

DIARY

Book 203

July 13 - July 17, 1939

- A -

	Book	Page
Appointments and Resignations		
Dwan, Ralph:		
Foley recommends for Counsel, Bureau of Customs - 7/13/39.....	203	22
Hanes, John W:		
HMJr assures Doughton Hanes is not going to resign - 7/14/39.....		250

- B -

Bailie, Mrs. Earle		
HMJr asks that treatment accorded Mrs. Bailie and her secretary in regard to social security tax be investigated - 7/23/39.....		24
Business Conditions		
Haas memorandum on situation for week ending 7/15/39		328

- C -

Czechoslovakia		
Gold balances: American Embassy, London, reports on Chancellor of Exchequer's statement concerning - 7/14/39		253
Commodity Credit Corporation		
HMJr and Wallace discuss financing - 7/17/39.....		339

- D -

Dixon, Robert (brother-in-law of Fred Vinson)		
Shortage in account in Stamp Division at Covington, Kentucky: Doughton asks HMJr to investigate - 7/13/39.....		28
Doughton, Robert L. (Congressman, North Carolina)		
Dixon, Robert (brother-in-law of Fred Vinson): Shortage in account in Stamp Division at Covington, Kentucky: Doughton asks HMJr to investigate - 7/13/39..		28
Kitchin, Mills: unhappy at Justice Department; Doughton asks HMJr to consider placing him in Treasury - 7/13/39..		30
Douglas Aircraft Company		
Wall Street Journal story: "Cheaper and easier to finance abroad than at home" - 7/13/39..... a) HMJr calls to FDR's attention		6
Dwan, Ralph		
See Appointments and Resignations		

- G -

Germany		
Standstill Agreement: HMJr asks American Embassy, Berlin, for certain information concerning - 7/13/39.....		1
Discussion at 9:30 meeting - 7/13/39.....		19,92,93

- G - (Continued)

	Book	Page
Germany - (Continued)		
American Embassy, Berlin, reports on terms - 7/14/39	203	262
Resume of entire economic situation reviewed by American Embassy, Berlin - 7/15/39.....		267
Great Britain		
King and Queen sent copy of picture taken during visit to Washington and Hyde Park - 7/14/39.....		103

- H -

Hanes, John W.
See Appointments and Resignations

- I -

Internal Revenue, Bureau of Investigation of involvement in private business on part of Collectors of Internal Revenue discussed at 9:30 meeting - 7/13/39.....		12
a) HMJr opposes Information Clerks in Field Offices: HMJr asks Graves to establish - 7/17/39.....		324

- J -

Jones, Jesse H.
See Self-liquidating Projects: Railroads

- K -

Kitchin, Mills Unhappy at Justice Department; Doughton asks HMJr to consider placing him in Treasury - 7/13/39.....		30
---	--	----

- M -

McReynolds, William H. Facetious comment at 9:30 meeting on transfer to White House - 7/13/39.....		11
--	--	----

- N -

Navy Department Armored Plate: Edison wishes to discuss with right person in Treasury; HMJr asks McReynolds to make arrangements - 7/14/39		238
---	--	-----

- N - (Continued)

	Book	Page
Navy Department - (Continued)		
Conference between Treasury representatives and Navy representatives - Edison present - 7/17/39.....	203	297
HMJr reports to Edison on conference with FDR - 7/17/39.....		343
a) FDR still recommends that companies borrow from Reconstruction Finance Corporation and pay off on a pro rata basis		
Steel supplies for naval construction program discussed by FDR and HMJr - 7/17/39.....		278
Neutrality		
See War Conditions		

- R -

Revenue Revision		
Press comment on HMJr's statement - 7/17/39.....		293

- S -

Self-liquidating Projects

Railroad Equipment:

HMJr thinks FDR should once more reassure himself that Jones will stand by in testimony before Senate Committee - 7/13/39.....		25
a) Jones' testimony hurts bill and FDR is so informed - 7/14/39.....	98,242	
Eccles will testify in support of - so Currie informs HMJr - 7/15/39.....		277
HMJr's proposed statement discussed by HMJr, Gaston, Foley, McReynolds, White, Haas, and Duffield - 7/13/39.....		32,107 71,145,157, 164,280
a) Draft 2 of statement.....		177
Jones and Page statements.....		
Spain		
Bullitt reports on court confirmation ordering return of gold and valuables sent to France by Spanish Government during civil war - 7/13/39....		2
Banco de Espana case against Federal Reserve Bank of New York - 7/14/39.....		191
a) Judge Leibell's decision - 7/17/39.....		292
1) American Embassy, Paris, provided with resume - 7/17/39.....		356
Stabilization Fund		
Shipstead amendment proposing reduction: HMJr discusses with Harrison - 7/13/39.....		26
Steel		
See Navy Department		

- T -

Taxation
See Revenue Revision

Book Page

- W -

War Conditions

Neutrality: Press comment on controversy between
FDR and Hull - 7/13/39.....

203 8

Wheat

Resume of export sales, et cetera - 6/26/39—
7/13/39.....

337

PARAPHRASE OF TELEGRAM RECEIVED

TO: American Embassy, Berlin

NO.: 288

DATE: July 13, 1939, 7 p.m.

FOR HEATH FROM THE SECRETARY OF THE TREASURY.

Your no. 633 of July 12, 1939, 10:00 a.m.

Will you please telegraph as full general information as it is possible for you to secure and also ^{information} with reference to the following specific points:

1. In which provisions of the Standstill Agreement are the dollar lines in question identified?

2. Has any precedent been established under the Standstill Agreement for the proposed use of credits for the financing of sales to a third country?

3. Would the proposed use of credits necessitate obtaining the formal consent of the American Standstill Committee to modify the Standstill agreement in addition to the reported consultation or agreement in principle?

4. What are the amounts and maturities which are likely to be involved?

5. With reference to the mechanics of the use of the credit, is it likely that a debtor-creditor relationship would result between Spanish banks or Government and American banks, and would German banks remain liable if such a relationship should arise?

EA:EB

HULL

JR

GRAY

Paris

Dated July 13, 1939

Rec'd 12:12 p.m.

Secretary of State,
Washington.

1303, July 13, 6 p.m.

FOR THE TREASURY.

Rates were unchanged in pre-holiday exchange trading between banks this morning. On account of the French national holiday tomorrow the markets are closed until Monday.

It is announced in the press that the court of appeal at Poitiers yesterday confirmed the judgment of the lower court ordering the return to Spain of the 9000 cases of gold and valuables sent to France by the Basque Government during the Spanish civil war. (Please see telegram No. 1220 of June 29).

BULLITT

RR:WVC

July 13, 1939

My dear Mr. President:

I would like to bring to your attention this amazing story that the Douglas Aircraft Company "has found it cheaper and easier to finance abroad than at home."

Yours sincerely,

The President,

The White House.

July 13, 1939

My dear Mr. President:

I would like to bring to your attention this amazing story that the Douglas Aircraft Company "has found it cheaper and easier to finance abroad than at home."

Yours sincerely,

The President,
The White House.

July 13, 1939

My dear Mr. President:

I would like to bring to your attention this amazing story that the Douglas Aircraft Company "has found it cheaper and easier to finance abroad than at home."

Yours sincerely,

The President,
The White House.

Financed Abroad

Douglas Aircraft Finds Dutch Better Source Of Venture Capital

Company Also Expects to Sell DC-4 Planes to at Least One Domestic Line

They Also Interest Foreigners

The largest unit in one of America's "infant industries" has found it cheaper and easier to finance abroad than at home, it was revealed yesterday.

Douglas Aircraft Co., with a larger backlog of unfilled orders than any other company in this rapidly expanding industry, has concluded arrangements to obtain foreign capital at a lower cost than is believed would have been possible in the United States. The company announced yesterday it had arranged to sell 29,320 shares of its treasury stock to a Dutch banking group for distribution to investors in Europe. Price obtained by the company was \$83.50 a share.

Another interesting fact about the company also came to light. It is that the DC-4, the latest and largest of land transports, will probably be ordered by at least one domestic airline, while foreign transport companies also are interested in buying the model.

No Connection With Financing

The near possibility of sale of the DC-4s has no direct connection with the foreign financing except that it emphasizes the circumstance that the so-called venture capital could be secured abroad more easily than at home.

The block of shares going abroad comprises approximately 5% of the company's total stock, and will be delivered to a Dutch banking group headed by *Nederlandse Handel-Maatschappij* and comprising the *Amsterdamsche Bank*, *De Twentsche Bank*, *Labouchere & Company*, *Warburg & Co.*, all of Amsterdam; *R. Mees and Zonen* of Rotterdam, and *Heldring & Pierson* of The Hague.

There are a number of factors which played an important part in the transaction and facilitated sale of Douglas shares abroad. It is understood that a similar deal was proposed a year ago, but fell through due to technicalities. When the proposition was again advanced this year, the company canvassed other methods of financing and decided that a considerable savings could be effected by accepting the offer of the foreign bankers.

Gross proceeds to the company will be \$1,861,820 at \$63.50 a share, while total expenses incident to the negotiations and completion of arrangements are estimated at not more than \$10,000. This will provide the company with net proceeds of \$1,851,820 at a cost of 34 cents a share.

In comparison with these results, it is likely that sale of stock in this country would have been made at a price \$3 to \$4 a share lower, while costs of registering the shares under the Securities and Exchange Act would have been substantial. Under the current plan it will be necessary for the company to file with the SEC notice of issuance of the shares on Form S-A, while distribution of the stock in the United States would have required a full registration procedure with the SEC.

Already Widely Used Abroad

Douglas commercial transport planes are already widely used on European airlines. Foreign investors have long held substantial amounts of Douglas stock but it is probable that distribution of an additional block at this time will increase investor interest in the company and perhaps be used as an argument for purchase of more Douglas equipment by foreign airlines.

