better in France and England
would be of interest to you.

Yours sincerely,

The President,
The White House.

June 7, 1939

My dear Mr. President:

I thought the recent change
for the better in France and England
would be of interest to you.

Yours sincerely,

The President,
The White House.

June 6, 1939

Secretary Mergenthal

A. Loehhead

FRANCE

Since December 5, 1938, France purchased from us gold valued at approximately \$134,000,000.

The following figures give an idea as to the current rate of purchases:

Week of May 22nd	-	\$11,735,000
Week of May 31st	-	13,310,000
Week of June 5th	-	3,730,000

The Federal Reserve Bank at the close of business June 5th, held for the Bank of France the following:

Balance	-	\$ 16,100,000
Exmarked Gold	-	221,600,000
Total		<u>237,700,000</u>

The franc closed today at .0265-3/16.

ENGLAND

On June 5th and June 6th, the Bank of England purchased in the London market approximately \$8,000,000 and \$12,000,000, respectively. Since May 30th, the rate for sterling moved from 4.68-5/16 to 4.68-3/4, the high for the current movement, after which it closed at 4.68-9/16.

The Federal Reserve Bank at the close of business June 5th, held for the Bank of England the following:

Balance	-	\$ 61,600,000
Exmarked Gold	-	142,900,000
Total		<u>204,500,000</u>

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE June 7, 1939.

TO Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: Export sales and other wheat market information,
from reports of Federal Surplus Commodities
Corporation.

May 29: Reported Canada sold 100,000 bushels to United Kingdom.

May 31: Export demand limited. Canada reported sale of 200,000 bushels, destination not given.

June 1: No data on export sales.

The Chicago-Winnipeg spread on July wheat widened again to 12 $\frac{7}{8}$ cents. The close on Chicago July today at 78 $\frac{1}{8}$ cents was 8 $\frac{3}{4}$ cents higher than a year ago, while Winnipeg was 36 $\frac{1}{2}$ cents lower.

June 2: Australia sold 12,700 tons (about 425,000 bushels) to United Kingdom, which also bought a few parcels of Argentine wheat.

Private estimates by six crop experts indicate total crop of 700,000,000 bushels.

June 3: "China has purchased about 750,000 bushels of Australian wheat as flour the past few days and Germany today bought 240,000 bushels of Canadian No. 2 Northern for June shipment from Vancouver."

Early threshing returns from the Southwest indicate better yields than expected.

Secretary Morgenthau - 2

June 5: Some export demand for Canadian wheat, and sales in all positions estimated at 500,000 bushels.

F.S.C.C. bought 629,900 barrels of flour for relief purposes.

June 6: Canadian export sales estimated at 250,000 bushels.

"Both Argentina and Canada have large surpluses of wheat to dispose of, and this at a time when Argentina is ordinarily pretty well sold out of wheat."

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

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DATE June 7, 1939.

TO Secretary Morgenthau
FROM Mr. Haas *[Signature]*

Attached is a memorandum from Miss Lonigan,
covering her recent trip to Boston.

June 6, 1939

To: The Secretary
From: Miss Lonigan *EL*

Every family on relief or WPA in Greater Boston is eligible to receive a quart or two quarts of free milk daily. The plan operates simply. The worker is given a card indicating how many people are in his family. He signs an affidavit saying his purchases at the milk stations are in addition to his regular milk purchases. Each day he presents his identification card at the milk station. Clerks check it against the affidavit card. His card is punched. Then he signs the daily sheet indicating how many quarts he has received. From there he goes to the milk counter, hands the clerk his empty bottle, and receives a bottle of milk in exchange.

Families with six members or less get one quart. Those with seven or more get two. No one gets milk without bringing in his empty bottle or paying five cents. This is one of the big savings on the program.

Over 35,000,000 quarts of milk were delivered free to relief families in Boston from October 1937 to April 1939.

The milk is purchased by Federal Surplus Commodities Corporation. The whole processing cost for pasteurizing,

bottling and delivery to stores is kept down to 2¢. The total cost averaged 9¢ a quart, compared with 13¢ per quart for milk delivered at home. Processing is allocated among selected processors who are complying with the code.

The 2¢ for processing is paid by the Overseers of Public Welfare for relief families, the aged, and dependent children. WPA families pay 2¢ a quart processing costs. FSCC pays the rest.

Management

The actual distribution is carried out by an agency legally representing the State Department of Public Welfare, supported entirely by the towns and cities of Greater Boston, and manned by WPA, one man a staff member, the others WPA relief workers. The budget is about \$180,000 for keeping records, ware-housing and supervision. It is collected by voluntary assessment from the cities.

The management of the program is excellent. The organization has handled in one day nearly a quarter million quarts of milk. Spoilage is practically zero. The total loss of milk bottles is under 500. There are no funds to pay losses, and there are no losses.

The division has collected \$850,000 in items of 2¢ each with no losses. Collections were made by men getting security wages. All collections are deposited daily. (Under the proposed 5¢ plan collections will be much higher and it will be necessary to bond WPA workers).

Milk is ordered daily and the excess or shortage is kept close to five or six quarts a day.

Changes in Program

The program started in October, 1937, for relief families only, and for the City of Boston only. Relief families included those on direct relief, old age, dependent children, the blind, and soldiers' relief.

There were twelve milk stations in stores where surplus commodities are distributed every week, and 28 additional stations for milk alone, or forty stations in the City of Boston. They distributed 20,000 quarts a day.

The plan was extended to the 40 cities and towns in the Boston Milk Marketing Area, and to families on WPA.

In April, 1938, distribution had reached 90,000 quarts. In September there was a drive for more milk consumption. "Border-line" cases were brought in. Distribution was increased from 85,000 to 128,000 quarts a day.

In January, 1939, all the milk companies went into compliance with the milk orders. The surplus was reduced. Processors complained the milk was going to families who would otherwise purchase milk. The program was cut 45 percent between Saturday noon and Monday morning, on orders from Washington.

Processors checked on the cuts, and now acknowledge that the relief consumption was evidently extra consumption because they gained no extra business. "The processors were surprised. They could not understand it".

Distribution is near the lower figure. The families are still clamoring for more milk.

Five-cent Plan

On July first it is proposed to abolish the present plan and shift to a plan by which relief families will pay 5¢ a quart for fluid milk. The city relief administration will pay the 2¢ for processing. FSCG will pay 2¢ and 3¢ per quart, the difference between 5¢ and the pool price for Class I milk. This will be about the same expenditure for FSCG as purchasing the same volume of milk in the form of butter fat, as is done in other areas.

Under this plan regulations about surplus will be discontinued. Families on relief can buy all the milk they wish at 5¢ a quart. Those families who were buying one quart at 11¢ and getting one free will now get two quarts for 10¢. Those who formerly bought none will lose. The number of quarts a family can buy will be under an upper limit set by the Bureau of Agricultural Economics, to fit the milk surplus.

Only families under the city relief administration (including blind, widows, and old age) will get the low-price milk. WPA families and border-line cases will be excluded. Unfortunately there are no channels through which the stress and worry of families who are brought in and out of the milk plan can be seen or heard.

Food Stamp Plan

The difference between these plans and the suggested

inclusion of milk in the Rochester Food Stamp plan is that under the two Boston plans some progress has been made in cutting distribution costs. If milk is distributed through the Food Stamp plan present distribution machinery is unaffected.

On the other hand introduction of the Food Stamp plan might be made the basis of a trade by which grocers would charge less for the milk in the hope of volume.

THE FAMILIES

A district supervisor in the Family Welfare Society said that the free milk was just more soup kitchens.

Mr. O'Hare, executive of the City Home Relief Department, said that his chief concern was the building of sound bodies to carry the burdens of the next twenty years. With that objective milk was all-important.

From the family's point of view the stations are too far apart. Only adults, not children, can get the milk. Either the father or the mother must go to the station. If they go early in the morning they have no one with whom to leave the small children. If they don't go early the milk is out. Sometimes they have to stand in line in the cold or rain.

It seems clear that one group of families does not benefit by free milk distribution because they are too far away, too tired, do not have warm clothing, or the father or mother is ill. Some can afford the energy to go for two quarts but not for one.

The enthusiasm of the families that come for the milk is very high. Asked what they do when the milk is curtailed, one member of the milk distribution staff said, "They bounce the bottles off the forehead of the supervisor. --You take away surplus commodities, that's nothing. The families don't want the surpluses except butter. They don't want cabbage, but you take away milk, that means something. They fight like wildcats". The men and women come in and say, "My boy put on six pounds last week on account of the milk".

Part of this is change in habits to fluid from other forms of milk. These families used to use condensed milk but they much prefer fluid milk. Skim milk they will not use because of its unpleasant taste and odor. Family after family has it piled on shelves. On the other hand there is a serious question whether relief families should be trained in the use of the most expensive forms of milk. To encourage Americans to consume milk almost exclusively as fluid milk may deprive them of other foods.

Underlying the eagerness for free milk is the whole relief picture. Those "on the welfare" get free milk, free clothing, medical care, carfare, and money for medicine. They become expert in ferreting out all forms of aid. Their ingenuity and enterprise are used not for producing but for getting something. Without rigid controls they would cash their milk bottle for the five cents. When tokens were used they broke tokens in half and tried to collect two nickels. When they do not like the milk store supervisor they call him a "WPA bum".

Under the Boston plan cards are issued, through the churches, to needy families not on relief. Among families aided by the visiting nurses, over 60 percent are "on welfare". Allowing for the tickets issued through churches, perhaps 25 percent of their families get no free milk. This includes families of street-car motormen, garment workers, workers in food factories, longshoremen and fishermen. The nurses know the members of the family of one school-teacher, with a large number of children, who do not get enough to eat.

Something happens when a family on welfare gets free milk, medical care and carfare, while the family of a fisherman or longshoreman, earning his \$15 a week and living next door, has to go without it.

The most crucial case is the families with tuberculosis. They come to the stations and beg for milk for the sick children at home. When milk is plentiful medical cases, who bring cards from the family doctor or the dispensary, can get an extra quart. Hundreds of families need it. Those not on relief get nothing.

THE FARMERS

The relief milk plan was started in Boston to help producers, not relief families. It is also involved with difficulties among the producer cooperatives, and with the non-compliance of processors with AAA milk regulations.

In the Massachusetts milk shed there are very few alternative uses for milk. It is not a butter area. Relief

purchases increase the proportion of milk that the farmer can sell as fluid milk and so raise his average return.

The Boston milk market is fundamentally unbalanced. Producers are attempting to stimulate sufficient purchases of fluid milk to carry their uneconomic organization. In 1920 to 1929 there was a tremendous increase in fluid milk consumption in the Boston area. Farmers abandoned balanced farming to get into the fluid market. They reduced the use of surplus for pigs, veal, and poultry. They gave up long-standing contracts for quality cream for local specialty butter and cheese producers. The number of producers also increased.

When the steep decline in fluid milk consumption occurred after 1930 their alternative uses were gone. Subsidizing the purchase of fluid milk perpetuates this speculative situation. It is a substitute for restoration of balanced production on the farm, and development of alternative uses for the surplus.

The producers are getting an artificial premium over the market price for the 50 percent of their output that is surplus milk. The price of fluid milk is kept artificially high by the Massachusetts Milk Control Board. The families not on relief pay for subsidized production which is being given to relief families. Meanwhile total milk consumption is falling.

If a small fraction of the money spent for relief purchases of milk could have been spent for reviving alternative uses for surplus, and for community and cooperative facilities for lowering the cost of production, tremendous progress could have been made in cutting the costs of milk production and the price of milk for low-income families not on relief.

One suggestion, for example, was for a county receiving and pasteurizing plant in central Massachusetts to serve central Massachusetts cities.

Another is the possibility of developing production of good local cheeses uncorrupted by the mixtures which have lowered the standard of most American commercial cheeses.

DISTRIBUTION COSTS

The Boston plan is among other things a demonstration in more economical retail distribution of milk. The money cost is about 3¢ a quart less than the Boston price for fluid milk.

Processors get their actual costs, but claim they make no profit at 2¢. They do get savings from larger volume to offset their fixed charges. Farmers get the pool price. The savings are in the mechanics of distribution. Labor has virtually no complaint because relief families bought store milk, not home delivered milk.

Savings come partly from large volume especially in trucking. Other savings are cash operation, no deliveries from the station, no loss on bottles, very little clerical work. Further savings could be made with the use of paper containers, and the reduction in bookkeeping, but the processors are opposed to it.

The savings under this plan seem substantial, but two facts are important.

Part of the savings is in increased work for relief families. If milk is delivered to fewer stations but families walk farther, that is not a saving of costs but a transfer of costs to relief families. This "saving" would justify in part

the higher costs of retail distribution under the Food Stamp plan.

State Milk Control

The other factor is the Massachusetts Milk Control Board.

Under the law this Board fixes the price paid to producers and the retail price of milk. The Board has fixed the store price of milk from the cost of home delivery and set the store price one cent below it. The difference of one cent has no relation to differences in cost. Actually the retail stores would prefer a price lower by two or possibly three cents. With lower store prices people would not take delivered milk, and the stores would gain volume. The effect of the Milk Board's control therefore is to fix the retail price of milk two or three cents higher than it need be, even with artificially high producer prices.

In some instances the Board's action merely adds to the grocers' margin. The distributors cut their prices to grocers but the Board cannot catch them. The Board controls only retail prices.