It is understood that there is a provision in the underwriting agreement that the shares can be sold only to "bona fide investment buyers" in Europe. The new shares will be officially issued in whole or in part in Amsterdam in the form of certificates of *Interland*, the administration office connected with *Labouchere & Co.*, Amsterdam. Negotiations in the transaction were handled through *Kuhn, Loeb & Co.* which firm headed an underwriting group for the last public offering of Douglas stock in 1934. Additional shares will increase the outstanding stock from 570,880 to 600,000 shares.

Following a long period of uncertainty whether Douglas would be able to sell production models of its DC-4 model transport, it is now indicated that at least one major airline in the United States has decided to make the jump into the much larger and more costly equipment field. The experimental plane of this type was completed by Douglas more than a year ago and to date has cost the company approximately \$1,500,000. Five domestic airlines have options on production models which expire July 17.

Only United Air Lines Transport Corp. of the domestic airlines has so far shown any very great interest in the plane. American Airlines has shown some interest in the Curtiss-Wright CW-30 transport while Transcontinental & Western Air is understood to have revived its contract with Boeing Airplane Co. and proposes to order three Boeing Stratoliners;

Whether United will announce plans for purchase of six or seven DC-4s before expiration of the option, or will await until afterward to make known its plans could not be ascertained. It is generally conceded, however, that United has decided upon this plane for its new equipment rather than one of the others.

In addition to the United order, KLM, the Dutch airline, has indicated its definite interest in the DC-4 and will probably purchase a minimum of four planes to begin with. Douglas is prevented from accepting orders for this plane from other than the five major domestic airlines until expiration of the option, next Monday.

Although the cost to Douglas of developing the DC-4 was high, and the project was carried on without any assurance production planes could be sold and the development cost regained, the company has followed a policy of writing off these costs against operations for the past several quarters. Balance sheet as of May 31, 1939 shows these costs to have been charged off to the extent, that carrying value of the plane was \$800,000.

Prices on the planes for the two orders which now are indicated have not yet been determined. Disposition of the experimental plane is also an important factor in determining how Douglas will fare in regaining its development costs. Past experience has shown, however, that the best sales promotion for airplanes is to get some of them in use. With this factor in view, it is more than likely that sale of seven in the United States and four to Europe will act somewhat in the nature of sales promotion work and that the company will be content with only a moderate profit above manufacturing costs and not attempt to absorb all the development costs with the initial orders.

Douglas Aircraft Co. reports for the six months ended May 31, 1939 consolidated net profit of \$1,396,791 after write-offs and provision for federal income taxes, equal to \$2.45 a share on 570,650 shares outstanding. This compares with net of \$1,093,149 for the six months to May 31, 1938, or \$1.91 a share.

Consolidated net profit for the three months of the current fiscal year to February 28, 1939, was reported at \$771,552, or \$1.35 a share.

In excess of \$1,000,000 was written off during the six months ended May 31 for development of new models. The current financial position continues satisfactory, with a current asset ratio of three to one. In addition to showing the DC-4 at \$800,000, balance sheet reflects a carrying value of \$370,583 for the DC-5. Douglas now employs 8,053 persons in two plants and is utilizing 1,447,000 square feet of floor space. This is a substantial addition to factory area which was completed in recent months.

July 13, 1939

8

Neutrality

PRESIDENT ROOSEVELT AND SECRETARY OF STATE CORDELL HULL WERE REPORTED IN ADMINISTRATION QUARTERS TODAY TO HAVE DISAGREED ON THE LANGUAGE OF A NEUTRALITY MESSAGE THE PRESIDENT PLANS TO SEND TO CONGRESS.

MR. ROOSEVELT, ACCORDING TO THESE INFORMANTS, WANTS TO USE FORCEFUL LANGUAGE IN REITERATING HIS DEMAND THAT CONGRESS REVISE THE NEUTRALITY LAW AT THIS SESSION BY REPEALING THE ARMS EMBARGO. HULL WAS SAID TO OPPOSE A MESSAGE THAT MIGHT ANGER THE ROME-BERLIN AXIS AND FURTHER ANTAGONIZE AN ALREADY REBELLIOUS SENATE.

SOURCES CLOSE TO THE WHITE HOUSE SAID THE MESSAGE PROBABLY WOULD BE SENT TO THE CAPITOL BEFORE THE END OF THE WEEK, BUT THAT IF CONGRESSIONAL DEVELOPMENTS WARRANTED, MR. ROOSEVELT MIGHT CHANGE HIS PLANS AND USE SOME OTHER MEDIUM--POSSIBLY A FIRESIDE CHAT--TO MAKE HIS VIEWS KNOWN TO THE COUNTRY.

7/13--RB37A

PRESIDENT ROOSEVELT HAS ISSUED A STATEMENT DENYING A UNITED PRESS
STORY WHICH HAD SAID THAT HE AND SECRETARY HULL WERE REPORTED TO
HAVE DISAGREED ON THE LANGUAGE OF A NEUTRALITY MESSAGE WHICH THE
PRESIDENT PLANS TO SEND TO CONGRESS.

7/13--N207P

ADD ROOSEVELT DENIAL

THE PRESIDENT'S STATEMENT SAID:

"THE READING PUBLIC IS ENTITLED TO A STATEMENT FROM THE PRESIDENT,
A STATEMENT OF WARNING WHICH HAS BEEN MADE NECESSARY BY A NEWS STORY
ISSUED THROUGH THE UNITED PRESS AND ALREADY PRINTED IN ONE OR MORE
PAPERS AND ON THE UNITED PRESS TICKER SERVICE.

"THE HEADLINE OF THE LOCAL WASHINGTON HERALD STATES THAT THE
PRESIDENT AND THE SECRETARY OF STATE HAVE 'SPLIT' ON SOME FORM OF NOTE
ON NEUTRALITY.

"THE STORY STATES THAT THEY 'WERE REPORTED IN ADMINISTRATION
QUARTERS TODAY TO HAVE DISAGREED ON THE LANGUAGE OF A NEUTRALITY
MESSAGE.'

"THE HEADLINE IS, OF COURSE, WHOLLY FALSE; SO IS THE STORY.

"THE SUBTERFUGE OF SAYING IN THE LEAD OF THE STORY THAT THEY WERE
"REPORTED" TO HAVE DISAGREED IS OBVIOUS BECAUSE IT IS A PRACTICE TOO
OFTEN ENGAGED IN TO INVENT SUCH 'REPORTS' OUT OF A CLEAR
BLUE SKY, FAILING WHOLLY TO CHECK UP WITH ANY RESPONSIBLE SOURCE IN
WASHINGTON.

"THE UNITED PRESS HAS BEEN GUILTY OF A FALSIFICATION OF THE ACTUAL FACTS. IF CALLED UPON TO GIVE THE SOURCE OF THE INFORMATION, THEY WILL DECLINE TO GIVE IT--ANOTHER USUAL SUBTERFUGE.

"THE FACT REMAINS THAT THE STORY IS CONTRARY TO EVERY FACT.

"I AM CALLING THIS TO THE ATTENTION OF THE PUBLIC BECAUSE IT REPRESENTS A CULMINATION OF OTHER FALSE NEWS STORIES TO WHICH THE ATTENTION OF THE UNITED PRESS HAS BEEN CALLED BY ME AND BY MY OFFICE ON PREVIOUS OCCASIONS.

"IT IS, OF COURSE, IMPOSSIBLE FOR THE WHITE HOUSE TO DENY EVERY FALSE STORY. THIS LATEST EPISODE, HOWEVER, REPRESENTS THE LIMIT OF ANY DECENT PERSON'S PATIENCE, AND I AM GIVING THIS IN THE FORM OF A STATEMENT RELATING SPECIFICALLY TO THE UNITED PRESS BECAUSE I DO NOT WISH IT TO BE CONSIDERED AS AN INDICTMENT OF THE NEWSPAPERS OF THE UNITED STATES OR OTHER PRESS ASSOCIATIONS.

"THE FACT OF THIS PARTICULAR CASE IS THAT THE PRESS HAS BEEN INFORMED CONTINUOUSLY FOR THE PAST 36 HOURS THAT THE PRESIDENT AND THE SECRETARY OF STATE HAVE NOT DECIDED, UP TO THE PRESENT TIME, WHETHER HE WILL ADDRESS ANY MESSAGE TO THE CONGRESS OR WHAT THE NEXT STEP OF THE ADMINISTRATION ON NEUTRALITY WILL BE. THAT IS THE TRUTH, AND IT IS A GREAT PITY THAT THIS SIMPLE TRUTH OF WHICH THE PRESS HAS BEEN INFORMED HAS BEEN DISREGARDED BY A PRESS ASSOCIATION."

7/13--N216P

GROUP MEETING

July 13, 1939.
9:30 A. M.

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

H.M.Jr: Mr. McReynolds is accepting sympathy.

Gaston: He has mine.

McR: A lot of enthusiasm.

Bell: Harry White offered a good comment, I think.

H.M.Jr: What's that?

Bell: Said he'd have them shooting craps in the White House before very long.

H.M.Jr: Well, Mac, how do I address you now?

Klotz: The Honorable.

McR: My status is that of an employee of the Treasury Department, sir.

H.M.Jr: Yes, but what do I get out of it?

White: The privilege of paying his salary.

H.M.Jr: You know, the funniest thing - in the paper I read - I don't know whether it was right - they said "Mr. McReynolds, who belongs to the spending school, and Mr. Currie, the administrative expert, are going over to the White House."

McR: Is that so?

H.M.Jr: Suppose they got it twisted?

McR: I don't know.

- 2 -

White: May end up that way.

Klotz: That's wonderful.

Bell: What do you mean - "twisted"?

H.M.Jr: What did you say?

Bell: Harry said, "It may end up that way," and I asked him what he meant, that Mac would become a spender, or twisted.

H.M.Jr: I don't know.

Say, listen, Harold, you're very decorative, but don't come in here and just sit here, you know. Read that and tell me what was decided. Read it aloud.

Graves: Well, sir, this was for signature down there, if it's desired that we get this information as to the business activities of Collectors; this is the best way to get it, in my opinion.

H.M.Jr: Well, but you're acting Commissioner; do you recommend that we try to find out whether all the Commissioners - what we call them - Collectors of Internal Revenue are in private business? Do you think we ought to start that, because if we start that we're going to go through with it.

Graves: I had the impression you were asked to do it by the President.

H.M.Jr: That's right. Do you think we should do it?

Graves: Yes, sir, under those circumstances.

H.M.Jr: Forget the circumstances. I mean the President, after all - of course, when McReynolds gets over there, it will be different - he looks to me now, you see, to tell him whether it's right or wrong. When Mac is over there, we'll always know everything is right; but in the meantime, until he gets over there....

Gibbons: If you do it out of a clear sky, you'll take the rap for it, you know.

- 3 -

H.M.Jr: Well, I always do. I'm rap-proof.

Klotz: Rat-proof.

Gibbons: I think somebody ought to talk to the President about it. Do you know what's in the back of his mind?

H.M.Jr: Do I?

Gibbons: Yes.

H.M.Jr: No.

Gibbons: I really don't.

H.M.Jr: What I'm trying to get Graves to say, if he wouldn't be so darn canny - do you think it's a good move?

Graves: I'm inclined to say not.

H.M.Jr: Why in the hell don't you say so? Excuse me.

Gibbons: You see,

Graves: We know which of these Collectors are doing a good job as Collector and....

H.M.Jr: Now, Mr. Graves, seeing that you have your doubts - "Grave" doubts - how would it be that this would be the first task we ask the new Administrative Assistant to the White House to take up?

Graves: I wouldn't want to embarrass him. If anybody's to be embarrassed, I'd rather do it myself.

H.M.Jr: You haven't got the entr e over there.

Graves: We could do it right on our own motion here; if it's to be done at all, I should say we ought to do it.

H.M.Jr: Well, the way I feel about it - I mean once we get started I'm not going to pull my punches; I just think we're going to run into all kinds of trouble.

Graves: Sure we will.

- 4 -

H.M.Jr: A lot of them are in business, aren't they?

McR: Yes.

Graves: Well, I think none of them are so active in business that they are not devoting full time to their job as Collector. That's my impression. There may be an exception or two, but by and large I think the 64 Collectors of Internal Revenue are doing well in handling their jobs. And it's always been permitted, as I understand it, for those men to retain their business connections, so long as they were not allowed to interfere with their functioning as Collectors.

H.M.Jr: Now, I personally - I mean I've been joking - I hope the people at Internal Revenue do the job. We went all through the Cleveland job and, God, we wasted more time on that, and when we got right down to it I didn't get the backing of the White House that I needed; and the fellow there was in some little business - I don't know what it was.

I'd much rather say to you verbally, "As your men go out, see that the Collectors are tending to business. If a Collector isn't tending to business, let us know and then we'll take it up as an individual case."

Graves: That's right.

H.M.Jr: But to do this thing, go right into the thing, then do it in Customs, then want to fire ten or fifteen people - I wouldn't get the backing to fire them. Now, if the President has some doubts about one Collector, yes.

Incidentally, the President told me to look up a man - a Customs Inspector, this is, by the name of Lynch. Didn't tell me who, but somebody came in a year ago, and this fellow Lynch on the dock of New York held a friend of the President up. I don't know how many Lynches you've got. That's all I could get.

Gibbons: O. K.

- 5 -

H.M.Jr: Well then, let's leave it this way, Harold, and I'm serious. Now, don't send things through if you think it's a mistake, just because the President asked to, because we're not doing him a service. Let's say that you as Acting Commissioner - I hold you responsible to see that every Collector is doing an honest job and giving the Government honest service.

Graves: Yes.

H.M.Jr: Now, if there are some cases that you want to bring to my attention.... Check, Mac, on that?

McR: I do. Of course, that's the reason why I....

H.M.Jr: That goes for Customs, too.

McR: See, the thing was hanging in the air when it came in to me. I sent it down and I said, "Prepare what you would have to send if you were going to make the inquiry, but we won't send it until it's been cleared; but it's a definite order from the White House."

H.M.Jr: Why don't you give me kind of a written letter, a danger signal on this? There's nothing on there to show it's dangerous.

McR: The whole thing looks dangerous to me. That's the only reason....

H.M.Jr: Did anybody say it's dangerous?

McR: No.

H.M.Jr: There's nothing on here to indicate that either you or Harold think it's dangerous.

Klotz: I think Mr. Hanes took it up originally, you see. He was handling it.

H.M.Jr: Well, I appreciate the compliment that you think I've got enough horse sense that I wouldn't do it.

McR: I wasn't going to clear it without talking to you. If you said yes, I would have told you why I didn't think you ought to do it.

- 6 -

H.M.Jr: Whew! Oh boy! Whew boy! That's a new one. I'm going to use that sometime. Oh, that's a peach, Mac.

Bell: He's getting prepared.

H.M.Jr: He's joined. Whew!

McR: I had no idea you would clear it.

White: No, I think that's right in line with Mac's character. He doesn't use any unnecessary energy. If you were going to say no, he could just sit back; why should he expend energy? That's part of his dour Scotch character. He isn't giving anything away, even advice.

H.M.Jr: Well, it's all got a happy ending, anyway.
But, Harold, on that kind of stuff....

Klotz: Poor Mac.

H.M.Jr: He's having a good time. The only thing that would worry Mac was if I didn't kid him. Right, Mac?

McR: I'd be despondent.

H.M.Jr: Let's let it go like that.
Everything all right, Mac?

McR: Yes. On this White House equipment, the boys - the organization that normally would have handled that over there in Interior has been split up between the new one and the old one, and it was a pawn in the air yesterday. Bert Reynolds told me he'd tell me by 10:00 o'clock this morning about their funds; that he was sure they could do it, they'd try and get the thing through and he'd tell me during the forenoon the day on which they would have the order through. I told him I wanted to be able to report to you during the day that they were going to buy it and that they'd buy it on a date, so it wouldn't be left in the air.

H.M.Jr: Gee, just today - Archie Lochhead is away; Merle Cochran called me up at 7:30, wondered if I'd phone. So I've got nobody out there.

- 7 -

Dan?

Bell: I have nothing. You knew we sold 2 million
350 thousand of the Home Owners Loan.

H.M.Jr: Anything else?

Bell: Just on people coming in and asking....

H.M.Jr: Mac, would you do this for me, please. Supposing
you draw up a tentative order - I mean you can
be working on it - for the President, setting up
an independent agricultural lending agency; and
let's take a look at it, with a chart. See, Mac?

McR: Be delighted to do it, sir,

H.M.Jr: Fine.

McR:with all the enthusiasm in the world.

H.M.Jr: Swell. Let's get it on the President's desk.

McR: You can't do it until January.

H.M.Jr: I know, but just....

(Messenger brings in to McReynolds a lily wrapped
in white paper)

McR: I think it's a lily.

(Hearty laughter)

White: Come on, open it up, Mac.

H.M.Jr: Come on, Mac, open it up.

McR: I knew what it was before. Well, the last time I
was drunk before this, he gave me one.

Foley: Last time before this - ha ha!

Klotz: You didn't let me in on it. You were afraid I'd
tell.

McR: He never overlooks one, does he?

- 8 -

H.M.Jr: This is only the second time, isn't it?

McR: Only the second time.

H.M.Jr: Look out for the third time.

(To messenger) Put that on Mr. McReynolds' desk in some water. We don't want it - we want it to live.

Look out for the third time.

Graves: I have nothing.

Gibbons: Didn't mention any date about Lynch? You have no date?

H.M.Jr: No - about a year ago, he said.

Gibbons: Of course, we can take each manifest - the list of manifests each man has had, and run it down from there, the names, you know.

H.M.Jr: No, about a year ago.

Let me read this out loud, Harry, then I want you to fix up - Harry White - that they send a cable asking for more details. I want Ed Foley to listen to this.

"A representative of the American Standstill Committee at present in Berlin was asked by German banks to permit them to utilize, for the financing of shipments to Spain of American cotton, certain dollar lines of credit which under the Standstill Agreement have to be kept open. Apparently the request was agreed to in principle by the American Standstill Committee.

"The German bankers would undoubtedly, in making these credit lines available to the Spanish Government or Spanish banks, charge a rate of interest higher than that stated therein to pay the American banks - a 3 percent rate. There are indications, however, that aside from the banking profits the German Government is interested in having its own bank take an active part in the new Spain's trade and financing."

- 9 -

Now, I want....

Foley: Joe Cotton.

H.M.Jr:Joe Cotton to have a copy of this, and I want you to fix up a cable for me. I want the name of the representative - it's cable 633 - name of the representative of the American Standstill Committee, and I want more details.

(To Mrs. Klotz) And write a note to the President - "My dear Mr. President: I am sure you will be interested in this unusual bit of information."

And then a copy confidentially of the same thing - well, no, we'll do it - let's give it to Warren Pierson, let him show it to - I mean give it to Cotton and then Cotton show it to Warren Pierson.

Well, Harry, when you give this copy of 633 to Joe Cotton, tell him to show it to Warren Pierson, see, and also ask him whether he'll please go and show it to Warren Pierson and Walton Moore.

White: And Walton Moore.

H.M.Jr: Yes.

White: Mr. Towson was in to see me yesterday with a man Ryan who had been one of the chief cotton concerns that were engaged in cotton exports to Germany under the special blocked mark arrangement, to inform me that they have created a Potomac Export and Import Bank, whose function they hope will be to arrange barter transactions, somewhat similar to this cotton and rubber or any other variation. They particularly have in mind arranging a cotton and mercury barter with Spain. I'm just passing that on for your information.

H.M.Jr: Anything else?

White: No.

H.M.Jr: George?

Haas: The man in Agriculture who is to explain this cotton-rubber deal is tied up with a cotton trade. He

- 10 -

wanted to see me Saturday, but I got an appointment for Friday. If you are in more of a hurry than that, I can put the pressure on him and probably see him....

H.M.Jr: (Nods no).

Haas: And the other point about the amount of money used on the food stamps - I tried to get hold of Milo Perkins; I'll see him soon.

H.M.Jr: That's all right. This is going to be a running thing. You're going to be my ambassador over at the Agriculture Department. I want you to dig in.