Meanwhile milk consumption is falling. Even with all the subsidized milk sales volume is not rising. It seems well established that most of the subsidized milk sales are surplus. That can only mean milk consumption among the self-supporting is falling more rapidly than the total figures show.

Further evidence of the effects of the Milk Board's control is their ruling that processors who wanted to use paper

containers must charge one cent more a quart than for bottled milk.

This situation is the inevitable result of the fact that producers are organized, processors are organized and consumers are not organized. With the best will in the world no Governmental agency could deal even-handed justice in that situation. The consumers lose, and they lose more than the farmers gain. The farmers lose on volume.

It has been suggested that labor unions were partly responsible for fixing prices at home delivery rates. Labor unions do favor home delivery and do favor fixed prices. But it seems at least as likely that the processors encouraged the unions to support their position as that the unions took the initiative.

Any regulation of retail prices works a hardship on families who might otherwise deal with lower-cost producers. State regulation, in the absence of consumer organization, is a tax on self-supporting families, to give farmers "higher" prices but falling volume.

There is no possibility of relief from the courts. It is almost impossible to get court review of one or two items in a program. The courts tend to uphold the administrative authority where possible. The Supreme Court today, (Monday) upheld the basic principles of Federal control of payments to milk producers, without which the Massachusetts Board could not have continued to maintain its control of prices to producers.

Consumer Cooperative Purchasing

There seems no chance that the influence of the Milk Control Board could be reduced. The Board meets too well the needs of organized distributors and of Massachusetts producers in competition with other producers in the Boston milk-shed.

Producers cannot be counted on to help the Consumers. They are not interested in an economic price for milk, but in a monopoly price. The only alternative is to organize consumers, and so give the Board a chance to consider consumer needs.

A very small expenditure by the Federal Government for stimulation of consumer cooperatives for purchasing could be extremely effective in lowering the cost of living of self-supporting families with low incomes, and increasing their power to purchase goods manufactured by business men who have no monopoly controls.

The problem in consumer cooperatives is very much like that in self-help. There are very few groups ready to start at once carrying their own organization. There are large families ready and willing to find a way to reduce the cost of living, if only they can obtain aid in organizing along lines involving the least possible friction with their normal purchasing habits.

This problem of consumer margins will become increasingly important with any increase in the cost of living as business activity increases.

It cannot be too often repeated than in the whole circle of Federal activities there is no agency concerned with

helping non-farm families with low incomes but not on relief. A small unit to stimulate consumer cooperation would be one of the best places to begin this aid to self-supporting families.

One suggestion made by Mr. Applin of AAA in Boston was organization of milk cooperatives in FHA apartment houses. One of these apartments has 1100 tenants. A consumers' cooperative might eliminate a large part of the entire cost of distribution without setting up any friction with the family's regular habits.

CONCLUSIONS

The Boston Relief Milk plan has served a useful purpose as tangible evidence of the excessive cost of fluid milk in Boston.

It is not as convenient for families as distribution by neighborhood stores, as in the Food Stamp plan. Families most in need of milk may be unable to go to the stores. Also employees under the Food Stamp plan have private employment, rather than security wages on WPA.

Families want more, not less, milk. They know it is improving their health.

There is a question, however, whether there is not excessive stimulation of the demand for fluid milk, in contrast with evaporated milk and cheese.

All shifts back and forth in the eligibility of needy families carry a heavy burden of nervous strain.

As rapidly as possible milk distribution should be extended to "border-line cases", and to those certified by medical authorities, for health reasons, beginning with tuberculosis.

So long as there is an element of subsidy in the milk prices the only equitable and socially justifiable policy is to extend subsidized milk distribution to all families.

This will not remedy the farmer's problem because it will increase production.

The remedy for the farmer is more balanced farming, more uses for surplus milk, more community and cooperative facilities such as those encouraged by Farm Security Administration.

The effect of fixing of the retail price of milk by the State is to make the consumer who is supporting himself by his earnings pay an uneconomic premium to the producer, and a relatively greater economic premium to the processor.

Help in organization of consumer cooperatives by the Federal Government (similar to organization of community and cooperative facilities for farm families by FSA) would benefit first self-supporting low-income families, and second business men not in monopoly control of their markets, who lose trade to the higher priced monopolies.

June 7, 1939
9:27 a.m.

Robert
Moses: Hello, Henry.

HMJr: How are you?

M: How are you?

HMJr: It sounds like old times getting a typical Bob Moses telegram. I loved it.

M: (Laughter)

HMJr: Bob, on this Triborough Bridge thing, if you could have somebody down here tomorrow at ten o'clock, McReynolds will sit down with him and they'll stay together until we -- try to get it settled.

M: Fine! Now, Henry, would you rather have us send down the Chief Engineer? The Mayor told me this morning he'd be very glad to go down himself.

HMJr: I don't think we need the Mayor tomorrow. If we could -- I hope we can get together, and if we can't get together then we'll bother the Mayor. How's that?

M: I'll have him down there tomorrow. How are you?

HMJr: I'm -- I'm pretty well, Bob. How are you?

M: I'm very well. Do you -- do you get up to your farm occasionally?

HMJr: Yes, I do. If you ever go up any of those parkways, I wish you'd let me know and drop in and have a meal.

M: I'd like to do that sometime. I'll stop in and have a drink anyway.

HMJr: Well, I'll give you more than that, but.....

M: Thanks, Henry.

HMJr:let me know in advance.

M: Yes.

HMJr: We'll -- and I'd really like to see you.

M: That's fine.

HMJr: And if you'll have your engineer, I think that that would be good. We'll have somebody from the War Department here too.

M: Yes.

HMJr: And -- and we just want to look after our interests as.....

M: Yeah.

HMJr: - try to do it as well as you look after yours.

M: Well that's fine, and thank you very much.

HMJr: O. K. Bob.

M: Good bye.

June 7, 1939
10:15 a.m.

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Jesse
Jones: Henry.....

HMJr: Yes.

J: Cardenas -- did he -- did you -- did he ask you not to buy that silver?

HMJr: Who?

J: You know the.....

HMJr: Cardenas?

J: Cardenas, he was the -- he was the -- under -- he was the former -- he is the -- now the Ambassador of Mr. Franco.

HMJr: I don't know.

J: He -- we were still talking about cotton and we -- we don't know any better than to sort of, you know, talk about both sides of it.

HMJr: Do you want the legal boys to get you up a memorandum on it and send it over to you?

J: Well, yes. I thought I'd see the -- Cardenas today.

HMJr: Well, I have -- I don't -- as far as I know I don't think Cardenas ever appeared in the case.

J: He's been over here. You know, he was deposed, I think, and he has been over here all the time and now he said that he -- he had asked the Treasury, or you, or somebody, not to buy that silver, and you bought it anyway. Well, we -- I was just going to talk a little bit, because I wouldn't know any better than to talk about both things at the same time.

HMJr: Well, I -- I don't know. I'd have to find -- I think that -- that is, -- I'm afraid if you -- on that, you'd be getting in and they might say -- well, it might hurt our case, because he might quote you, you see?

J: Well, then, I better.....

HMJr: I think I'd lay off that, Jesse.

J: You mean.....

HMJr: Well, I don't know whether Cardenas did or not, and after all, we didn't recognize Franco at that time.

J: That's right.

HMJr: It gets into the whole question.....

J: Well, do you think that I shouldn't say to him that, "If you -- you can have this cotton on these terms -- if you withdraw this suit." You don't think I ought to do that?

HMJr: Let -- let me ask Ed Foley. What time are you seeing Cardenas?

J: Well, I haven't made the appointment. I just agreed to see him today, and I talked to Secretary Hull.....

HMJr: Yes.

J:myself last night about it because night before last I called him I didn't -- I just wanted to get word direct from him.

HMJr: Yeah.

J: Because I didn't want to get the wires crossed.

HMJr: Yeah.

J: And I didn't question anybody's authority, but then I know him well enough to talk to him about it.

HMJr: Well, what does he say about the.....

J: And he just -- I think he finally said it didn't make much difference. He may have done that under my insistence. I -- I told him I thought if I were talking to this fellow about selling him cotton on credit, and a very large amount, two or three hundred thousand bales, that I would want to know something about this other business.

HMJr: Well now, if you'll give me the time, I'll send somebody over to you who knows the whole legal angle.

J: Fine! Then I'll give you all the time you want.

HMJr: Well, what time? You set the time, and he'll be there.

J: He can come anytime -- as soon as -- he can come in an hour.

HMJr: Well, you want him, say, at eleven fifteen?

J: Yes, fine!

HMJr: Well, I don't know who it will be, but it will be somebody from my office.

J: All right.

HMJr: Most likely it will be Foley and somebody else.

J: All right, fine.

HMJr: And I'll have him -- well, make it eleven thirty?

J: Eleven thirty suits me exactly.

HMJr: Well, Foley will be at your office at sharp eleven thirty with somebody else and then you can cross-examine them on the silver.

J: Fine! Fine!

HMJr: Thank you.

J: Did you make any progress yesterday?

HMJr: I'll tell you about that.

J: All right.

HMJr: I'll tell you about it.

J: Well, give me a ring.

HMJr: Righto!

June 7, 1939
3:39 p.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Robert

Doughton: Secretary?

HMJr: How are you?

D: All right, thank you. How are you getting along?

HMJr: Pretty well. I -- what's on your mind?

D: Well, I -- we're calling you about that position for that young lady.

HMJr: Well, hasn't that been taken care of?

D: No, she says not. She called me a few minutes ago. I supposed she had, and said she hadn't heard a word from him. She said she went over and saw Mr. Reynolds, I believe, and she hasn't heard a word from it.

HMJr: Well, that's a shame. I told him to put him on on the first of June. I'll -- I'll see that she's taken care of right away. I don't know what the devil happened.

D: Well, I don't want to worry you about a little thing like that.

HMJr: No, it's not a little thing if you want it.

D: Well, it's very important. She's a woman of a highest kind of character and she's one of my -- the daughter of one of my best friends and her man ran off and left her and she just needs something to do awful badly.

HMJr: I -- her name for the minute has slipped me.

D: McKinney.

HMJr: McKinney?

D: McKinney, yes.

HMJr: I gave definite orders. I don't know what happened.

D: Well, that's all right. You call -- you call me back when you find about it, or I'll call you sometime.

HMJr: No, it will be done before five o'clock.

D: How's that?

HMJr: I'll do it before -- I'll do it within the next 5 minutes.

D: Well, (laughingly) I thank you -- I thank you. It's not that important -- not that urgent, but then I'll appreciate it, and we're going -- getting right after -- you see, we -- on the Social Security here we've got one more day of general debate, but we're going right along with -- our plans about the tax matter. Mr. Cooper and his sub-committee is -- I've just been in with them now. We're holding a session by the Democratic members and we'll perhaps have a full -- meet in the full committee tomorrow, and we're going right along on it.

HMJr: Well, I -- I was worried. I got two different rumors,....

D: Well,....

HMJr:that they were going to stall on it and not do anything.

D: No, don't you be a bit uneasy about that. Anything that gets like that I'll call you before breakfast.

HMJr: And it came to me from two different places today that -- that they were just going to stall until after the first of July.

D: Well now, there's not a particle -- not a particle -- not a of truth in that, and not a bit of foundation for it.

HMJr: Right!

D: We're just picking right -- we've been in session -- been in session now for an hour and a half.

HMJr: Good!

D: The Democratic members of the sub-committee and I think the full committee will be called in the morning and the staff has been working out -- on some matters, and we're just going right over it. Don't you be a bit uneasy about that. We're just doing our very best.

HMJr: Well, I was worried like hell.

- 3 -

D: Well now, never you get -- don't ever worry; just call me.

HMJr: Now, Bob, where is this Mrs. McKinney now? Where is she?

D: Why.....

HMJr: Where can we get hold of her?

D: Well, I -- I've got her phone number over at the.....

HMJr: Well, you tell her to be at my office at nine o'clock tomorrow morning ready to go to work.

D: Nine o'clock tomorrow morning?

HMJr: At my office.

D: Well, I thank you very much.

HMJr: You tell her to come here and to ask for me. I'll leave word, and she'll be put to work tomorrow morning.

D: Well, that's mighty fine.

HMJr: O. K., Bob.

D: And I'll tell her to be there at your office and inquire for you at nine o'clock.

HMJr: That's right.

D: Thank you very, very much.

HMJr: Thank you, Bob.

D: Good bye. We're looking after your tax matters all right. Don't you pay any attention to a rumor like that. If anything like that comes up I'll call you right off.

HMJr: Do that.

D: You'll hear it from me before anybody else has any -- the slightest foundation for it.

HMJr: All right, Bob.

D: All right. Thank you.

HMJr: Good bye.

June 7, 1939
3:42 p.m.

Operator: Go ahead.

HMJr: Hello.

Sumner
Welles: Hello, Henry.

HMJr: Yes?

W: I just finished speaking to Butler Wright.

HMJr: Yes.

W: He's seeing the President of Cuba at 7 o'clock tonight.

HMJr: Yes.

W: And he will give him the full information then. He thinks it is preferable not to take Finley with him.

HMJr: I see.

W: I can quite understand, to avoid the whole thing being put officially on our shoulders.

HMJr: I see.