Haas: Fine. I'm digging, but no results yet.

Bell: I can give you a report on the food stamp thing from our angle. Our disbursing officers handle it.

Haas: One of the things I think the Secretary wanted was the total amount of money, which amounts to about 203 - how much of it is going to be used. Do you know that, Dan?

Bell: No, it will all depend on how many places they establish during the year. They only have four now, I think.

H.M.Jr: (On phone) Tell Miss Lonigan to come to Mr. Kieley's office. I want to see her in a few minutes.

All right, George?

Haas: I have nothing else.

Duffield: Regular press conference?

H.M.Jr: Excuse me?

Duffield: Regular press conference?

H.M.Jr: Right.

Ed?

Foley: Wallace is appearing before Steagall's committee at 10:30 today.

- 11 -

H.M.Jr: Fine.

Foley: And Carmody is going on in the Senate.

H.M.Jr: Fine.

Foley: Steagall told me that he didn't have the votes; one or two members of his committee went down to the McReynolds funeral - Tennessee. So he's laying aside Straus's stuff temporarily.

H.M.Jr: May I interrupt you. Didn't have the votes on what?

Foley: On Straus's stuff. And he wants to do a little more work with his committee before he calls it up and he's through with his hearings.

Beanie Baldwin said that they could help with a number of those committee members on the agricultural side in connection with that amendment that was inserted in the Senate to help the agricultural housing - rural housing.

H.M.Jr: Yes.

Foley: And he thinks maybe these hearings will assist Straus and maybe result in getting both of those.

H.M.Jr: Who said that?

Foley: Baldwin, Agriculture.

H.M.Jr: He's a good man.

Foley: Yes, he's all right.

H.M.Jr: You mean he's in Farm Security, isn't he?

Foley: Yes, he's the budget man.

H.M.Jr: "Beanie" Baldwin?

Foley: "Beanie" Baldwin.

Bell: That's his nickname.

- 12 -

Foley: He's a cooperative fellow.

H.M.Jr: Yes.

Foley: I'd like you to - this is what we decided to do yesterday; I think for the record we ought to put it in the files.

H.M.Jr: Right.

Foley: This is in regard to this stabilization fund matter - course of action.

H.M.Jr: Yes, but neither Bell nor McReynolds have initialed this.

(H.M.Jr. hands memorandum to Bell)

Foley: I had a note from Ben Cohen. He says: "Senator Schwellenbach sent me a copy of the attached memorandum regarding shipment of war materials to Japan. Although the memorandum doesn't fully cover all the statutory provisions involved, it seems to me that the points at issue would probably be the same as those raised by your Secretary regarding the shipment of war materials to Germany. It seems to me in the case of Germany the Kellogg Pact, unless it has been abrogated, as well as the Treaty of Versailles, might be relied upon. I should think particularly if the neutrality legislation is messed up, it would be well to raise this question with the Attorney General and the Secretary of State." That's regarding Japan. Bear a little looking into. I wanted to let you know I had it.

With regard to that Customs job, I'd like to recommend Ralph Dwan.

H.M.Jr: Who?

Foley: Ralph Dwan.

H.M.Jr: How do you spell it?

Foley: Ralph D-w-a-n. He's been with us several years. He's one of the most brilliant fellows we have. He's a graduate of the University of Minnesota and the University of Minnesota Law School, and has an S.J.D. from Harvard. He taught - was a

- 13 -

full professor at the University of Minnesota from 1925 until he came with us, in 1936. He's been the head of our Opinion Section here for four years. He's a very able fellow, and I think that we would be justified in going out of Customs to get a man as good as Ralph Dwan for that place.

H.M.Jr: Well, we'll take - what's today, Thursday? Give Mac 24 hours. All right, Mac?

McR: Yes. I know Dwan. He's a better lawyer than you have in the group available in Customs.

H.M.Jr: Well, if you make up your mind today - I'll say if you come in and see me any time today - will you - but not later than tomorrow, please.

McR: Right.

Foley: I had a note from Phil Wenchel, who went through Chicago, and he says that the whole situation out there is very good.

H.M.Jr: Fine.

Foley: That they are all pulling together now.

H.M.Jr: Marvelous.

Foley: Just as soon as our auditors complete the audit of the books and that testimony is put before the Grand Jury, they can get an indictment, which will probably be somewhere around the first of August.

H.M.Jr: And I was tickled to death to see in the papers that a separate Grand Jury is taking up the monopoly.

Foley: Separate Grand Jury on the anti-trust.

H.M.Jr: That's grand. Whose idea was that?

Foley: That was Bill Campbell's idea.

H.M.Jr: That's marvelous.

Foley: He stood by us on that.

- 14 -

H.M.Jr: That's marvelous. That and what we did yesterday was the most cheering thing that's happened in a long time. All right? I know you have some other little things; I'll get around to it.

Foley: O. K.

H.M.Jr: I'm running downhill again.

Herbert?

Gaston: I haven't anything.

H.M.Jr: Just a second.

Harold, do we in Internal Revenue do the checking up on people who pay their tax on Social Security?

Graves: Yes, we collect the tax.

H.M.Jr: All right. Well then, Mr. Earle Bailie is here, and if you would go with Mrs. Klotz, I want you to hear the story about Mrs. Earle Bailie and her secretary, and what our people have done. It's just unbelievable. So if you'll go with her, she'll give it to you. I'd like you to listen, because if that's the way the Treasury goes after people - well, I wouldn't like the Treasury if I was on the outside. If that's the way they treat people, I'll have to stay in the Treasury. Will you go in with Mrs. Klotz?

And Mac, if you'll stay, I'd like to talk with you. That's all.

MEMORANDUM FOR THE PRESIDENT
(Dictated over telephone
by H.M.Jr to Kannee)

July 13, 1939.
3:10 p.m.

It is my belief that Jesse Jones is going to testify tomorrow in the Senate on the self-liquidating program, and I think that it might be worth while for the President to give Jesse Jones a ring, just to make a hundred percent sure that he's going to go down the line on this railroad equipment thing, and also make sure that Jesse's going to go up there tomorrow.

So far Mr. Wallace and Mr. Carmody have done very well both in the Senate and in the House; both Mr. Wallace and Mr. Carmody in their testimony did very well.

July 13, 1939
10:17 a.m.

Pat
Harrison: Hello, Henry.

HMJr: How are you?

H: Yeah.

HMJr: Pat, do I have to worry about that Shipstead amendment reducing my Stabilization Fund?

H: I don't think so.

HMJr: You don't?

H: I don't.

HMJr: Are you going to kind of watch it?

H: Well, I am watching it.

HMJr: You are?

H: Yeah.

HMJr: Good!

H: I -- I don't know whether it's going to be offered or not.

HMJr: Uh-huh. They had it on.....

H: He came over to me day before yesterday and asked me to read the amendment -- no, the day after we closed the hearings and reported it out of the Committee, and so I sent it up -- he wanted to get a report from the Treasury and see what their views were and I sent it. It was a very fine report.

HMJr: Yeah.

H: And I gave it to him immediately and I gave to Bob Wagner yesterday a copy of it, so if -- you know, I don't know for sure if he's going to offer it.

HMJr: Well, I just wanted to tell you that my position publicly is that the ultimate use of this Fund should be to retire the Government's debts. See?

H: Yeah.

HMJr: And it shouldn't be used for any other purpose.

H: Well, you stated that in your letter.

HMJr: And the President feels the same way.

H: Yeah.

HMJr: And.....

H: I don't look for any trouble with them.

HMJr: Well, I just wondered because.....

H: I don't know if even he'll offer it.

HMJr: All right, sir.

H: All right, Henry.

HMJr: Thank you.

July 13, 1939
11:25 a.m.

HMJr: Hello.

Operator: Mr. Graves. Go ahead.

HMJr: Hello.

Harold
Graves: Hello, Mr. Morgenthau.

HMJr: Harold.....

G: Yes, sir.

HMJr:Robert Doughton, Congressman, just left.

G: Yes, sir.

HMJr: He tells me that Fred Vinson came to see him yesterday with tears in his eyes about his brother-in-law, Robert Dixon,.....

G: Yes.

HMJr:who is in the stamp division at Covington, Connect -- Kentucky.

G: Yes.

HMJr: And that he -- he, Doughton, has been talking to Schoeneman about it.

G: Yes.

HMJr: And he just wants me to look into it to be sure that justice is done.

G: Yes.

HMJr: Do you know about it?

G: No, I don't.

HMJr: Well, it seems ~~the~~ fellow is short \$3400 in his account and they think he forged a check; otherwise nothing.

G: Uh-huh.

- 2 -

HMJr: So -- he's in the stamp division at Covington, Kentucky, and if (laughs) -- like all these things, when they begin to put pressure on me, I always like to look into them.....

G: Yes, sir.

HMJr: see?

G: Yes, sir.

HMJr: Well, supposing you look into it yourself and make sure that justice is done.

G: Yes, sir. Would you like me to give you a report about it?

HMJr: Yes, I would.

G: Yes, I'll do that.

HMJr: Did you have a good talk with Mr. Baillie?

G: A very nice talk.

HMJr: That's good.

G: And I promised him that I would look into that and then write him a letter and explain just what the situation may be found to be.

HMJr: Fine! O. K.

G: Yes, sir.

HMJr: Thank you.

G: You're welcome. Good bye.

July 13, 1939
11:27 a.m.

HMJr: Hello.

Ed
Foley: Yes, Mr. Secretary.

HMJr: Congressman Robert Doughton was here.

F: Yeah.

HMJr: And tried to sell me Miles Kitchen who is unhappy over at the Department of Justice.

F: Yeah.

HMJr: Well.....

F: Miles Kitchen?

HMJr: Yes. Son of Claude Kitchen.

F: All right.

HMJr: He's a great trial lawyer says Mr. Doughton and his -- they don't appreciate him over there.

F: All right, do you want me to look into it for you?

HMJr: Yeah.

F: Give you a report?

HMJr: That's right.

F: O. K.

HMJr: Thank you.

F: Yeah.

July 13, 1939
2:28 p.m.