W: But he will tell him at that time exactly what the facts are and that the laws now can be complied with fully.

HMJr: Fine! Was it news to him that you -- what I passed along to you?

W: No, Finley had already told him.

HMJr: He had?

W: But he -- Finley couldn't get an appointment until tomorrow so he can save about twelve hours by doing it this way.

HMJr: Well, that's grand. I'll pass that along to the J.D.C. people, and it'll be tremendously appreciated.

W: And Butler will call me back in the morning to tell me exactly what the facts are, the situation.

HMJr: And then you let me know.

W: I'll be able probably to see you down at the station. I hope to be able to tell you then.

HMJr: Oh, I'm ever so much obliged.

W: Not a bit, Henry.

HMJr: Thank you.

W: Good bye.

HMJr: Good bye.

GROUP MEETING

June 7, 1939.
9:30 A. M.

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

H.M.Jr: Where is Dan Bell?

Bell: Here I am.

H.M.Jr: Oh. Mr. Fahey called me up last night - yesterday - and he said he talked to you about his legislation, and in comes this thing from Steagall. And can you handle that for me?

Bell: I've had a report on my desk for some time. I thought maybe if I held it long enough, the Committee would go ahead and act without your....

H.M.Jr: Can I say you'll handle it?

Bell: Yes, I'll try and get it out.

Duffield: May I ask what it is?

Bell: Amendments to the Federal Home Loan Bank Act.

Duffield: That report hasn't gone out yet?

Bell: No, I have it on my desk.

Duffield: My goodness gracious!

Bell: I held it deliberately, did it deliberately, just like Mac, you know - has one of those little private drawers.

Klotz: What did he say?

- 2 -

H.M.Jr: Said he's just like Mac, has one of those private drawers where he holds things. And you (Bell) haven't heard what's been going on in the last fifteen minutes.

Klotz: About some private drawer.

McR: Fits perfectly.

H.M.Jr: What's been going on in the last fifteen minutes - I've had Mac on the grill trying to find out why for one week he held up the Triborough bridge, and he's been giving me the most wonderful fairy story. Now I hear there's a little drawer.

White: That explains the delay about the power bill.

Foley: Yes, how about that financing bill? We wanted to set up a corporation to issue bonds.

Bell: That went to the Budget. The Budget has sent it around to the various departments interested in it and I understand they've gotten back a good many of the replies. I don't think they're all in yet. Like to have me stir it up?

Foley: Sure.

Bell: O. K., we'll have to open that drawer.

Foley: Get that open.

H.M.Jr: Well, will you take care of it - take care of Fahey in the same excellent manner that Mr. McReynolds is taking care of Bob Moses?

Bell: Be delighted. I don't know what he's doing, but I'll go along, I'm sure.

Klotz: You see the trust he has in Mac.

H.M.Jr: What else have you got?

Bell: What have I got?

H.M.Jr: Yes.

- 3 -

- Klotz: You're skipping Mac.
- H.M.Jr: I'm giving him a chance to catch his breath.
- Klotz: You could never do that.
- Bell: This is a reply to Senator Wagner's letter to you regarding the housing bill, which I've been holding until the Budget cleared the other report.
- H.M.Jr: Has it?
- Bell: I understand that they cleared it yesterday, but I hadn't seen it. They sent it back and said there was no objection to the letter going, but with the understanding there would be no commitment. The President hasn't released it. I see no objection to his signing this letter, do you, Ed?
- Foley: Well....
- Bell: This is about the releasing it.
- Foley: No, I know what the letter is, but I didn't know what the no commitment meant.
- H.M.Jr: I don't either.
- Bell: Well, it's the usual stereotyped phrase that goes on the end of the letter, where the Budget doesn't want to clear it and say that we approve it and it has been cleared with the President. You know, the President hasn't done it yet, put his O. K. on the housing bill.
- Foley: How can the Secretary do it if it hasn't been released by the President? I mean that letter says he's approving the bill.
- Bell: There's no objection for him to send his comments to the Capitol, with the understanding that he doesn't in any way commit the President. That's done and has been done for several years.
- H.M.Jr: On that particular one, I don't want to do it.

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Bell: You don't want to sign this.

H.M.Jr: I don't want to do it until the President clears it.

Bell: O. K.

The other thing I had is the report to the President on the Commodity Credit Corporation and examination.

H.M.Jr: Yes.

Bell: And that shows 119 million, 599 thousand impairment.

I think I'll turn that (letter on housing bill) over to you (Foley).

Foley: I haven't got any drawer.

Bell: I know it. You'll get the letter back from the Budget.

Foley: All right.

H.M.Jr: What else?

Bell: That's all.

Oh, by the way, you don't want to see Blandford now?

H.M.Jr: No, finished.

This in a way doesn't go to you, Harold, but it has to do with this gambling ship, I think, off Los Angeles. And Herbert brought somebody in here, and the Mayor of Los Angeles - inasmuch as gambling is in your alley - I mean I think it is; I don't know whether you can or cannot do anything. All they want to do is confine pellagra on the boat, something like that. See what you can do to help Los Angeles out.

What else do you know?

Graves: I understand that the Attorney General this afternoon is receiving some, if not all, of the motion picture people. Mr. Ireys is my informant. He knows about Schenck, who will be there, and Mrs. Willebrandt

- 5 -

accompanying Schenck, apparently as his lawyer and perhaps representing others of these defendants.

H.M.Jr: And so what?

Graves: I just thought you might be interested to know that, because the point had been raised here the other day as to whether these people would be given a hearing before prosecution. They are getting that.

H.M.Jr: Well, that's - it's in the Attorney General's hands now.

Graves: That's right.

H.M.Jr: Mac, do you think I ought to let this Thomas B. Wilson know that we don't want him? He's staying up at the Savoy Apartment Hotel.

McR: I think it would be only fair. I can do it for you.

H.M.Jr: Will you please?

McR: I have a further report.

H.M.Jr: Will you please compliment Ireys organization on this report.

McR: I'll prepare that for your signature.

H.M.Jr: I read it. For reasons I won't go into, he's out.

But if you'll keep after me, I'd like to bring Mr. Keeshin down here from Chicago. Mac, why don't you get hold of Keeshin for me? He's the head of this trucking company. I don't know what his initials are. He's out in Chicago. And ask him whether he could come in Friday morning. Let's see what time. If he could be here Friday morning at 9:00 o'clock, I'd like to talk to him about this question of Chinese transportation.

Klotz: I'd better look up the time. I think you have to be somewhere at 9:00.

- 6 -

H.M.Jr: No, no.

Klotz: I'd like to look it up.

H.M.Jr: Well, give Mrs. Klotz fifteen minutes. If you don't hear from her by 10:15, ask Keeshin if he could be here. - let's say 9:15 Friday morning, to see me. And I'd consider it a personal favor if he'd come down. It's K-e-e-s-h-i-n. Does anybody know him personally?

Hanes: No.

McR: Head of a trucking company.

H.M.Jr: Yes, it's the biggest commercial trucking company in the United States.

Hanes: What's the name, Keeshin?

H.M.Jr: Yes. It's the biggest....

Hanes: Where's he located?

H.M.Jr: Chicago.

Hanes: Don't know him.

Lochhead: Big corporation there. A year or two ago I remember they drew together several lines there, so forth.

H.M.Jr: Well, as a matter of courtesy to this fellow Young - we asked him to come on and all the rest of that - that should be cleared up. It's between Lochhead and Young.

White: I thought that had been cleared.

H.M.Jr: No, it hasn't.

McR: There's a letter here to him.

Lochhead: This is the Young....

H.M.Jr: Listen, I want a letter that I can sign today, please. See? We either can or cannot use him. See? Mac?

- 7 -

McR: Yes, sir.

H.M.Jr: I want it to go out today.

Anything else?

McR: Yes, you sent this thing to me, wanted me to bring it up. The State Department took that up....

H.M.Jr: Do I do anything?

McR: No, I don't think there is anything for you to do. I talked to the State Department. Waesche came over to see me after the State Department came over to see him. I asked him what boat he had, and they had some boat that they could devote to it so it won't interfere with the other work. That gives them some information on this communication.

H.M.Jr: Who pays for this?

McR: It's paid for by the University of Virginia.

H.M.Jr: We're not out of pocket?

McR: No, I think it's all right.

H.M.Jr: Well, I want to ask the President. It's a question of sending the Coast Guard down to the - National Geographic Society - Southern Pacific Island. I want to answer it. I want to know is it going or isn't it going?

McR: I'll have Waesche fix a letter to the President, for your signature, telling what we're doing about it.

H.M.Jr: Righto. Anything else?

McR: No, I don't think so. Here is a memorandum from Foley to you on the transfer of stock of Commodity Credit. That seems to me....

Bell: To Agriculture. It's under this Reorganization Order. You put a note on there "Is there anything I should do?" I don't think there is anything to do except sit tight for a while.

- 8 -

McR: You've still got the stock.

Foley: You asked me about it. I just gave you that in regular course to answer the question.

H.M.Jr: Dan, is RFC - have they let you know - I asked Hanes to talk to Jones - whether they're going to sell any securities shortly?

Bell: No, they haven't said anything about it, and I've assumed that they did not want to sell any until later in the fall.

H.M.Jr: Well, I've seen in the papers two or three times about their selling some of their California bonds.

Bell: Oh, you mean private securities.

H.M.Jr: Yes.

Bell: No, they haven't let me know. They usually let me know about a week before.

H.M.Jr: I can see Keeshin at 9:15. You (Lochhead) might have Chen - have Chen here. 9:15. Have Chen here.

Lochhead: Right.
The European exchanges were steady this morning, but we just have word that the Chinese exchange - the yuan, which has been kept pegged around at 16 cents, has gone off to around 14 $\frac{1}{2}$ cents. Control reported to be out of the market for a little while. Too early to tell that, though.

H.M.Jr: Dan, who is your contact at RFC?

Bell: Mulligan. Once in a while I talk to Mr. Jones himself.

H.M.Jr: Will you call Mulligan and ask him what have they got planned for the next thirty days in the way of selling securities, for themselves or for others?

Bell: All right.

H.M.Jr: And keep after them, and tell them Mr. Hanes has already talked to Mr. Jones about it.

- 9 -

Hanes: Jesse said he'd let me know. As a matter of fact he was going to let me know this morning.

H.M.Jr: Well, he can ride Mulligan on it. There's no conflict there.

Harry?

White: (Nods nothing).

H.M.Jr: George?

Haas: I have nothing this morning.

H.M.Jr: Say, that was a bullish business statement you sent in Monday, wasn't it?

Haas: I meant to have it interpreted that way.

H.M.Jr: All right.

Herbert?

Gaston: I have nothing.

Gibbons: That memorandum from the President you spoke to Waesche and me about - you said - complaining about our trying to establish Coast Guard stations without his knowing anything about it - that was the intimation, and you said you were going to have a copy made.

H.M.Jr: Well, what are you going to do about it?

Gibbons: I don't know what's in it. I've never seen it. You mentioned it to Waesche and me.

H.M.Jr: (To Mrs. Klotz) Some memorandum from the President in which he wrote me that he didn't approve the individual Coast Guard stations being lobbied through Congress. He sent a memorandum.

Gibbons: In other words, we don't know what he's talking about.

H.M.Jr: Just ask Mrs. Klotz.

- 10 -

Klotz: Yes, he did. I haven't done anything about it.

H.M.Jr: You spoke to me about it?

Gibbons: I spoke to Mrs. Klotz.

H.M.Jr: It's available.

Klotz: I'll get it.

Gibbons: I want to get a copy of it so we know what it's all about, can look into it.

White: Mr. Berle made a speech - you may have known about it - before the press yesterday noon, which several of us attended. He apparently made quite an impression - very effective. He spoke, with questions, I think, about an hour. Quite a few questions.

H.M.Jr: What did he talk about?

White: About the need for some arrangement whereby municipalities and States can borrow at rates commensurable with the objective - somewhat along the same lines as this TNEC testimony. He confined himself to general principles. But I gather from comment around that I have heard since that he made quite an impression.

H.M.Jr: Oh, he's a very facile speaker; none more so.

White: Oh yes.

Gibbons: Berle?

Foley: Berle.

Gibbons: Adolph Berle.

Duffield: Dr. Viner left with me a memorandum on the Mead bill for you. Do you want it now or at 10:15?

H.M.Jr: 10:15.

Duffield: You asked me to see that Frederic Delano was brought down to date on the Fiscal and Monetary thing. Do you want to give him a copy of your plan?

- 11 -

H.M.Jr: No.

Duffield: Just the memorandum....

H.M.Jr:that we gave to the President.

Duffield: I see. That's all.

Foley: The Attorney General sent Bob Jackson out to Chicago to look into the situation out there in the D. A.'s office - Sam Klaus and Bill Campbell and our people and their people out there. And I talked to - Bob spent the day with them yesterday, and I talked to Bill Campbell last night and he said that everything was fine and that Sam was going to stay and Sam was his right hand, and they had already put in two days before the Grand Jury and he thought the case was going ahead very well, everything was under control.

H.M.Jr: Fine.

Foley: I have a memorandum here about the vote on the monetary legislation yesterday.

H.M.Jr: "The vote in the Senate Finance Committee to substitute and report favorably the House bill extending the Treasury monetary powers for an additional period of two years was 11 to 7.

"I understand that the vote on Senator Adams' motion to strike out the provision of the bill continuing the power to revalue the dollar was 9 to 9. Two Democrats then switched and voted in favor of reporting the bill. We have been unable to find out definitely from the Clerk of the Committee the names of the Senators who changed their votes. The debate, from what we have been able to learn, was quite acrimonious, and the Clerk, who has cooperated to the fullest on these matters in the past, gives every indication of having been instructed by Senator Wagner not to disclose the names of the Senators who changed their votes."

Well, we don't have to reward them, then.

Foley: No, don't have to reward them. Might be embarrassed if we did.

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H.M.Jr: "However, it is our best guess that Senators Worth Clark and Radcliffe were the two who switched." Who is Worth Clark?

Foley: He comes from Idaho. Took Pope's place.

H.M.Jr: "The only Senators who did not attend the Committee meeting were Brown and Maloney.

"I understand the bill will be brought up in the Senate sometime next week."

Right.

Foley: Here's a letter to Pittman in reply to that silver letter that he wrote you. It's not answering his letter, but I don't see how you can.

H.M.Jr: Okey-dokey.

Foley: On this World's Fair statue business that I brought up - I wasn't clear myself when I tried to explain it to you. They're asking for the model, they're not asking for the statue. And Eddie Greenbaum and his client are willing to drop the suit if the model is delivered to the Federal Government and installed in some Federal building down here.

H.M.Jr: They have the model?

Foley: The model that's in existence.

H.M.Jr: That's quite different.

Foley: And it's a settlement that everybody is willing to agree to. Saves face for the artist.

H.M.Jr: That's different.

Foley: Entirely. I thought they were talking about the statue, but it's the model.

H.M.Jr: Almost put you in Mac's class.

Klotz: You've had everything your way this morning. One of those days....

- 13 -

H.M.Jr: I won't come around to you.

Klotz: Haven't got me yet.

H.M.Jr: I mean my luck might change.

Hanes: As a matter of interest, I want to report to you that we are refunding - the Bureau is refunding those Morgan claims - all the J. P. Morgan and partners - since 1933. They've had a refund case here which the Bureau, I think, has struggled with for about six years, and finally we went before the Joint Committee. The Joint Committee, I think, wanted to duck the responsibility so they said, since it involved only a matter of fact and since they were not concerned with fact - they referred it back to the Bureau for such action as the Bureau wished to take. The Bureau is recommending the refund, which involves about a million dollars, to about eleven people.

H.M.Jr: Well, we may still get an invitation to the little house on the corner.

Hanes: I just report that so that everybody will be familiar with that fact.

H.M.Jr: Fine.

Hanes: It's a matter that's been in the Bureau for a long time. The Bureau finally brought it up. It's costing us a hundred sixty-eight dollars a day interest at 6 percent every day we delay paying the money, so it's a unanimous recommendation of the staff down there that the refund be made, and we got to work on it.

H.M.Jr: Anything else?

Hanes: That's all I have.

H.M.Jr: John, I'd like you and Graves and McReynolds to stay a minute - I don't mean McReynolds - you, Gaston and Graves; and bring this fellow in. He said we're putting him out of business.

- 14 -

Gaston: Did put him out of business in 1935.

H.M.Jr: Did put him out of business.

JUN 7 1939

My dear Mr. President:

Pursuant to the provisions of the Act approved March 8, 1938, (Public 442, 75th Congress) an act to maintain unimpaired the capital of the Commodity Credit Corporation at \$100,000,000, and for other purposes, an appraisal has been made of all the assets and liabilities of the said Corporation as of March 31, 1939. As a result of such appraisal and on the basis of market prices as of March 31, 1939, it has been determined that the liabilities of the Corporation, including capital stock of \$100,000,000, exceed the assets by an amount of \$119,599,918.05. A report of the Committee appointed by me to appraise, on my behalf, the assets and liabilities of the Corporation is attached for your information.

The above cited Act provides that in the event the net worth of the Corporation, as shown by the appraisal by the Secretary of the Treasury, is less than \$100,000,000, the Secretary of the Treasury, on behalf of the United States, shall restore the amount of such capital impairment by a contribution to the Corporation in the amount of such impairment, and to enable the Secretary to make such payment there is authorized to be appropriated annually, commencing with the fiscal year 1938, an amount equal to any capital impairment found to exist by virtue of my appraisal.

In view of the foregoing, a contribution of \$119,599,918.05, is necessary to restore the capital impairment of the Commodity Credit Corporation as of March 31, 1939. It is recommended that an appropriation in that amount, in the following form, be requested from the Congress:

"To enable the Secretary of the Treasury, on behalf of the United States, to restore the amount of the capital impairment of the Commodity Credit Corporation as of March 31, 1939, by a contribution to the Corporation as provided by the Act approved March 8, 1938, (Public 442, 75th Congress) ----- \$119,599,918.05."

Faithfully yours,

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

The President,

The White House.

J/gm

REPORT OF APPRAISAL OF THE ASSETS AND
LIABILITIES OF THE

COMMODITY CREDIT CORPORATION

AS OF MARCH 31, 1939



TREASURY DEPARTMENT

WASHINGTON

JUN 5 - 1939

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

Sir:

In compliance with your instructions contained in letter of March 23, 1939, the undersigned committee, on your behalf, has made an appraisal of the assets and liabilities of the Commodity Credit Corporation, for the purpose of determining its net worth as of March 31, 1939, as required by the Act approved March 8, 1938, (52 Stat. 107).

There is attached hereto a balance sheet (Exhibit A) of the Commodity Credit Corporation, as of March 31, 1939, showing its assets and liabilities on the basis of its book values, together with adjustments to reflect the value of such assets, in so far as possible, on the basis of market values as of that date.

As a result of the appraisal of the Corporation's assets it has been determined that the liabilities, including capital stock of \$100,000,000, exceed the assets to the extent of \$119,599,918.05.

Accounting verification

At the request of the Committee, the Reconstruction Finance Corporation assigned its auditors to make a special examination of the books and related records of the Commodity Credit Corporation as of March 31, 1939. A report of this special examination has been furnished the committee and indicates that the books, records and procedures of the Corporation correctly reflect its financial condition subject to certain minor exceptions which have no substantial bearing upon its capital position.

Valuation of commoditiesGeneral

There is attached hereto a statement of commodity loans as of March 31, 1939, (Exhibit B) showing the amounts due the Corporation separated as to principal, accrued interest, estimated accrued warehouse and storage charges, the amounts of the commodities held as security for such loans, the value of such commodities on the basis of market prices as of March 31, 1939, and the estimated loss as of that date on the basis of such values.

An independent verification of all market prices was made by representatives of the Treasury, and the data in the attached statements were checked by the Treasury representatives to the books and records of the Corporation.

Cotton

Cotton valuations were based on the average prices of ten designated spot markets for 7/8th middling cotton as published in the official quotation schedule issued by the Bureau of Agricultural Economics, Department of Agriculture, for March 31, 1939, reduced where necessary to reflect an average location differential, and further adjusted on the basis of average grades and staples.

The amount of cotton held, the average market prices and the total market value by crop years are as follows:

Crop year	Bales	Pounds	Average price (per pound)	Total Market Value
1934-35	1,663,912	809,039,700	a/ 7.80 cents	\$63,105,096.60
1937-38	3,174,960	1,604,064,343	7.66 cents	122,825,453.19
1937-38 (Collateral purchased)	1,151	570,983	7.66 cents	43,737.30
1937-38 (Ineligible cotton)	21,564	10,673,338	b/ 7.52 1/2 cents	803,690.28
1938-39	199,391	101,262,915	8.81 cents	8,921,262.81
	<u>5,060,978</u>	<u>2,525,611,279</u>	<u>7.75</u>	<u>\$195,699,240.18</u>

a/ The 1934-35 cotton is graded by the Commodity Credit Corporation as strictly low middling (SLM 7/8th). It is quite possible that the better grades of this cotton have been sold and it is perhaps doubtful whether the remaining cotton will grade as (SLM 7/8th). To avoid the expense of grading the cotton, the Committee has accepted the grade as stated by the Corporation.

b/ Represents pooled cotton originally pledged under the 1937-38 Loan which does not meet the staple specifications set forth in the loan agreement between the Corporation and borrowers. This inferior cotton was valued at \$37.27 per bale or 7.52 1/2 cents per pound, which rate is based on the proceeds derived from actual sales under this program.

Corn

The value of corn (excepting the pooled corn) was based on quotations on the Chicago Board of Trade for No. 3 cash corn as of March 31, 1939, reduced to cover estimated freight and other charges inasmuch as

such corn is stored under seal on the farms of the borrowers in various sections of the country. In order to bring such corn to the markets for sale the Commodity Credit Corporation will be required to pay for its transportation, warehousing and other handling charges.

The pooled corn represents corn taken over from borrowers through March 31, 1939, under the 1937-38 loan program, title to which has been acquired by the Corporation. The pooled corn has been graded and therefore valued at the average grade value as of March 31, 1939.

The amount of corn held, the average market prices and the total value by crop years are as follows:

<u>Crop year</u>	<u>Corn held (bushels)</u>	<u>Average price (per bushel)</u>	<u>Total Market Value</u>
1937-38	646,229	36 cents	\$ 232,642.55
1937-38 (Refinanced)	10,917,538	36 cents	3,930,313.66
1938-39	11,772,448	36 cents	4,238,081.21
1937-38 (Pooled corn)	14,639,834	a/ 43 cents	6,310,500.48
	<u>37,976,049</u>		<u>\$14,711,537.90</u>

- a/ In taking over such corn it has been transferred to various marketing centers and the cost of transportation, etc., has been paid by the Commodity Credit Corporation, which accounts for the difference between the average price per bushel for pooled corn as against the other corn.

Wheat

The value of wheat was based on quotations for the various grades and sub-classes for March 31, 1939, at the terminal markets through which the wheat will be marketed.

The amount of wheat held, the average market price and the total market value by crop years are as follows:

<u>Crop year</u>	<u>Wheat held (bushels)</u>	<u>Average price (per bushel)</u>	<u>Total Market Value</u>
1938	23,636,098	a/ .4820	\$11,392,772.63
1938	29,599,392	b/ .5553	16,436,322.32
	<u>53,235,490</u>	<u>.5227</u>	<u>27,829,094.95</u>

- a/ This value represents the average sales price of farm stored wheat after giving consideration to local handling and freight differential between farm location and terminal points.
- b/ This value represents the average sales price of elevator stored wheat, taking into consideration the freight differential between wheat stored in country elevators and terminal points.

Turpentine

The value of turpentine and gum rosin was based on the Savannah market quotations for March 31, 1939.

The amount of turpentine and gum rosin held, the price of turpentine in bulk and rosin in barrels and the total market value are as follows:

	<u>Turpentine and rosin held</u>	<u>Market Price</u>	<u>Total Market Value</u>
1934 pooled Turpentine	663,228½ gals. 14,336 empty bbls.	\$.23½ per gal. 1.90 each	\$155,858.70 <u>27,238.40</u> 183,097.10
1938 Turpen- tine	8,707,017½ gals. 25,071 empty bbls.	.23½ per gal. 2.00 each	2,046,149.11 <u>50,142.00</u> 2,096,291.11
1938 Gum Rosin	914,306 bbls. <u>a/</u>	10.5136 per bbl.	<u>9,612,663.97</u> <u>\$11,892,052.18</u>

a/ On basis of 500 lbs. per barrel.

Tobacco

The value of the tobacco of the 1933, 1934 and 1935 crops was based on rates equal to 75% of the 1938 schedule of advances to growers as approved by the Secretary of Agriculture, effective December 26, 1938. The 1936 crop was valued at 90% of the approved schedule and the 1937 crop at 100% of such rates. These prices were recommended by the Division of Marketing and Marketing Agreements, Bureau of Economics, Department of Agriculture, and were arrived at after giving careful consideration to the inventories, the current market for the 1938 crop and the trade trends.

The amount of tobacco held, the average market prices and the total market value by crop years are as follows:

<u>Crop year</u>	<u>Tobacco held (pounds)</u>	<u>Average price (per pound)</u>	<u>Total Market Value</u>
1933	1,615	.03 ¢ cents	\$48.45
1934	16,896,780	.06081 ¢ cents	1,027,633.88
1935	5,672,020	.05590 ¢ cents	317,099.01
1936	424,935	.10031 ¢ cents	42,627.49
1937	2,577,106	.12528 ¢ cents	322,861.68
	<u>25,572,456</u>	<u>.06687</u>	<u>1,710,270.51</u>

Butter

The value of butter was based on prices for the various grades submitted by the Dairy Marketing Division of the Bureau of Agricultural Economics, Department of Agriculture, effective in New York and Chicago markets on March 31, 1939.

The amount of butter, the average market prices, and the total market value by production years are as follows:

<u>Year</u>	<u>Butter held (pounds)</u>	<u>Average price (per pound)</u>	<u>Total Market value</u>
1938	65,493,729	22.67 ¢ cents	\$14,847,431.20

Peanuts, Figs, Pecans, Sub-standard Prunes

The value of peanuts, figs, pecans and sub-standard prunes was based on the amounts loaned on these commodities, plus accrued interest and expense advances, if any, inasmuch as such loans were made in co-operation with the Secretary of Agriculture in order to take these commodities out of the edible trade for the purpose of stabilizing trade prices. These commodities are disposed of from time to time by being diverted, as much as possible, to other than the edible trade. Under agreements between the Secretary of Agriculture, the Commodity Credit Corporation and the borrowers, the Corporation is secured against any loss in these transactions. Consequently, for the purpose of this report, these commodities have been allowed on the basis of the amounts loaned thereon by the Corporation which were outstanding as of March 31, 1939.