Allan
Sproul: They've sold three million of the Home Owners Loan in
New York.....

HMJr: Yeah.

S:that went to the West Coast.

HMJr: Yeah.

S: And they've got a bid for two million four, I think it
is, at 101 -- 102.1, which is just half way between the
bid and asked.

HMJr: From whom?

S: It comes from Solomon Brothers, I believe, which is the
first time they've been in for sometime, and they kind
of want to let it go. They're anxious to get them and
they aren't available in the market, and it will not in
any way interfere with the market, they say.

HMJr: Sold.

S: I was inclined to let them have them.

HMJr: Two million four?

S: Two million four, which makes about -- a little over
five million dollars for the day.

HMJr: Sell it.

S: O. K. Thank you.

RE STATEMENT IN SUPPORT OF SELF-
LIQUIDATING PROJECTS BILL

July 13, 1939.
3:00 P. M.

Present: Mr. Gaston
Mr. Foley
Mr. McReynolds
Mr. White
Mr. Haas
Mr. Duffield

White: Do you want to hear a report?

H.M.Jr: Yes.

White: Well, our man came back - maybe Kades reported to you (Foley), too - but our man reported the following. He said that in the Senate Carmody did a fairly good job, but shouted a little too much in places and got in too much of an argument with Taft and kind of out-shouted him.

Gaston: He won, huh?

Foley: He did win, because Barkley told Kades - asked Kades to come out in the hall and said, "I thought the world started on the third of January, 1939, when Taft came into the United States Senate, but Carmody just showed him it didn't." He was very pleased. Barkley, according to our man, thought they did very well.

H.M.Jr: What did Barkley have to do with it?

White: He's supposed to be a friend of the bill - explained the bill.

Foley: He introduced the bill. His name is on the bill. It's the Barkley Bill.

H.M.Jr: Is he presiding?

Foley: Wagner is presiding. He's a member of the Committee and sponsor of the bill. He sees that the witnesses are presented in the best light.

White: Adams has become favorable to the bill and was rather effective in coming to the support of the portion of the bill that was discussed today, whereas at the

- 2 -

previous meeting he had been in opposition.

Gaston: That sounds darn interesting, Harry.

White: Well, he was opposed to the Farm Security portion of the bill as presented by Wallace and Baldwin yesterday, but today he was favorable. Hayden was there and was likewise effective in supporting the bill.

Apparently in the Senate there is nobody to defend the railroad equipment part of it. Nobody seems to know much about it. And they're getting two men - J. J. Pelley, President of the Railroad Association, and....

Foley: Kelly.

Duffield: Pelley.

Foley: Both Kelly and Pelley.

White:to oppose the bill. There ought to be some witnesses on there for the Government side.

H.M.Jr: What the hell is the White House doing to help us on this thing? Are they doing anything? I mean I get so sick and tired - I mean why don't they do something about this stuff? I can't make Jones go up and do it.

Foley: Jones is going on in the Senate tomorrow.

White: Is he? He may be. I understood there was some maneuvering. You may have heard this. He wants to be last. He may be after the Secretary.

Foley: He's been called for tomorrow and will go down.

H.M.Jr: He told me yesterday he wanted to go after me. I told him, "Jones, you're going to go up before me."

White: You know about that.

H.M.Jr: That was yesterday.

White: I heard this at noon. Maybe it was a reflection of that.

- 3 -

- Bell: Jones wants to be last, after everybody's had their say.
- White: One of the Senators - I've forgotten his name - one of the Republican Senators said about Jesse Jones, whose name was mentioned by Carmody - "Jesse Jones - well, he came up here, you know, and he killed that Mead Bill good and plenty." And he implied he was going to come up and kill this good and plenty.
- Foley: I suppose you saw that Walcott, the ranking Republican member of the Banking Committee in the House, told the press today that they had enough votes in the Committee to keep the housing bill from being considered at this session of Congress, but they didn't have enough votes to keep the spending bill from coming out; and he thought that the Committee would report it out substantially as it was introduced, by a party vote, Republicans against Democrats.
- H.M.Jr: Who was that?
- Foley: Walcott of Michigan.
- Gaston: But he said on the housing bill - he mentioned the absence of this one man.
- Foley: He said that's what Steagall attributes as the reason for putting it over, but he said the reason is that Steagall doesn't have the votes and "We've got enough votes to keep it from being considered by the House at this session." And then he went on to say - of course, it's already passed the Senate, and next winter they'll have to take it up again; it won't die.
- H.M.Jr: Jim Farley had lunch with me today. He's been talking with Senator Bailey, and Senator Bailey said, "This bill will pass; no question about it." Bailey says, "It's all right." Bailey of North Carolina says the bill is going to go through.
- White: The reaction in the Senate was very favorable.
- Foley: There is opposition to the public roads part, Mr. Secretary, principally because of the attitude of the two Connecticut Senators who are members of the Senate Banking Committee, Danaher and Maloney.

- 4 -

It's a political situation up in Connecticut - that Merritt Highway, you know, that starts at Stamford and runs up through the State. It's a toll highway, and people don't like it very well - some of the people up there.

Yesterday I had Paul Betters in, and Paul Betters told me that the Mayors' Conference wasn't interested in anything for Public Works, but what they were interested in was WPA. He said, "You'll notice that our organization hasn't been on record in favor of a grant - an appropriation for PWA grants, either this year or last year." And he said, "This bill won't help us at all, Ed, because the type of projects that the cities could carry out under this bill - there just aren't enough of those projects." And he was of the impression, Mr. Secretary, that self-liquidating meant that the projects had to be self-liquidating in so far as the municipalities are concerned; by that, he thought that the cost of the projects had to be returned from sources other than taxation. I told him that wasn't so, that it applied in so far - self-liquidating applied only to the Federal Government getting its money back. He said that that made all the difference in the world, and whereas by misconstruction of the bill they had decided to do nothing, there was going to be a meeting of the Executive Committee tomorrow and he thought that he could get the Executive Committee to come out in favor of it and they'd have something perhaps tomorrow or Monday in support of the bill.

H.M.Jr: Wonderful. Then my idea wasn't so bad after all.

Foley: No, it was a good idea.

Gaston: They're silly not to come out for it, whether they use it or not. It's so much of a resource on the side.

Foley: He said from a sound Federal financing point of view he thought that these loans....

H.M.Jr: Are they interested in that?

Foley: Well, he seemed to be.

- 5 -

White: In the House, the chief objection seems to center around the questioning of the self-liquidating nature of this. They claim a good deal of it isn't. But in the House there doesn't seem to be anybody who knows much about the bill and could explain it and support it.

H.M.Jr: But they're only starting today. It's going all right.

White: It is in the Senate, but I don't know about....

Foley: If Steagall holds hearings tomorrow....

White: No, they're not going to hold hearings on this....

Foley: Well, he hasn't decided yet. I say if he holds hearings tomorrow, Carmody and MacDonald will go on in the House.

H.M.Jr: Well, so far, Ed has handled the contacts with the Hill beautifully. If it wasn't for Ed, I don't know what we'd do.

White: Who's going to take care of the railway equipment?

H.M.Jr: Give Ed a chance to think about it.

White: Ought to get the president of some poor railroad to come down.

Gaston: A poor railroad.

Foley: Currie called me up this morning, Mr. Secretary. He said that he had left something with you two or three days ago about the railroads.

H.M.Jr: That's a slight exaggeration.

Foley: I told him I hadn't heard anything about it.

Bell: Currie be a witness?

White: No, he won't.

Foley: He wants to get Eastman.

- 6 -

Gaston: That's better. Eastman will stand up.

H.M.Jr: All you've got to do is ask me - just somebody has to ask me, and here it is. Perfect filing system.

Bell: Right on top.

H.M.Jr: Right on top.

Bell: The next thing you were going to look at.

H.M.Jr: Absolutely. That's where all the things go that Currie and White leave.

White: Dated July 10th. Today's the 13th. How many days is that?

Foley: He said three days ago.

H.M.Jr: It takes a day to get over here. Anything you want of Currie's and White's, you can always find on the corner of my desk.

Bell: Takes a day to get from the messenger's desk to the Secretary's desk. That's two days.

Gaston: That's a conservative estimate.

Bell: That's right.

H.M.Jr: And from now on we add McReynold's things, too, coming from the White House.

Gaston: Would it be harmful or helpful to get Dickinson, of the American Locomotive?

H.M.Jr: Is he sold on it?

White: Dickerman.

Gaston: He originally recommended it.

White: They were down here. They liked the idea. They're worried about certain features of the shop equipment.

Foley: They're afraid these railroads will put equipment in, make their own cars. They want to take that out of the bill, want to make it a financing bill

- 7 -

rather than a Government acquisition of the equipment and leasing, as it is now.

- Gaston: Well, if they'll just get him to testify about the need and then shut him up....
- White: That's not likely.
- Foley: That would be against the bill. If they can, why, they'll sound off against Government ownership.
- H.M.Jr: (On White House phone) General Watson, please. - - Leave word when he comes in I'd like to talk to him. - - Is Kannee there? - O, K. - Hello, Kannee. A memorandum for the President. It is my belief that Jesse Jones is going to testify tomorrow in the Senate on this self-liquidating program, and I think that it might be worth while for the President to give Jesse Jones a ring just to make a hundred percent sure that he's going to go down the line on this railroad equipment thing, see? And also make sure that Jesse is going to go up there tomorrow. - - Hello. And on the memorandum you might say so far that Mr. Wallace and Mr. Carmody have done very well both in the Senate and in the House.
- Foley: Carmody not in the House yet.
- H.M.Jr: (On White House phone) And that both Mr. Wallace and Mr. Carmody in their testimony did very well. - - Thank you.
- Is that - what?
- Foley: That's all right, sure. Only Wallace has testified in the House. You see, they started....
- H.M.Jr: I said, "Wallace and Carmody have done well in the Senate and the House."
- Come on. All right, gents.
- (White hands H.M.Jr. draft of proposed statement)
- H.M.Jr: "We are faced with a simple fact. Thank you, gentlemen. Good day."
- How's that?