The amount of such outstanding loans, plus accrued interest, etc., and by commodities are as follows:

<u>Commodity</u>	<u>Quantities held</u>	<u>Outstanding loan plus interest, etc.</u>
1938-39 Peanuts	64,869,892 lbs.	\$2,562,559.44
1938-39 Figs	6,031,953 lbs.	94,725.27
1937-38 Prunes, Sub-Stand.	(none)	19,918.59 ^{a/}
1938-39 " " "	34,559,178 lbs.	157,783.37
1938-39 Pecans	3,301,177 lbs.	407,316.14
		<u>\$3,242,302.81</u>

^{a/} Represents balance of interest due, classified as collectible.

Standard Prunes, Raisins, Hops, Wool and Mohair

Loans on the above commodities were made under marketing agreements with the borrowers. The market values on such commodities as of March 31, 1939, are, in each instance, in excess of the amount due the

- 6 -

Corporation as of March 31, 1939. Consequently, for the purpose of this report, these commodities have been allowed on the basis of the amounts loaned thereon by the Corporation which were outstanding as of March 31, 1939.

The amount of such outstanding loans, plus accrued interest, etc., and by commodities are as follows:

<u>Commodity</u>	<u>Quantities held</u>	<u>Outstanding loan, plus interest</u>
1938-39 Standard Prunes	9,499,423 lbs.)	
1938-39 Surplus Prunes	5,911,016 lbs.)	\$196,100.65
1937-38 Raisins	(none)	6,514.52 (a)
1938-39 Raisins	167,409,200 lbs.	2,392,944.67
1938-39 Hops	7,076,841 lbs.	1,413,781.14
1938-39 Wool and Mohair	1,921,298 lbs.	319,038.20
		<u>4,328,379.18</u>

(a) Represents balance of interest due, classified as collectible.

Loans held by lending agencies

As of March 31, 1939, various lending agencies had made loans on 1937-8, 8-9 crops under the terms of Commodity Credit Corporation contracts to purchase such loans from the lending agencies under certain specified conditions. The amount of outstanding loans, the accrued interest thereon and estimated warehouse charges on the underlying collateral held by lending agencies and reported to the Corporation as of March 31, 1939, and which it is committed to purchase under its contracts, are as follows:

<u>Commodity</u>	<u>Face amount of loans, interest and W/H charges</u>	<u>Market Value of security a/</u>	<u>Estimated loss</u>
1937-38 Cotton	\$106,123,705.26	\$86,558,115.13	\$19,565,590.13
1938-39 Cotton	198,705,700.48	190,476,948.77	8,228,751.71
1938 Corn	9,652,359.60	6,044,594.76	3,607,764.84
1938-39 Corn	112,013,938.12	70,354,585.80	41,659,352.32
Wheat	18,739,676.41	14,851,755.15	3,887,921.26
Wool and Mohair	6,269,688.88	b/ 6,269,688.88	(none)
	<u>451,505,068.75</u>	<u>374,555,688.49</u>	<u>76,949,380.26</u>

- a/ In valuing the above cotton, corn and wheat the same prices were applied as those used in valuing these same commodities by crop years as appearing in the forepart of this report.
- b/ The market price of wool and mohair as of March 31, 1939, is approximately 10 cents in excess of the loan value. For the purpose of this report the market value has been allowed on the basis of the loan value inasmuch as no loss is anticipated on this commodity.

Based on the market values of the commodities, listed in the foregoing table, on which loans had been made by lending agencies and reported to the Commodity Credit Corporation as at March 31, 1939, an estimated loss of \$76,949,380.26 will be sustained in view of the Commodity Credit Corporation's commitment to purchase all such loans from the lending agencies under certain specified conditions. This estimated loss, the details of which are set forth in Exhibit C, is included in the total capital impairment (\$119,599,918.05) reflected in the Balance Sheet, Exhibit A.

Basis of Appraisal

The Corporation's assets were valued strictly on the basis of the market prices of commodities as at March 31, 1939, adjusted to give effect to grade differences and differentials between the actual location of the commodities and the terminal markets.

The Committee is of the opinion that the prices used in the valuation of the various commodities accurately reflect the market prices of such commodities as at March 31, 1939, as contemplated under the Act of March 8, 1938, and that the necessary consideration has been given to all related factors, such as accrued interest and warehouse charges, in arriving at the stated excess of \$119,599,918.05 of liabilities over assets as at March 31, 1939.

Restoration of Capital Impairment

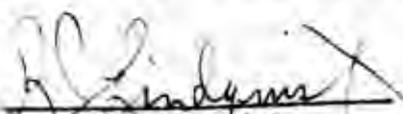
On the basis of this appraisal and in accordance with the provisions of Section I of the Act of March 8, 1938, the contribution due from the Secretary of the Treasury to the Commodity Credit Corporation to restore the impairment of its capital stock as of March 31, 1939, amounts to \$119,599,918.05, as follows:

Accumulated deficit through March 31, 1939 \$213,885,322.78

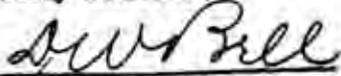
Less: Contribution by the Secretary of
the Treasury to restore impairment
of capital stock as of appraisal
March 31, 1938 94,285,404.73

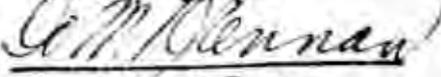
Contribution due from the Secretary of the
Treasury to restore impairment of
capital stock as of March 31, 1939 \$119,599,918.05

Respectfully submitted,


H. J. Lindquist
Reconstruction Finance Corp.


Carl B. Robbins
Department of Agriculture


Daniel W. Bell
Treasury Department


George M. Brennan
Farm Credit Administration

Statement of Commodity Loans

as of March 31, 1939

Commodity	Principal	Accrued Interest	Estimated accrued warehouse and storage charges	Total	Appraisal of Collateral		Estimated loss on basis of market prices as of March 31, 1939	
					Amounts of commodities held as security for loans	Value on basis of market prices as of March 31, 1939		
Commodity Loans:								
Cotton:					Bales	Pounds		
1934-35 crop	\$119,125,072.54	-	\$2,122,569.45	\$121,247,641.99	1,665,912	809,088,700	\$62,102,094.60	\$60,182,345.28
1937-38 crop	148,698,096.40	\$6,400,204.26	4,533,388.88	159,631,689.54	3,174,980	1,504,064,343	121,822,622.19	24,602,770.00
1938-39 crop	8,888,826.63	180,044.37	249,228.75	9,318,119.75	199,901	101,242,915	9,221,762.81	278,024.64
	176,712,095.57	6,580,596.73	6,915,197.08	184,207,891.43	5,039,793	2,514,396,958	194,146,479.60	95,142,960.82
Wool:								
1937-38 crop	301,197.16	-	-	301,197.16	646,229 bushels		222,642.06	68,504.61
1937-38 crop (refinanced as 1938)	6,231,190.14	77,807.92	-	6,309,098.06	10,917,538 bushels		3,200,712.66	2,378,624.40
1938-39 crop	6,625,660.94	41,956.31	-	6,667,617.25	11,772,448 bushels		4,236,081.21	2,429,026.04
	13,158,048.24	119,764.23	-	13,277,812.47	23,336,215 bushels		7,461,037.47	4,906,775.05
Beef:								
1938 crop	28,950,302.03	427,728.54	3,294,461.27	32,672,491.84	83,230,490 bushels		27,227,094.25	5,445,417.99
Peas:								
1937-38 crop	2,700,922.38	-	-	2,700,922.38	22,922,200 pounds		1,207,406.83	1,493,517.55
1937-38 crop	344,179.90	22,671.25	-	366,851.15	2,077,106 pounds		222,291.68	144,559.47
	4,045,102.28	22,671.25	-	4,067,773.53	25,072,456 pounds		1,710,770.51	2,357,077.02
Turpentine and Rosin:								
1934 - (Pool)	1,269,220.46	-	1,205.69	1,270,426.15	(663,286.50 gallons (14,256 empty barrels (8,707,017.50 gal. (Turpentine) (25,071 empty barrels (914,306 lbs. (Rosin)	\$150,250.70 27,222.60 2,046,124.11 50,122.00 \$1,273,699.41	182,097.10	1,088,118.05
1938	11,836,304.26	109,449.41	60,973.61	12,006,727.28			11,708,960.98	319,780.17
	13,105,524.72	109,449.41	62,179.30	13,277,153.43			11,917,921.98	1,407,998.22
Peas:								
1938-39	2,523,183.50	39,375.94	-	2,562,559.44	64,869,028 pounds		2,522,559.44	(none)
Flax:								
1938-39	94,309.90	265.27	-	94,575.17	6,021,952 pounds		94,728.27	(none)
Trucks:								
1937-38	-	19,318.09	-	19,318.09	Loan balance represents interest classified as collectible		19,318.09	(none)
1938-39	302,762.04	1,120.12	-	303,882.16	49,269,817 pounds		302,064.02	(none)
	302,762.04	20,438.21	-	323,200.25	49,269,817 pounds		371,382.11	(none)
Salmon:								
1937-38	-	6,214.02	-	6,214.02	Loan balance represents interest classified as collectible		6,214.02	(none)
1938-39	2,372,028.09	20,204.26	-	2,392,232.35	20,704.6 tons		2,292,844.67	(none)
	2,372,028.09	27,418.28	-	2,399,446.37	20,704.6 tons		2,299,058.69	(none)
Wool:								
1936-37	1,400,078.26	12,202.28	-	1,412,280.54	7,075,961 pounds		1,413,781.14	(none)
Wool:								
1938-39	400,664.49	1,601.65	-	402,266.14	3,301,177 pounds		407,316.14	(none)
Wool and Hides:								
1938	312,873.00	2,262.20	-	315,135.20	(1,914,928 pounds - Wool (6,200 pounds - Hides)		319,028.20	(none)
Wool:								
1938	17,841,961.58	60,875.10	-	17,902,836.68	65,493,722 pounds		14,847,431.20	2,749,306.48
Total Commodity Loans:	161,846,037.80	7,280,289.18	10,872,847.46	180,009,174.44			167,102,220.80	112,997,093.60
Commodity Pools:								
Wool:								
1937-38	10,006,622.02	-	612,409.00	10,619,031.02	14,429,224 bushels		6,312,500.48	4,306,530.54
Cotton:					Bales	Pounds		
1937-38 (Ineligible) ...	986,731.89	-	20,791.67	1,007,523.56	21,564	10,673,320	822,490.28	163,022.28
Total Commodity Pools:	10,993,353.91	-	633,200.67	11,626,554.58			7,134,990.76	4,469,552.82
Collateral Purchased:					Bales	Pounds		
Wool:					1,131	370,262	42,727.20	10,028.78
1937-38 (Ineligible)....	27,122.54	-	1,442.24	28,564.78				
Grand Totals	\$172,839,391.71	\$7,280,289.18	\$11,516,048.13	\$191,635,728.02			\$174,234,948.00	\$117,467,497.75

STATEMENT OF LOANS HELD BY LENDING AGENCIES
AS OF MARCH 31, 1939, AND VALUE OF PLEDGED
COLLATERAL, WITH ESTIMATED LOSS THEREON.

Commodity	Principal	Estimated Accrued Interest to 3/31/39	Estimated Accrued W/S and Handling Charges	Total Amount of Obligation	Collateral		Estimated loss
					Quantity	Value of Collateral	
1937-38 Cotton	\$100,316,628.98	\$ 2,707,174.77	\$ 3,099,901.61	\$106,123,705.26	2,170,921 M/C 1,130,001,503 lbs. 4,174,951 M/C	\$ 86,568,115.13	\$19,545,590.13
1938-39 Cotton	191,806,363.72	1,980,648.01	5,218,638.75	198,706,700.48	2,162,053,902 lbs.	190,476,948.77	8,228,751.71
1938 Corn	9,842,564.97	109,804.63	-	9,662,359.60	16,790,541 bu.	6,744,594.76	3,527,794.84
1938-39 Corn	111,327,671.65	686,266.47	-	112,013,938.12	195,429,406 bu.	70,354,915.80	41,659,359.32
Wheat loans - Form B	15,931,006.21	149,489.57	1,950,097.71	18,030,593.49	26,001,803 bu.	14,851,755.15	3,178,838.34
Wheat loans - Form A	-	-	(2) 709,082.92	709,082.92	-	-	709,082.92
Wool and mohair	6,250,056.02	19,632.88	-	6,269,688.88	34,737,775 lbs.	6,269,688.88	(none)
	434,874,281.55	5,553,016.31	10,977,770.89	451,505,068.75		374,555,688.49	76,949,380.26

These loans are held by lending agencies under contract to purchase whereby the Commodity Credit Corporation is obligated to purchase the notes when presented prior to dates herein shown and at the following interest rates.

<u>Commodity</u>	<u>Date of expiration of obligation</u>	<u>Interest rate</u>	<u>Period of notes</u>
1937-38 Cotton	July 31, 1939	2-1/2%	11/1/37 through 7/30/38
		1-1/4%	7/31/38 through 3/31/39
1938-39 Cotton	July 31, 1939	2-1/2%	11/1/38 through 3/31/39
1938 Corn	Aug. 1, 1939	2-1/2%	10/15/38 through 3/31/39
1938-39 Corn	Aug. 1, 1939	2-1/2%	1/1/39 through 3/31/39
Wool and mohair (1)	Apr. 15, 1939	2-1/2%	Average rate
Wheat	July 30, 1939	2-1/2%	11/15/38 through 3/31/39

- (1) Average rate on wool and mohair based on paper purchased by Commodity Credit Corporation as at the close of business March 31, 1939.
- (2) Estimated charge of 3 cents per bushel on 23,636,097.59 bushels of farm-stored wheat for handling in and out and a necessary charge to put wheat in sales position.

CJ

PLAIN

LONDON

Dated June 7, 1939

Received 3 p.m.

Secretary of State,
Washington.

799, June 7, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

1. There was a slight change in sentiment today due to the tone of Hitler's speech of yesterday and to the action of the Senate Banking and Currency Committee in approving the continuance of devaluation powers. The dollar was rather bid and the British fund indicated that it would sell dollars at 4.68 1/2. 79 bars of gold were sold at fixing, 4 of which were married and 30 supplied by the British fund.

2. For purposes of record a question put to the Chancellor of the Exchequer and his reply in the House of Commons are quoted "Mr. Moresing asked the Chancellor of the Exchequer whether, in view of the steady flow of gold bullion from this country to America as a result of the continuous issue of inconvertible paper money, he will take steps as soon as possible to arrest this outflow by stabilization of the currency and thereby bring about

-2- #799, June 7, 6 p.m., from London

about stability of exchange?

Simon replied "If my honorable friend in referring to stabilization of the currency has in mind legislation which would give sterling a fixed value in terms of gold I do not consider that this measure would have the effect which he anticipates and the answer to his question is in the negative. I would add that there has been no increase in the note issue over last year and the reference to a continuous issue of paper money is therefore unjustified."

KENNEDY

KLP

RECEIVED

JUN 8 1946

THEORY DEPARTMENT
OFFICE OF THE SECRETARY
TREASURY DEPARTMENT

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: June 7, 6 p.m., 1939

NO.: 1087

FOR THE TREASURY DEPARTMENT

Exchange on the Paris market seemed quiet and with no especial interest. Some sterling was obtained by the fund. This sterling was not as firm as yesterday. The tone of the security market was good but rentes were irregular and trading was on a small scale.

WILSON

EA:DJW

RECEIVED

JUN 8 1939

TREASURY DEPARTMENT
RECEIVED JUN 8 1939
MAIL ROOM

PARAPHRASE OF TELEGRAM RECEIVED

381

FROM: American Embassy, Paris

DATE: June 8, 6 p.m., 1939

NO.: 1094

FOR THE TREASURY DEPARTMENT

Transactions on the exchange market were on a small scale; the fund obtaining approximately 25,000 pounds. The International political situation, particularly about the rumored Nazi demonstration scheduled to take place from July 9 to 13 in Danzig, caused nervousness on the security market. Variable revenue securities lost from three to five percent and rentes were down about thirty centimes.

The statement of the Bank of France published today showed a reduction in commercial advances of 971 million francs; deposits down 1433 millions; ratio of gold cover 64.25 percent compared with .28; note circulation up 1510 millions.

As compared with 1523 millions for May, 1938, the adverse trade balance for May, 1939 was 1018 million francs.

Messages from Geneva and Amsterdam were carried by AGENCE ECONOMIQUE to the effect that the respective tranches of the French three and three quarters percent 1939 loan issued on these markets had been fully subscribed.

PPSI & WILSON

WILSON

EA:DJW

DEPARTMENT OF THE TREASURY
RECEIVED JUN 11 1939
RECEIVED BY THE TREASURY DEPARTMENT

JR

GRAY

London

Dated June 8, 1939

Rec'd 1:40 p.m.

Secretary of State,
Washington.

805, June 8, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

One. The British Treasury states that the flood of imports into China in recent weeks, over which the Chinese authorities have of course no control, reached such dimensions that it was deemed necessary to unpeg the exchange and let the Chinese dollar find a new level. The Chinese dollar was quoted nominally at 6-1/2-7 today but there was practically no business in this currency in London.

Two. A rise in bankers deposits of pounds 18.2 million and a decline in public deposits gold pounds 19.9 million shown in the Bank of England return reflects the June 1 war loan dividend payment for which the accumulation of funds in past weeks had tended to swell the public deposits item and contract bankers deposits.

Three.

-2- #805, June 8, 6 p.m., from London.

Three. The stock exchange was rather unsettled. Most equities showed moderate declines while giltedged were also weak, the Australian loan reported in the second section of my 785, June 6, 6 p.m., dealings in which opened today went to a discount of 1-1/4 per cent, while war loan dropped 5/16-94-7/8.

Four. The exchange market was particularly quiet today with the dollar rather bid and the British fund indicating it would sell dollars at 4.78-7/16 but doing no business. 169 bars of gold were sold at the fixing, 15 of which were married and about 50 supplied by the Bank of England. Samuel Montagu was the sole buyer.

KENNEDY

WWC:PEG

RECEIVED

JUN 9 1948

THE TREASURY DEPARTMENT
Office of the Secretary
Room 4000 - 14th Street, N.W.

June 8, 1939.
9:30 a.m.

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

H.M.Jr: Johnny, I am writing a letter to Jesse Jones giving him a very polite but firm call down for having sold those bonds to San Francisco, without notifying us in doing it, right in the midst of the financing. As a result of which our bond market has all gone sour on us - sloppy.

Hanes: He called me back yesterday - said he didn't know himself he was so near the trade.

H.M.Jr: Bell gave him a very hard call down. You can't let Jesse do that. He would have had a clear sailing. Instead he hits the thing right up and our market has gone sour. I am writing him a letter so it won't happen again.

Bell: We had it done in '34.

H.M.Jr: You (Hanes) called me right in the middle of it. You can't tell me that he didn't know.

Hanes: I checked and called Jesse after you told me that he had already sold the bonds. When I was talking to you I didn't know that the bonds had already been sold. Who does the trading over there anyway?

H.M.Jr: I don't like it. I will be very courteous but very firm and call Jones. You can't tell me Jesse does not know. How should I know they consummated the night before? Our market went sour and I don't like it. It (the letter) will be perfectly courteous but it will be firm.

(Nods to Hanes) - You anything?

Hanes: No.

H.M.Jr: I don't know whether I have had the chance to tell everybody so you'll all know - Hanes and I had lunch together and we talked things over about the Mead bill and we thought that if this thing would be limited to \$25,000. that it would serve one very important function and, that is, take care of the small businessman. I called Mr. Mead and told him we felt here in the Treasury if they would limit it to \$25,000. it would remove a lot of the objections for he could not do both in the bill and we would feel happier if he would eliminate the \$25,000. He tried to make it \$50,000. and I said in the Treasury we divide everything up - \$25,000. and he said fine. He was working on it to-day and he would make the limit \$25,000.

Both Hanes and I feel that was the proper thing and you (Hanes) feel quite happy about the \$25,000. limit.

Hanes: Yes.

Bell: Is he making any further changes in the bill?

H.M.Jr: I don't know. I have asked Foley to contact Benny Cohen to see if there were any changes.

Bell: It would seem to me that Eccles was right in asking that there be eliminated from the bill the provision which permits non-member banks to rediscount these obligations at the Federal Reserve Banks. That's just breaking down your Federal Reserve System.

Foley: I think its all right.

H.M.Jr: Do you agree to that, Johnny?

H.M.Jr: Well would you get that over?

Hanes: Yes.

H.M.Jr: He was so friendly and delighted when I called him that he would take any suggestion. He said he didn't change the fundamentals of it. He was quite put out about Eccles.

H.M.Jr: John - anything?

Hanes: Nothing.

H.M.Jr: Herbert? (Gaston)

Gaston: Nothing.

H.M.Jr: Ed? (Foley)

Foley: There were three people from Treasury over at that meeting in Justice yesterday. There was no invitation. On these things, I understand it is not the practice to ask us formally to be there. We have two lawyers who have been working on this thing and they have been helping Jim Morris prepare for this conference and Offendal, from Ireys' office, was present. He made the investigation. The clients weren't there, Zanuck, Getts and Schenck. John Burns represented them and Davis and Willebrandt were there representing the Mayor of Family Trust.

H.M.Jr: Oh she (Mrs. Willebrandt) now is representing the Mayor of Family Trust?

Foley: Yes. Johnny Burns said he was representing Zanuck, Schenck and Getts.

H.M.Jr: What a man.

Foley: The meeting was in Jim Morris' office.

H.M.Jr: Why do we work for the government?

Foley: The meeting was in Jim Morris' office and he went and got Frank Murphy, who came down to Morris' office and when Murphy saw the clients were not there he walked out and it was just a general discussion among the lawyers and we are going to meet again at 2:30 this afternoon.

H.M.Jr: You saw what the U. P. ticker carried?

Foley: Yes.

H.M.Jr: The U. P. ticker carried that James Roosevelt called on Murphy in the morning and attended the conference in the afternoon. He got a bad Press but maybe its good advertising.

(Laughter)

Gaston: They were in the next room.

Foley: Jim Rowe called up yesterday that he had a message from the President to find out from you and me if there was a place in one of the Tax Units for Oley Johnson of South Carolina and I told him I would speak to you about it.

H.M.Jr: What do we get out of it?

Foley: I don't know.

Hanes: We get a bum fellow.

H.M.Jr: What?

Hanes: We get a bum fellow.

(Laughter)

H.M.Jr: (To Mc Reynolds) If I label this "humor" you won't think I am riding you? Turn this over to your Secretary for her usual attention.

(Laughter)

Klotz: That's not knocking your safe deposit box either.

(Laughter)

H.M.Jr: I went in there (Mac's office) this morning and said, "Hello alibi". He said, "Alibi what". I said, "Don't you know Mac 'Alibi'". He said, "I don't know a thing about it". You know, sometimes silence is golden.

(Laughter)

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H.M.Jr: You (McReynolds) can have a chance to crack back at me before the meeting is over.

McReynolds: I have a place for these things.

H.M.Jr: Put it in that special drawer Bell talked about yesterday.

McReynolds: That would be Norman (Thompson).
(Laughter)

H.M.Jr: Anything else?

McReynolds: No sir.

Foley: I am not clear just how we stand on this Housing Report. I have both letters now - the letter you sent and the letter the Director of the Budget sent and your proposed reply to Senator Wagner. Now is there any way that that will be cleared.

H.M.Jr: I understand it was with Dan Bell. I told Bell to see it through the Budget office and get the President's approval.

Bell: I am sorry it has not been done. There was a misunderstanding.

H.M.Jr: But I didn't want it to go unless I got a formal approval of the President and the reason for that is if this should clog the President's program I don't want him to feel I am trying to beat the gun.

Bell: You want the Director of the Budget to put it up to the President.

H.M.Jr: I want a formal approval of it - approval on the part of the President. I don't want him to say, "Henry, this is not your program, why do you want to beat the gun". I want a formal approval of the President. The last thing I want to do at this time is to have the President think I want to beat the gun. You people understand what I mean.

Bell: I didn't in the first place. I thought you just wanted to clear the Budget. That was not in the picture.

H.M.Jr: You're right - you haven't got a Secretary.

Bell: Not as competent as the one Mac has or as useful. I am learning though.

(Laughter)

McReynolds: What are Secretaries for?

(Laughter)

Haas: Nothing.

H.M.Jr: While we are going around George you as Secretary of this Fiscal and Monetary group I'd like to meet at 11 o'clock Tuesday morning with the Fiscal and Monetary on a plan for the President to get a preliminary report on this recovery program and I will keep all of Tuesday afternoon and I am going to keep Tuesday night free so that we will have something Wednesday morning. Please tell Mr. Delano about it. When I had lunch with the President, he said he wants, if possible, to have everything self-liquidating.

Duffield: I didn't give Mr. Delano your suggestions or Mr. Eccles.

H.M.Jr: We will have to now because I want something.

Duffield: Something back from them.

H.M.Jr: Something to put my teeth in Wednesday morning.

White: Ransom said that Eccles is leaving town Wednesday morning and he will make it known that you are available to talk to him.

H.M.Jr: I am holding Tuesday night and I will hold Wednesday morning too for this free so when we go to the President Wednesday afternoon we will have something. I think that Foley should get hold of the Roads people and get the thing set up; get hold of Farm Security that lends the money on tenant farms. Get them fixed up with a corporation and have that all finished.

We will take care of Pepper. We are giving him a medal.

(Laughter)

H.M.Jr: We will go over my memorandum and the legal end of it, putting the five utilities into one even though that isn't new money. All of these things should be ready.

White: You want the co-operatives? Thus far, no work has been done on that.

H.M.Jr: The President asked if there was not some way of getting that money back (self-help) and I told him no. He said if you can get it back I will put it in WPA. You might check and make it WPA.

Bell: That food stamp thing is out?

H.M.Jr: I am working on the President. You take another look at that.

Bell: You consider the United States Housing as self-liquidating?

H.M.Jr: No, but I close both eyes, gulp, and say it is self-liquidating.