- 8 -

"We are faced with the simple fact that the resources of the nation are not being adequately employed, that there remains a large pool of idle men, idle equipment and idle capital. The Bill before this Committee is designed to put men to work, to stimulate further capital investment in private industry, to raise the level of business activity, and to yield permanent benefits to the people of this nation."

I'm going to read it through without picking words or sentences, Harry, see, to get the idea.

"The Self-liquidating Projects Act authorizes the following revolving expenditures: 1 - 2 - 3 - 4 - 5 - 6."

"The President has estimated that, of the sums made available for the first time by this Act, about 770 million dollars, made up in the following way, would be spent during the current fiscal year:"

You don't tell how many men that would put to work. Will you make a note there.

White: It says so in the next....

H.M.Jr: All right.

"The program of self-liquidating investment authorized in the Act would be financed by the Reconstruction Finance Corporation. The Public Roads Administration, the Public Works Administration, the Rural Electrification Administration, the Department of Agriculture, and the Export-Import Bank - in addition to the Reconstruction Finance Corporation - would be operating agencies to carry out the purposes of the Act.

"Specifically the Bill is designed to achieve four important objectives:

"1. To give employment in private industry to at least one-half million persons;

"2. To stimulate and not compete with private enterprise;

- 9 -

"3. To increase the real wealth of the nation;

"4. To provide additional investment opportunities for idle capital.

"The important thing about this Bill is that it will accomplish these objectives without adding to the tax burden or to the Federal debt. In fact the opposite is true because with the execution of this program the national income will be increased and the number of persons that need to be supported out of public funds will be reduced.

"I do not wish to contend that the program embodied in this Act constitutes a final or adequate solution of our economic problem, but it does constitute a realistic approach to that problem. It does represent a step towards a greater utilization of our labor and capital resources within the framework of a sound fiscal policy."

Would you make a note, Harry - on page 3 there is a possible "5" talking about a bridge towards eventual balancing of the budget.

White: We tried several things there - I did - and they all seemed more dangerous; but we'll try it again.

H.M.Jr: Well, put it down as 5, will you, try it again.

"The benefits of this program are not confined to the fields which are specifically mentioned in the Act. The increase of production in these fields will result in increased orders for materials, equipment and services of all kinds and thereby the stimulus will be spread throughout the economy.

"The Bill does not represent a new fiscal policy. Continuously in the last six years we have employed the device of guaranteed loans to protect the credit structure and to promote productive enterprise."

Was it six years? The idea started in '32, didn't it?

Gaston: No, but we've been doing it throughout this Administration.

- 10 -

- H.M.Jr: Yes, but why not say it started in 1932 with the creation of the RFC? Didn't it?
- Gaston: Yes, and the idea....
- Foley: But for a long time there was no indirect financing, was there, Dan?
- Gaston: And they weren't issuing securities, weren't selling debentures.
- Foley: They sold their obligations to the Treasury and the Treasury sold its obligations in the money market. I don't think until this Administration they started selling direct.
- H.M.Jr: What happened to Dan?
- White: He said he had a group up there that he'd have to dismiss, and come back; didn't realize he'd have to be down here so long.
- H.M.Jr: "The results have been highly beneficial and highly encouraging. Through this method we have saved farms and homes from foreclosure and lowered interest rates enough to make the great difference between solvency and insolvency. Through it we have given assistance to railroads, banks and a wide range of private industry. We have given assistance to States, to localities and to other public corporations through which they have been able to proceed with beneficial and essential projects for the welfare of citizens at interest costs which have made the projects sound and feasible. The record is a good one. It is a record of a sound investment underwriting business which would not have been done if the Federal Government had not done it."
- I like that.
- "What is proposed...."
- Has Currie worked on this?
- White: Currie read it over. He didn't have much time. He gave one or two suggestions, said he liked it as a whole.

- 11 -

H.M.Jr: "What is proposed now is merely an extension of this proved method to a somewhat broader field. The extension, however, is important. It may well turn out to mark a transition point in the public finances. If we can substitute with the same beneficial results on the level of national income the employment of self-liquidating loans in place of outright government expenditures we shall have made a great step forward in solving both our economic and our fiscal problem on a sound business basis."

Don't want to say anything about looking forward to balancing the budget?

Gaston: I thought that was probably going a little too far. It points in that direction.

H.M.Jr: I see.

"It is idle to say that without some such substitute we can hope soon to reduce government expenditures drastically. Those who assume that we could do that without the most devastating effects on business are probably ignorant of the true facts of the situation."

Harry's got a little stuff in here for trading purposes.

White: I stand by that sentence.

H.M.Jr: You've got a lot of stuff in here for trading purposes.

"Few people realize the extent to which basic industries are dependent upon the activities of government and government-financed projects for sustaining their level of production."

Have you also got a copy, Harry, the way you think I'm going to give it? It would save me a lot of time. Why not - double-bookkeeping - have double speeches. One, the kind you'd like me to give, and the other, the way you know I'm going to give it.

White: I don't think you're going to change it very much.

- 12 -

H.M.Jr: Be very helpful, don't you think, Ed?

Foley: Save time.

H.M.Jr: Wear and tear.

"Almost one-half the construction now being carried on in the United States is government-owned or government-financed. More than one-half the cement produced in the United States was used in Federal-financed projects and over 40 percent of the structural steel. The provisions of this Bill will still further increase activity in those basic industries."

Do you think that's good? You don't think they'll rebut on me on that?

White: That question about the proportion?

H.M.Jr: Yes.

White: Well, no; it has its dangers. George and Herbert both thought that it might mean that we're going too much into private industry.

H.M.Jr: Well, I....

White: I don't know.

Caston: This other language above here that you think is going too far was introduced so as to be able to use your statement about half the construction costs, because I think without saying that it's very dangerous to throw that out, that more than half the construction now going on is Federal construction.

H.M.Jr: "The method followed in this Bill represents in essence a substitution of contingent liabilities of government guaranteed obligations for direct obligations of the government, a substitution of self-liquidating undertakings in place of public works financed out of the budget."

Isn't that worthy of two sentences, to make it stand out?

"This distinction is not merely a bookkeeping one, as has often been mistakenly supposed, but is very

- 13 -

soundly based. In the case of budget expenditures the servicing of the debts created to finance them is met out of general tax revenues. Taxes must be relied upon in order to pay the interest and the principal on these obligations. In the case of self-liquidating loans, however, such as are incurred by the government in this Bill, the interest and amortization payments are met with the earnings on the investment. Only if the revenues yielded by the investments are insufficient to meet loan costs, is the government called upon to make good any deficiency out of the budget. The Act specifically imposes upon the Reconstruction Finance Corporation as well as upon each operating agency the duty to undertake only such projects and to make only such loans as will repay the full amount invested plus interest sufficient to reimburse the government for the cost of borrowing.

"This Bill applies in the realm of public enterprise the identical principles followed by large corporations in the field of private enterprise."

Wonderful!

"The question has already been raised whether the projects involved are self-liquidating. I do not wish to predict that the government will suffer no loss on any of the various features of this program, but I know that these projects have been very carefully selected with the intention of choosing sound investments which have a high probability of repayment. Dozens of other projects totalling many billions of dollars were eliminated in preliminary studies either because they were not entirely self-liquidating or because they involved some conflict with private enterprise. The record of collections by our lending agencies has been extremely good and it is my considered opinion that the risk of loss under the present Act is very small and that even under circumstances much worse than we now anticipate the loss would be a mere fraction of the amount lent."

I'll argue about that.

"As I see it the Self-liquidating Projects Act of 1939 will succeed in putting hundreds of thousands of men and billions of private capital to work with

- 14 -

very small government administrative expenditures.

"To insure that Congress be kept fully informed on the self-liquidating position of this program, the Act provides that the Secretary of the Treasury and the Federal Loan Administrator shall make an annual appraisal of the assets acquired by the various operating agencies and that they shall request from Congress an appropriation sufficient to make up for any losses which may have been incurred. It is planned, however, that all obligations incurred for the financing of the projected investments shall be liquidated from the proceeds of these investments, and not from the government's general tax revenues. It is expected that all money paid out under this Act will be repaid to the Federal Government through toll and other highway revenues, through rentals on railroad equipment, and through the repayment of public works, rural electrification, farm tenancy and foreign trade loans.

"The financing of the self-liquidating projects would require the sale of \$2,700,000,000 of government guaranteed obligations. The most recent issue of five-year notes is now selling to yield about 3/10 percent interest, which rate is far below the maximum stated in the Bill. The yield on the longest term United States obligations is now 2.3 percent. It is my opinion that this volume of securities can be sold to the public without disturbing the money market for either private capital or for the normal needs of government during ensuing fiscal years.

"This Bill embodies another distinctive principle. It provides that the maximum interest rate which might be charged by any operating agency or loans under this program should be limited to the highest yield on the longest term direct or indirect obligations of the United States then outstanding.

"The interest rate on long-term loans and investments plays a very important role in modern economic life. It regulates the use of capital. When business activity is high and when funds are scarce, it is the function of interest rates to put brakes on investment and to restrict employment to only the most necessary uses. When, on the other hand, business activity and the volume of investments are

- 15 -

low and when there are large pools of idle savings, then the function of interest rates is to expand profitable investment opportunities."

But it hasn't worked that way.

White: That's what the next page says.

H.M.Jr: "But, in order for the interest rate to function, it is necessary to increase its elasticity; it is necessary to make the rates less 'sticky' - less rigid. In previous decades the degree of flexibility permitted under these conditions, though confined in the main to short-term borrowing, was adequate for the purpose at hand. The problem is now different. There are two factors present which make it impossible for changes in the interest rate to operate automatically and with complete effect.

"In the first place...."

(Bell returns)

H.M.Jr: I'm just reading it through once, Dan. There are two drafts, Dan. There is one that Harry would like to have me give, and one he thinks I am going to give. We're going to have double bookkeeping and double drafts from now on. This is Harry's draft. Then he fishes one out of his pocket and he knows that's the one I'm going to accept. That way it saves everybody a lot of heartbreak, and he has the pleasure of reading the White draft first.