Bell: It might make it simpler if you want to call it self-liquidating.

H.M.Jr: You and I, Mac, went through this thing for eight hours using police methods. What is it they use - a white light? And we got him to say it was not self-liquidating. Mac sat on one side and I sat on the other saying, "It is not self-liquidating - it is not self-liquidating".

Well I wish everybody would put their mind on it. As far as I am concerned, it is No. 1.

Gibbons: Speaking of positions - there is a vacancy in the curriculum of the Coast Guard Academy. Would you consider Ros (Magill) there?

H.M.Jr: No. Ros would like to go on there but you want a man that knows Maritime Law. There's that man in New York - what's his name?

Foley: Burlingham.

H.M.Jr: Yes. Ask Burlingham to give you a suggestion. That's the kind of man you want.

McReynolds: Burlingham will make a suggestion if he does not want it.

H.M.Jr: (To Hanes) Know him?

Hanes: No.

H.M.Jr: He is one of the grandest. What a man! THE outstanding man on Maritime Law.

Foley: He was appointed President of the Bar Association. He is outstanding.

H.M.Jr: He is a grand fellow.

Gibbons: There used to be two Burlinghams.

H.M.Jr: I mean Burlingham the outstanding Attorney of New York.

Lochhead: European exchange is just a shade easier. The Chinese exchange broke to-day. It was 18 yesterday; 13 to-day. We haven't any direct word from China as to whether they are deliberately lowering the peg or whether the fund has run out.

Siam sold silver and made ten million dollars. They put gold with that. They bought it through a transfer of funds yesterday.

Graves: Helvering is leaving town tomorrow.

H.M.Jr: I saw the President sent that man up.

McReynolds: Yes.

H.M.Jr: That was good ball wasn't it?

McReynolds: He had a nice visit with Pa and I took him around.

H.M.Jr: You met Pa?

McReynolds: Yes I met Pa.

H.M.Jr: I like the looks of Sullivan.

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- McReynolds: I think Graves ought to be excused from your 9:30 meetings since he is Acting Commissioner. He has a big job. I just brought it up as a matter of interest - nothing to press you.
- H.M.Jr: I like to have him here. I like to see you three fellows sitting here. (Mac, Bell & Graves) It is the biggest bureau and it is our only way of keeping in touch.
- McReynolds: Just as a matter of interest, I was called around to see the Director of the Budget concerning the selection of an appointee on Civil Service and I talked about it a little while and I said, "Why ask me?". He said, "You are doing coordinating work for the White House and I think the President wanted you to make the selection." I said, "I think you are speaking out of turn".
- H.M.Jr: If I thought there was a chance, I would stop kidding you and get very unctuous toward you.
- (Laughter)
- McReynolds: Smith told me he understood I was to take over the job of Civil Service coordinator working from the White House and I told him the President had some time ago discussed this with you and that the matter was closed.
- H.M.Jr: I told the President how I felt and how I thought you felt. Why don't you give him Burlew?
- McReynolds: I told him I had no suggestions to make.
- H.M.Jr: You are serious now?
- McReynolds: Yes.
- H.M.Jr: Pa Watson mentioned it while I was waiting for a treatment. I said, "Pa, as long as I am the appointing officer I'll fight up to the time the President says yes and then I have two choices to make".

McReynolds: That's my attitude exactly. I wanted to make it entirely clear that so far as I was concerned I would immeasurably prefer to stay in the Treasury than go anyplace else.

H.M.Jr: O.K. I hope you all see the King and Queen.

June 8, 1939

FOR THE SECRETARY:

After I had left your office this afternoon, your remark about the choice being between me or someone outside the Treasury reminded me of one other possibility which is a little remote and which may not, therefore, have occurred to you.

Cy Upham has from time to time said that he wishes he were back working for you directly. I have not asked him what he would think of the idea, but he might like to have Mr. Gaston's place, doing that work or anything else you wanted to give him. Cy is popular with the newspapermen, and, of course, I would be glad to work with him or under him, if you desired.

In case you have not considered this possibility and would like to think about it, we can hold our bargain of this afternoon in abeyance for the time being.

ESD

June 8, 1939
11:56 a.m.

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Allan
Sproul: Hello, Mr. Secretary.

HMJr: Well, the King and Queen are here.

S: Well, you got them in safely did you?

HMJr: Yeah. How's the -- how are things today anyway?

S: Well, the market's been quiet. The Governments are a little stronger this morning than they were yesterday, but they've lost most of that gain now and they're about where they were yesterday.

HMJr: I thought we wouldn't sell any more Home Owners' Loan this week. Give the market a chance to adjust itself.

S: Well, I think that's a -- that's perfectly all right. The market for those is still strong. They're.....

HMJr: Is it?

S:eleven hundred to eleven thirteen now. They were ten twelve last night.

HMJr: Oh, really?

S: Yeah.

HMJr: Could you use some?

S: Yes, we could.

HMJr: You could use some?

S: Yeah.

HMJr: It wouldn't interfere with the R.F.C. thing?

S: I don't think so.

HMJr: Huh?

S: I don't think it would.

HMJr: And there isn't too much boiling, huh?

S: No.

HMJr: What are they quoted now?

S: A hundred and two eleven thirteen.

HMJr: A hundred and two eleven thirteen. And they really want them, huh?

S: Yes, they do. They're still looking for them.

HMJr: Well, supposing I -- I'll give you an order for -- I'll give you five million?

S: I think that would be all right.

HMJr: I'll tell you five million.

S: All right, fine.

HMJr: O. K.

S: And the rest of the market seems to be in good shape. This decline is -- they tell us, and it looks to us more like a market that was tired after a very rapid runup rather than any considerable selling.

HMJr: But they could use some more Home Owners' Loan?

S: Yes, they could.

HMJr: Well, I'd feed them out carefully and five million will-- today, no more.

S: All right.

HMJr: Thank you.

S: All right.

June 8, 1939
1:55 p.m.

HMJr: Hello.
Walter
Binger: This is Walter Binger, Henry.

HMJr: Oh, how do you do?

B: How are you, sir?

HMJr: Fine.

B: I wondered whether you would see me for a moment at your convenience if I came down to Washington about this Battery Bridge. I had a letter from George McAneny, who called me up.

HMJr: Yeah.

B: Sent me a copy of the letter that he sent you.

HMJr: Yeah.

B: We've been opposing it very vigorously. We think it's a terrible thing for the city and a frightful thing for Manhattan, and I'm opposing it there in virtue of my position as Commissioner of Borough Works.

HMJr: Yes.

B: And.....

HMJr: No, if you don't mind, I'd love to see you, but I'm just going to decide it on our own little piece of ground which has to do with the barge office.

B: Yeah.

HMJr: But whether the bridge goes through or whether it doesn't, that's no concern of mine.

B: I realize that.

HMJr: And I don't want to use the barge office. I just got through reading George McAneny's letter.

B: Oh, yes.

HMJr: And perfectly frankly, to use that as -- for me to use that as an excuse to hold up the bridge, I think would be improper on my part.

B: I see your point perfectly.

HMJr: I mean, it's just for me to decide what -- what disposition we should make of the barge office.

B: Yes.

HMJr: And what we want, but whether -- to hold them up on that, I think, would be unfair.

B: Yes.

HMJr: So I -- I.....

B: Well, our point is this.

HMJr: Yeah.

B: That, we having held the fort for a little while have found that any delay has simply served to build up the terrific opposition that is growing against.....

HMJr: Yeah.

B: -- against it. And I realize that this is a point which was mentioned this morning -- the barge office, and that is something that might cause some delay.

HMJr: No, it won't. No, they're going to get.....

B: I -- I agree with you perfectly that you could not use that.....

HMJr: No.

B:for any reason, but I thought that you might perhaps want to inform yourself of the effect on the Customhouse of this enormous structure passing right

HMJr: Well, we -- we have all the Federal engineers. We've got all the reports and they've been at it now for -- for several days, Walter, and I've just got to confine myself to that thing, you see?

B: I think you have -- I think you have exactly the right idea and I think it's quite probable that I couldn't add anything to your knowledge if you've well-informed.

HMJr: Well, we have all the engineers.....

B: Yes.

HMJr:and all the maps, and Harry Durning is down here today.

B: Yes. All right, thank you. Then I think I've accomplished just what I wanted.

HMJr: But any time -- I -- for old times' sake, of course, I'd love to see you, but.....

B: Well, for old times' sake I'll drop in on you in Washington.

HMJr: Any time, but not on this.

B: All right.

HMJr: Thank you.

B: Thanks very much.

HMJr: Good bye.

B: Good bye.

RE CONFLICT BETWEEN TRIBOROUGH BRIDGE
AUTHORITY AND NEW YORK CUSTOMS HOUSE RIGHTS

June 8, 1939.
2:30 P. M.

Present: Mr. Foley
Mr. McReynolds
Mr. Harry Durning
Mr. Manning
Mr. Gaston

H.M.Jr: Don't I get pictures and maps?

Durning: We've got a fine map here. One of the lieutenants in the Coast Guard got it for us.

H.M.Jr: They've been phoning me from New York. George McAneny - I told him we were going to settle this thing just on the basis of our own special interest, but if they thought I was going to hold up the Triborough bridge as an excuse to get you a palace, they're crazy.

Durning: I never said anything about it.

H.M.Jr: I just got through talking to Walter Binger, and he said he thought I was going to use this to bring pressure, wanted to come down. I said, "Walter, I'll see you any day in the world, but not on this."

Durning: Not a word said on it.

McR: Very clear statement there of what the situation is.

H.M.Jr: You need a public relations man.

Durning: Bob Moses needs a crack on the jaw, the way we worked on it. I've got to stay down there seven or eight hours, and he hasn't even got a detailed drawing - makes an attack that night.

H.M.Jr: Listen, everybody wants to give Bob Moses a crack on the jaw, and the while he builds another bridge. You fellows don't move fast enough for Bob. He's good at throwing inkwells.

McR: Trouble with Bob is that he's stymied here.

Foley: He's always going away when you hit, that fellow.

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McF: Bob is stymied here. Bob had to come to us. He's just gotten his way, just gotten all that he wanted. We've been coming to him.

H.M.Jr: "My dear Mr. Secretary:" Who is "Mr. Secretary"?

McF: That's Woodring.

H.M.Jr: "Further reference is made to your letter of May 26, 1939, in connection with the application of the Triborough Bridge Authority, New York, New York, for the approval of the plans for a bridge to be constructed across East River between the Battery and Brooklyn, New York.

"The plans submitted with your letter indicate that the proposed bridge will pass over property, commonly known as the Barge Office, belonging to the United States and within the jurisdiction of the Treasury Department.

"The questions involved in this matter have been discussed with representatives of the Triborough Bridge Authority and this Department has explained to them the limitations imposed upon it by law in connection with the granting of any rights or easements in Government property. They have also been informed as to the possible interference with the functions of this Department at the Barge Office.

"The representatives of the Triborough Bridge Authority have indicated that the City of New York is willing to convey to the United States, without payment of any consideration, a strip of land approximately 105 feet in width immediately adjoining to the West of the present Barge Office site. If this additional land is so acquired by the United States, the Department is of the opinion that it will be able to satisfactorily continue its functions at the Barge Office.

"The Treasury Department, therefore, has no objection to the approval by the War Department of this application. However, before any approval can be given to the Authority by the Treasury Department to enter upon or erect any structures over or across any lands of the United States within the jurisdiction of the Treasury Department, the following action must be taken:

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"1. The conveyance by the City of New York to the United States of the strip of land above referred to, title to the said strip to be satisfactory to, and approved by, the Attorney General of the United States, and the enactment of any necessary State or municipal legislation required by the Attorney General of the United States as a condition of his approval of the title to the premises to be conveyed.

"2. The enactment of legislation by the Congress authorizing the Secretary of the Treasury to grant the necessary easements or rights-of-way...." Of the right-of-way?

McR: We can't do it without legislative authority.

H.M.Jr: Yes. "...to the Triborough Bridge Authority for the construction and maintenance of the bridge.

"3. The enactment of any State or municipal legislation which the Attorney General of the United States shall determine is necessary to protect the interests of the United States in the entire site over a part of which an easement or right-of-way for the construction and maintenance of the bridge shall be granted.

"It is the opinion of this Department that the necessity for the foregoing action does not require it to withhold its consent to the approval of the plans...." What does that mean?

Foley: That means that the War Department can give its consent to the plans and then they can go ahead.

H.M.Jr: I see.

Foley: And get the legislation afterwards, because they can't go on the land and erect any structures without our permission.

McR: That's satisfactory to those boys from New York.

H.M.Jr: (Looking at map) Where are we now?

Durning: Here is the entrance.

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H.M.Jr: Is this ours here?

Durning: Right here.

H.M.Jr: From here....

McR: Clear across.

H.M.Jr:to here, and there to here.

McR: That's right.

H.M.Jr: And now, what do they propose to give us?

Durning: Our proposal is that they give us this strip here.

McR: 105 feet.

Durning: 105 feet, which will give you a North view - North and West view up the Battery Park.

H.M.Jr: I see.

Durning: Further, if you get that strip there, there is open water there; then that allows us to put a building there, have all these piers come in this way here, with a view of the North.

H.M.Jr: Where will the boat sail from?

Durning: Boats will sail from here out.

H.M.Jr: I see. Who does this belong to now?

Durning: Belongs to the City of New York.

H.M.Jr: And this is where the bridge is coming?

Durning: Here is the bridge coming right over here. This is the anchorage right here - going to be a hundred feet wide, hundred feet high - to anchor the bridge. This is the pier. This is the Government ferry, which they are going to transfer.

H.M.Jr: Here is the pier now - just blocks the whole thing.

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Durning: Blocks the whole thing. Just came along, put that in there, never said a word to us. That's what he wanted approved pronto.

McR: He wanted us to approve their doing that without giving us any out on that.

H.M.Jr: Who all was here this morning?

McR: Tritorrough bridge engineers - two of them.

Durning: Admiral Peoples and Waesche.

McR: War Department.

Foley: Who were the engineers from the Authority?

McR: Dainer and....

Durning: Dainer was one. I didn't get the other one.
That gives us one of the most valuable pieces of waterfront in the city.

H.M.Jr: And then this goes over to the....

McR: We don't give up anything.

H.M.Jr: This letter goes to Woodring?

McR: That's right.

Durning: This letter goes to Woodring. That allows them to proceed.

McR: We had Woodring's - their engineer was here.

H.M.Jr: Woodring.

McR: Woodring's engineer was over here.

Foley: He has to approve the location of the bridge because it goes across navigable waters - location and height.

Durning: So that it does not interfere with navigation - anything that interferes with navigation.

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- H.M.Jr: What I'm thinking of, for Harry's sake - to give out a statement that we had this meeting today, Mr. Durning was down here, this is the first time he and I have had a chance to go over this thing, that the Treasury is in agreement, and this is the letter I'm sending over to Secretary Woodring.
- McR: I'd send Bob Moses a copy of it.
- H.M.Jr: Oh yes, but not to - the way, I mean just - the story they ran this morning - give it out now so tomorrow morning's paper will have it. Why let them ride over your toes?
- Durning: He was on the reverse on that right throughout.
(Gaston comes in)
- H.M.Jr: Herbert, if you'll read this letter that these fellows decided on - I think in view of today's stories I would carefully consider giving this out for the press, if the Secretary of War doesn't mind. I mean I don't want to do anything....
- Gaston: Yes.
- Foley:put him on the spot.
- H.M.Jr: Not put him on the spot. If he didn't object, I'd like to give it out, say Harry Durning was down here, we met with the Triborough engineers - I wouldn't mention any names - this is the first time we have had a chance to go into this thing, and these people down in New York just don't know what they're talking about - words to that effect.
- Durning: Moses would....
- H.M.Jr: I know Bob. I mean he always....
- Foley: His lawyer just called me up - Louis Delafield. He's doing his usual trick of putting pressure on everybody.
- H.M.Jr: All right. I wanted to give this out to the papers tonight - my letter to Harry Woodring - if Harry Woodring doesn't object. I believe in being

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a gentleman. And then say that Durning's been down here and we've had this conference. And find out who all - get the names of the people that were here from the Triborough bridge and say they....

Foley: They approve this.

McR: They do approve this. They are convinced. I told them when they were in there this morning that we were just trying to stick to facts and we didn't want any fiction at all.

H.M.Jr: I'd give Herbert the whole story and let him have this - get a clearance from Woodring that we can give this out for tomorrow morning's papers. I'll try to get Woodring on the wire myself and tell him I want this.

(On phone) Secretary of War Woodring, please.

McR: This engineer of Woodring's told me this morning....

H.M.Jr: What's his name?

McR: I don't know. The boys have got it.

Foley: What's his name, Tom?

Manning: I didn't get it.

McR: I can get it. We've got it out there.

H.M.Jr: Who would it be over there? Call your people, so when I talk to him - get it quickly - who is his engineer?

Gaston: (After reading letter) O. K.

H.M.Jr: What?

Gaston: Yes.

H.M.Jr: You see what I mean?

Gaston: Yes.

June 8, 1939
2:45 p.m.

HMJr: Hello.

Operator: Secretary Woodring is not in his office this afternoon.

HMJr: He's not what?

O: Not in his office this afternoon.

HMJr: Who is there there?

O: I'll find out. Do you want one of the assistants?

HMJr: Somebody in his office.

O: All right.

(Pause)

HMJr: Hello.

Operator: Mr. Martin in Mr. Woodring's office.

HMJr: All right.

O: Go ahead.

HMJr: Hello.

Martin: Yes, Mr. Secretary.

HMJr: Who is this please?

M: This is Mr. Martin.

HMJr: Martin?

M: Yeah.

HMJr: Are you in Mr. Woodring's office?

M: Yes, sir.

HMJr: Well now, I have just finished writing a letter which I am going to send over by hand.

M: Yeah.

HMJr: And it's in regard to this Triborough Bridge.

M: Oh, yes, sir.

HMJr: We had your people over here today and as far as we're concerned we're all in agreement, and also with the engineers of the Triborough Bridge.

M: Yes, sir.

HMJr: But Mr. Robert Moses, who I've known for a great many years, is fighting the thing in the paper and said some very unkind things about my Collector of Customs in New York, so therefore I'd like to fight fire with fire, and I'd like to give this letter out so that it could be in tomorrow morning's New York papers, but I don't want to do it if the people over in the War Department felt I would be putting them on the spot. You see?

M: Is your letter in opposition to the Bridge?

HMJr: No, no. You see, we -- we show that we have to have legislation and consent of Congress to get what we want. The city is off -- are you familiar with this?

M: Oh yes, sir.

HMJr: Well, they're offering us another hundred and five feet adjoining our -- adjoining our present property, which we'll take, and then we point out in this letter that we have to get the approval of Congress and the Attorney General.

M: Yes, sir.

HMJr: And in the closing paragraph I say, "It is the opinion of this Department (the Treasury) that the necessity for the foregoing action does not require it to withhold its consent to the approval of the plans since in no event can the Triborough Bridge Authority, or any one acting in its behalf, undertake any work upon the Government property until the action above indicated is taken." So, I mean, it's -- this means that the War Department could give their consent to the plan.

M: Yes, sir.

HMJr: But until we get Congressional authority for giving up this easement and all the rest of that, there's nobody can act. You see?

M: That has now reached a state where I think the Secretary wants the -- it to be considered by the joint Army and Navy Board from the standpoint of its effect on national defense.

HMJr: Oh!

M: And I can't -- right offhand, I can't see the slightest objection to your giving that out, but I -- you say you are sending it over by hand?

HMJr: I'm -- I can send it by hand.

M: Well, if you will, sir, and -- and then let me check with some of our people here and call your office right back?

HMJr: Well, I tell you, Captain Wanamaker attended the conference this morning.

M: Yes, did he express any.....

HMJr: Well, just a moment. (Talks aside) Hello?

M: Yes?

HMJr: He didn't commit the War Department. On the other hand, he didn't raise any objection. All this does is, this clears the Treasury. I mean, the Treasury is no longer a hurdle.

M: I see, sir.

HMJr: And all I want to do is -- because Moses -- I don't know whether you saw the New York papers -- jumped so hard on Harry Durning, our Collector, I'd like to give this out in order to clear Durning.

M: I see, sir.

HMJr: But I'll send this over. It'll be in your office in fifteen minutes.

M: Well, that's fine, and I -- I'll.....

HMJr: And what I'd like you to do would be to call back Mr. Herbert Gaston.

M: Mr. Gaston, yes, sir.

HMJr: G-A-S-T-O-N.

M: Yes, sir.

HMJr: And -- and let him know not later than four o'clock.

M: If there's -- if there's any objection to it being released to the press.

HMJr: Yeah. Let him know "Yes" or "No" not later than four o'clock.

M: Yes, sir.

HMJr: And -- Herbert Gaston.

M: Yes, sir. I'll do that.

HMJr: And I'd like very much to do it because I know Mr. Moses and the only way to fight him is in the papers, and we happen to be right.

M: It.....

HMJr: This Administration, you know, has had so many fights with him.

M: Yes, sir. Well, offhand I can absolutely see no objection but I would like to have the opportunity to check it in with our people here.

HMJr: That's fair, and I don't want to put Harry Woodring on the spot.

M: Yes, sir.

HMJr: You see?

M: Yes, sir.

HMJr: So I'll send it over addressed to the Secretary of War, attention of Mr. Martin?

M: Thank you very much, sir. Yes, sir.

HMJr: Attention of Mr. Martin.

M: Yes, please.

HMJr: It'll be there in fifteen minutes.

M: All right. Thank you, sir.

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H.M.Jr: Get the details from Mac. The only thing - I wouldn't say that Triborough agreed to it, I'd say they were here. Bob said they would agree. Well, they can't agree to it unless I agree to it. Say that Mr. Durning was here and I've sent this over and this is where we stand. That's the way to fight Bob Moses, see? After that story, come right back at him.

Durning: Yes. Well, I didn't want to give any....

H.M.Jr: No, but we can do it here.

Durning: I didn't want to give any reply.

H.M.Jr: This is the reply.

Gaston: That's the whole story there.

Durning: No demand was ever made on Moses by me. I just simply - this thing came up - I just simply went to work on it.

H.M.Jr: I think I'd have Harry when you have the boys in - let him sit there when we have the newspaper men. That's the way. I wouldn't call Moses any names or anything.

Durning: Oh no.

H.M.Jr: (On phone) Hello. - - He's not what? - Well, who is there there? - - Somebody in his office.

He's not there this afternoon - great, what the King and Queen can do.

Foley: Bet you're the only Cabinet officer working.

H.M.Jr: (On phone) Hello. (Conversation with Mr. Martin, of War Department, follows:)

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McR: I'll call Martin and tell him it's on the way.

H.M.Jr: That was Martin I was talking to.

McR: Oh.

H.M.Jr: Who is Martin?

McR: He's Administrative Assistant.

H.M.Jr: (On phone) Tell Miss Chauncey to come in, please.
All of us fellows have got Administrative Assistants;
that's why we can't....

Durning: I have one myself, sir.

H.M.Jr: Miss Chauncey, this is for the Secretary of War,
attention of Mr. Martin. Special messenger. He's
waiting for it. Here's a copy. He's waiting for
it.

Chauncey: Secretary of War, attention of Mr. Martin.

Durning: That's the fine spot there.

H.M.Jr: That's all right. Now, Mac, if somebody could send
a copy of this to the Mayor and to Bob Moses - want
to get that started right away?

Manning: Yes.

H.M.Jr: For my signature. I won't be here terribly long.
Get that started. To the Mayor and Robert Moses.

Manning: Uh-huh. (Leaves)

H.M.Jr: And then you (Durning) stick around, and if Herbert
hears - you (Gaston) have the boys in, let Harry
sit there, see?

Durning: Well, it's a fine proposition.

TREASURY DEPARTMENT

Washington

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FOR IMMEDIATE RELEASE,
Thursday, June 8, 1939.

Press Service
No. 17-84

After a conference today with the Collector of the Port of New York, engineers of the Tri-Borough Bridge Authority and Army engineers, Secretary Morgenthau sent the following letter to the Secretary of War:

"June 8, 1939.

My dear Mr. Secretary:

Further reference is made to your letter of May 26, 1939, in connection with the application of the Triborough Bridge Authority, New York, New York, for the approval of the plans for a bridge to be constructed across East River between the Battery and Brooklyn, New York.

The plans submitted with your letter indicate that the proposed bridge will pass over property, commonly known as the Barge Office, belonging to the United States and within the jurisdiction of the Treasury Department.

The questions involved in this matter have been discussed with representatives of the Triborough Bridge Authority and this Department has explained to them the limitations imposed upon it by law in connection with the granting of any rights or easements in Government property. They have also been informed as to the possible interference with the functions of this Department at the Barge Office.

The representatives of the Triborough Bridge Authority have indicated that the City of New York is willing to convey to the United States, without payment of any consideration, a strip of land approximately 105 feet in width immediately adjoining to the West of the present Barge Office site. If this additional land is so acquired by the United States, the Department is of the opinion that it will be able to satisfactorily continue its functions at the Barge Office.

The Treasury Department, therefore, has no objection to the approval by the War Department of this application. However, before any approval can be given to the Authority by the Treasury Department

to enter upon or erect any structures over or across any lands of the United States within the jurisdiction of the Treasury Department, the following action must be taken:

1. The conveyance by the City of New York to the United States of the strip of land above referred to, title to the said strip to be satisfactory to, and approved by, the Attorney General of the United States, and the enactment of any necessary State or municipal legislation required by the Attorney General of the United States as a condition of his approval of the title to the premises to be conveyed.

2. The enactment of legislation by the Congress authorizing the Secretary of the Treasury to grant the necessary easements or rights-of-way to the Triborough Bridge Authority for the construction and maintenance of the bridge.

3. The enactment of any State or municipal legislation which the Attorney General of the United States shall determine is necessary to protect the interests of the United States in the entire site over a part of which an easement or right-of-way for the construction and maintenance of the bridge shall be granted.

It is the opinion of this Department that the necessity for the foregoing action does not require it to withhold its consent to the approval of the plans since in no event can the Triborough Bridge Authority, or any one acting in its behalf, undertake any work upon the Government property until the action above indicated is taken.

Very truly yours,

(Signed) HENRY MORGENTHAU, JR.

Secretary of the Treasury.

The Honorable,

The Secretary of War."