White: Got the green one underneath.

H.M.Jr: "In the first place...."

You remember the time we did these projects and you said you had it all typed - what I would take. You let me sweat for three hours.

White: We had less time than we have now.

H.M.Jr: What a man!

"In the first place, the disturbed world situation increases economic uncertainty to the point where

- 16 -

investors are reluctant to place much of their funds at long term in specific enterprises at the low rates of interest justified by the fundamental economic forces of supply and demand.

"In the second place, the practice and tradition of the long-term money market has set up artificial barriers between the long and short term markets which are unimportant during times of high business activity but which become an important deterrent to investment during periods of low business activity."

George, all this interest rate stuff - I'd like both Larry Seltzer and Henry Murphy to take a look at this.

Haas: All right.

H.M., Jr: "The Government is able to borrow at extremely low rates both on long and short term because it has succeeded in breaking through the artificial barrier between the long and the short term money market. In times like the present it therefore becomes the government's function to act as a catalytic agent to bring together investors who are willing to lend their savings at low rates of interest and the borrowers who are able and willing to employ funds for productive purposes provided the interest rates are made low enough to justify such investment.

"This Administration has made great progress in bringing the market rates of interest down to reasonable levels. The most important successes have been in connection with loans to farmers and to home owners and for purposes of residential and business construction and non-federal public works. This progress, however, has not been enough and it is my opinion that the time has now come to take the next step forward, that of selecting specific investments which should be given the advantage of an interest rate low enough to assure their being undertaken. A low rate of interest if effectively utilized constitutes one of the most potent weapons our economic system has developed for stimulating business activity.

- 17 -

"It is this principle...."

Did you get this on the telephone from Maynard Keynes?

White: No; I think he'd probably agree with it.

H.M.Jr: "It is this principle which is implicit in the Bill before you. The government is bringing together idle funds and borrowers who are unable to borrow under existing circumstances. It does more than that. It creates the additional incentive for the lenders to lend and for the borrowers to borrow by giving the stamp of approval and administrative assistance to the development which would otherwise remain unexploited.

"Another feature of this Bill is that it exercises great care in confining its projects to those which will not interfere with private enterprise. Each item of investment has been carefully scanned. Many projects totalling many billions of dollars were eliminated in preliminary surveys because there was some possibility that they might conflict with private enterprise.

"One element of the program in particular is designed to stimulate production and create employment in perhaps the most depressed of all the capital goods industries, railroad equipment. Through supplementing the present loaning powers of the Reconstruction Finance Corporation, the government will be in a position to enable the railroads of the country to acquire new rolling stock and machine shop equipment on terms and conditions never available heretofore. Here again, the purpose is to aid rather than to compete with private enterprise.

"I would like to say one word with regard to the appropriateness of this program at this time. We must not forget that we are in a period which is most unusual in world history. The world has neither peace nor war. It is immersed in a period of international political uncertainty characterized by stupendous expenditures on unproductive military expenditures. It is a period in which the international economic relationships of the United States are being prevented from attaining their full measure of recovery because of the lack of free exchange with which to conduct international trade,

- 18 -

the lack of purchasing power on the part of the people of the world with which to buy the products which the United States could export, and through the general distortion of the world's economic systems because of the fear and expectancy of a world cataclysm. It is hopeless to expect that private industry unaided can overcome such handicaps. It is futile to await the restoration of that degree of international peace and security and sanity which is essential to a high level of domestic and foreign trade and economic progress. Under these circumstances we must seek within the framework of our institutions and within the requirements of sound fiscal policy to utilize to the fullest extent possible the resources of the government to overcome the difficulties of our epoch."

This is swell. This has got to come at the beginning, too.

"In a country with enormous potentialities and with the population rapidly marching towards the 150 million mark there is ample possibility for the Federal Government to supplement private enterprise by promoting investment of \$3 billions in self-liquidating projects.

"In contrast with other important nations of the world we are still in the fortunate position of having the opportunity of utilizing the government credit for the purpose of financing productive investments instead of spending billions on the unproductive military expenditures."

Well, Harry, my general criticism of the thing - it's good - there are certain things which I'm not sure that I'd like to say, see? Now, who's had a chance to start to study this, anybody?

White: Well, Herbert and Gene and George have been over it.

H.M.Jr: Well, Herbert, let's say....

White: They have some suggestions.

H.M.Jr: What I'd like to say is - I'd like to bring your end up to the beginning. I mean "For the following

- 19 -

reasons this is why I'm for this program." You see?

White: I tried it first that way. I can try it again. It seemed to be a little more effective to close on that note and to first appear as though you're handling this as Secretary of the Treasury. "These are the...."

H.M.Jr: No, if you don't mind.

White: I'll try the other way again.

H.M.Jr: I'd very much like to have the introduction: "Due to these conditions, I think such and such a program is necessary."

White: We can move it up.

H.M.Jr: I'd like to very much. I mean I've got to have a reason for wanting to do this, and the reason is at the end.

Gaston: Well, that's one reason. I think there are several other reasons that are probably stronger at the beginning.

H.M.Jr: Well, you don't give me any. Well, if you don't mind, I'd like to have that peroration at the beginning, huh?

White: We'll put it there and see how you like it.

Gaston: It can very well go right in after the first paragraph.

H.M.Jr: Well - and I don't think we are faced with a simple fact. I don't like that as an opening sentence.

Duffield: I'd like to see a simple opening sentence to the effect that "I appear before you today in support of S. so and so, Self-liquidating...."

H.M.Jr: Yes. And, Harry, this introduction - "We are faced with the simple fact that the resources of the nation are not being adequately employed, that there remains...." - do you like that, for me to say "....a large pool of idle men...."?

- 20 -

White: Cut out the word "simple."

H.M.Jr: I mean "that there remains a large pool of idle men, idle equipment and idle capital." Sounds like A. A. Berle. Did you crib it?

White: Not intentionally.

H.M.Jr: Haven't I got any conservatives left around here?

Bell: All gone.

Duffield: "All gone," says he, waving at Mac.

H.M.Jr: Whew boy! Did you hear I took Mr. Farley in Mac's office to show him the lily?

McR: And they had to go behind the screen to find it.

Gaston: They've left one by one.

White: That story is half way around Washington already, Mac.

H.M.Jr: What, the lily? Farley going to see it?

White: No, the lily.

Bell: How about saying "The resources of the nation are not being adequately employed. There is a large pool of idle men...." and so forth.

White: I see, you want to cut out "We are faced with the fact that." Sounds a little too much as though war was going to be declared.

H.M.Jr: I don't like it as an introductory sentence.

Gaston: I think the same idea could be worked over.

H.M.Jr: I don't like that introductory....

Gaston: Little less dramatic.

H.M.Jr: I'd like to see this thing again - oh, if it isn't - is 8:30 too early, tomorrow morning - quarter of nine? I'll be here at 8:30, anyway, tomorrow morning.

- 21 -

White: Is that too early for you (Bell)?

Bell: Isn't too early for me.

H.M.Jr: Just go on - could you fellows take a crack at that? It isn't me talking there, damn it, and I'd like the end first, Harry.

"The President has estimated that, of the sums made available...." - that's all right.

White: Gene was of the opinion that you might not want to repeat this part about the self-liquidating portion; since you are coming last, they may have heard enough about the details. I don't know. I kind of think it should be there, because it gives a kind of over-all Secretary of the Treasury attitude toward it, explaining the financial aspects of it.

H.M.Jr: You mean this thing, "The program of Self-liquidating"

Duffield: I don't feel very strongly about it, Mr. Secretary. It just occurred to me they may have heard it four or five times.

Gaston: I don't think it makes much difference. What he is saying is really intended as a footnote.

Duffield: Well, I meant the two lists - see, the list of how much is included and the list of how much is going to be spent during the current fiscal year. I thought perhaps they would have heard that enough. But I think it's all right, because you're coming last and summarizing.

H.M.Jr: I think that part is all right. Only two pages.

Duffield: I don't object to it.

H.M.Jr: "Specifically the Bill is designed to achieve four important objectives:

"1. To give employment in private industry to at least one-half million persons;"

- 22 -

Bell: Would you say "To give direct employment"?

White: Well, some of this is indirect.

H.M.Jr: I wish people would shout as I go along. Mac, have you got anything?

McR: Seems to me it tells a pretty good story. I like it.

H.M.Jr: "2. To stimulate and not compete with private enterprise;
"3. To increase the real wealth of the nation;
"4. To provide additional investment opportunities for idle capital.
"The important thing about this Bill is that it will accomplish these objectives without adding to the tax burden or to the Federal debt. In fact the opposite is true because with the execution of this program the national income...." - I don't like that sentence. I like "...the number of persons that need to be supported out of public funds will be reduced."

White: We can - you don't - we can leave out "In fact the opposite is true because...." You can say "With the execution of this program the national income will be increased...."

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

White: Yes.

H.M.Jr: Instead of "execution," "the carrying out."

White: "Carrying out."

H.M.Jr: "Carrying out." Cut out "In fact the opposite is true."
"Carrying out this program...."

White: "....will increase the national income...."

H.M.Jr: Yes.

- 23 -

- White: "...and will reduce the number of persons that need to be supported out of public funds."
- H.M.Jr: "I do not wish to contend that the program embodied in this Act constitutes a final or adequate solution of our economic problem, but it does constitute a realistic approach to that problem. It does represent a step towards a greater utilization of our labor and capital resources within the framework of a sound fiscal policy."
- Duffield: The second sentence of that paragraph worries me a little bit, because it seems to imply - I mean it can be taken to mean that this "step towards a greater utilization of our labor and capital resources within the framework of a sound fiscal policy" - there can be read into that all of the theory that we should utilize our national resources by much greater government borrowing and investments, that whole over-savings....
- H.M.Jr: Well, where is that?
- Duffield: That's in the paragraph on the top of page 4.
- Bell: Why not stop with "resources"?
- H.M.Jr: You mean "It does represent a step towards a greater utilization...."
- Duffield: I don't think it's particularly objectionable.
- H.M.Jr: What do you think, Dan?
- Bell: Wouldn't it be just as strong to stop at "capital resources"?
- White: The thought in my mind, if you did, Dan - it would be just like any other government expenditure program. This way, the difference between this program....
- McR: I don't see what the objection is.
- Duffield: The objection is that this is the sort of language which is frequently used to justify the argument that the government should borrow the idle savings of the country because we now have a stagnant

- 24 -

private economy which cannot absorb our over-savings.

McR: But you're just saying the opposite.

Duffield: I don't think you are.

McR: You're saying "utilization of our labor and capital resources within the framework of a sound fiscal policy."

Duffield: The sound fiscal policy, in Lauch Currie's mind, is one which will absorb these over-savings and put them to work.

Maas: You could state it in terms of putting men to work and leave out the capital part.

White: You've either got to leave the whole sentence out or put it in, because the distinctive feature in this is that you believe you are putting men to work and capital to work without any infringements upon what is regarded as a sound fiscal policy - not what Lauch Currie regards as a sound fiscal policy, but what people in general regard as sound fiscal policy, which means not increasing the deficit.

Gaston: My only objection to that statement is quite the opposite of Gene's. The contrast it may convey - the implication that what we have done so far is unsound fiscal policy.

White: That's more pertinent, I think.

H.M.Jr: Let's leave that sentence out. I think the statement that it does constitute a realistic approach to that problem is plenty. Let's leave that sentence out.

"The benefits of this program are not confined to the fields which are specifically mentioned in the Act. The increase of production..." - oh, I think that - I think you could leave that whole next paragraph out.

Bell: You mean beginning with....

H.M.Jr: "The benefits of this program are not confined...."
I mean that's the Ickes argument.

- 25 -

White: Leave out that paragraph beginning with "The benefits...."

H.M.Jr: Yes, that whole paragraph. I mean that - what?

White: Well, much of that is needed - won't be needed if you leave out the part about - that's all right; yes, this can go on.

H.M.Jr: Then it's all right. I like the next. All right? You people can have a rebuttal at me, but I mean I'm going - I'm going to go fairly fast. You can crack at me if you want to.

"The Bill does not represent a new fiscal policy. Continuously in the last six years we have employed the device of guaranteed loans to protect the credit structure and to promote productive enterprise. The results have been highly beneficial and highly encouraging. Through this method we have saved farms and homes from foreclosure and lowered interest rates enough to make the great difference between solvency and insolvency. Through it we have given assistance to railroads, banks and a wide range of private industry. We have given assistance to States, to localities and to other public corporations through which they have been able to proceed with beneficial and essential projects for the welfare of citizens at interest costs which have made the projects sound and feasible. The record is a good one. It is a record of a sound investment underwriting business which would not have been done if the Federal Government had not done it."

Now, as far as I am concerned, down to the middle of page 5, it's all right with me.

White: Herbert wrote that page and the next one.

H.M.Jr: Down to the middle of page 5 it's all right with me.

Gaston: I think your objection begins on page 6.

H.M.Jr: Are we all right to the middle of page 5, gents?

"What is proposed now is merely an extension of this proved method to a somewhat broader field.

- 26 -

The extension, however, is important. It may well turn out to mark a transition point in the public finances. If we can substitute with the same beneficial results on the level of national income the employment of self-liquidating loans in place of outright government expenditures...." What does that mean - "If we can substitute with the same beneficial results on the level of national income...."

Duffield: Beneficial results on the level.

H.M.Jr: I don't - straighten that sentence out, Harry. I mean - what you mean is that it's going to increase it, don't you?

White: That's Herbert's. I think that's what he meant.

H.M.Jr: Do you mind - that sentence there - "If we can substitute with the same beneficial results...." - I'd like that clarified. I'm not going to stop now.

Gaston: We can just cut out "on the level of national income" and make it "If we can substitute with the same beneficial results the employment of self-liquidating...."

Bell: It's the beneficial results to the national income, isn't it?

H.M.Jr: Well, something. It isn't quite clear.

"...in place of outright government expenditures we shall have made a great step forward in solving both our economic and our fiscal problem on a sound business basis."

I like the thought. It has to be clarified a little bit, huh?

Gaston: Yes, the sentence is a little bit complicated.

H.M.Jr: All right, gents. I'm doing this thing a little bit differently this time. I'm going to do it a little bit quicker and a little - I'm positive, I tell you quickly what I like and what I don't like.

- 27 -

"It is idle to say that without some such substitute we can hope soon to reduce government expenditures drastically."

"It is idle to say that...."

Duffield: That's where the objection comes.

H.M.Jr: What?

Duffield: Is there where your objection begins?

Gaston: Now, we might turn that around in there and say that through such a program we may be able to make substantial reductions in government expenditures - we may be able later to make substantial reductions in government expenditures.

H.M.Jr: I'd like the whole paragraph out.

Bell: This is all on top of 9 billion dollars.

Gaston: The idea that you wanted to get in....

H.M.Jr: I know, I know.

Gaston: - about how much we are spending, and I think it's a very dangerous idea.

H.M.Jr: I'd leave that whole paragraph out. When I say this is a fiscal approach on a sound business basis, I've said the whole thing.

Gaston: In that case, I don't think we want that half the cement....

Duffield: Give it back to them.

H.M.Jr: Give it back to me.

White: There goes the steel industry.

H.M.Jr: It's all right, George. That idea was mine. You gave me what I wanted, and it's in the back of my brain if some day I want to use it.

Haas: It's useful information.

- 28 -

H.M.Jr: Yes. Top of page 7.

"The method followed in this Bill represents in essence a substitution of contingent liabilities of government guaranteed obligations for direct obligations of the government, a substitution...." Do you have to go into this long explanation? What do you think, Dan?

White: We can - it can be shortened.

H.M.Jr: Dan, this page 7 - this is in your field.

Bell: I don't like this very well. It's stated a little differently than it was in this first draft.

Gaston: I think you could say all there is in that first sentence by saying "The method followed in this Bill represents...." - drop down to the fourth line - "....a substitution of self-liquidating undertakings in place of public works financed out of the budget."

Bell: You can say "in place of public works financed out of the direct public debt obligations."

H.M.Jr: Dan, would you help them rewrite page 7. Put after this thing "Bell" - on page 7. What?

Bell: I don't know how far you want to go on a matter of this kind, but your repayments are just as good coming back and being applied to the public debt as they are in being applied on contingent liabilities, and I think it's a little far-fetched to say that.

H.M.Jr: I don't know whether I want to say it.

White: There is a fundamental difference between meeting obligations out of the general tax revenue and meeting them out of the revenue produced by the undertaking.

Bell: You won't be meeting them out of general tax revenue. You'd be meeting them out of repayments.

White: That's what you would be doing under this Bill.

H.M.Jr: That's what you'd do if you kept them in the budget.

- 29 -

Gaston: That isn't the contrast he's setting up. The contrast is between public works in which there is no return, no self-liquidating return, and these self-liquidating returns.

H.M.Jr: That doesn't say this.

White: The difference between self-liquidating public works and ordinary public works....

Gaston: He's contrasting here ordinary free roads and public buildings with these self-liquidating things.

H.M.Jr: Dan, I'd like you to take time, when I get through - I put down on page 7 "Bell." All right?

Bell: Well, I misinterpreted it. If that's the....

H.M.Jr: I really - when I'm through, I want you to go in someone's room and stick to this thing, go through and get it for tomorrow morning.

"This Bill applies in the realm of public enterprise the identical principles followed by large corporations in the field of private enterprise."

Now, do you explain that or do you just stick that sentence in?

White: That sentence can come out.

H.M.Jr: I think it sticks out like a sore thumb.

White: Yes.

Bell: I suppose what you mean is that you borrow the money and write it off over a period of years - life of the corporation, life of the project.

White: That's what I meant initially, and it was going to go out until Herbert thought it might be interpreted to mean the principle we are following is that of not investing in any project unless it will yield an adequate return. But since there are two interpretations, it can come out; the sentence is not necessary.

H.M.Jr: Leave it out, Harry.

- 30 -

White: Yes.

H.M.Jr: Now, page 9.

White: Cut out "or because they involved some conflict with private enterprise," because we say that same thing later.

H.M.Jr: That's all right, but this thing here - Dan, pay attention to this - "and billions of private capital to work with very small government administrative expenditures."

Put your eagle eye on that, Mac. Mac, put your eagle eye on that. Mac and Bell, see? I just wonder whether you want to bring that in, because I see that Glass said something - it had to go to the Appropriations Committee on administrative expenses. I just question whether you want to bring that in.

McR: I don't think it adds any strength.

White: You can take out the whole sentence beginning with "As I see...."

McR: Doesn't add any strength.

H.M.Jr: Somebody's going to have to explain that. Out she goes.

White: Or you can just end with "work." "As I see it, the Self-Liquidating Projects Act of 1939 will succeed in putting hundreds of thousands of men and billions of private capital to work."

H.M.Jr: You've said that. I'd lift out the sentence.

"To insure that Congress be kept fully informed on the self-liquidating position of this program, the Act provides...." - so forth and so on.

Well now, you've got the idea we've got to report this to Congress, which is all right. I think where it should go....

Bell: On page 7, that should take care of the definition of what a self-liquidating program is. If it's

- 31 -

taken care of properly on page 7....

H.M.Jr: "It is planned, however...." - that's - I'd say it once and I wouldn't say it again here. I mean you're going to define what a self-liquidating program is.

Bell: Are you talking about the report to Congress now or....

H.M.Jr: No, I'd stop with "...appropriation sufficient to make up for any losses which may have been incurred." Period. Then start in "It is planned, however, that all obligations incurred...." - you're defining a self-liquidating program, and I'd do that on page 7. The sentence beginning "It is planned...."

Bell: Yes, there is a little duplication there, you mean.

H.M.Jr: I'd cut that out here and do it once - correct explanation.

White: Yes.

McR: Kill the rest of that.

H.M.Jr: I'd kill the rest of that thing and do it once and do it on page 7. O. K., gents?

Bell: Uh-huh.

H.M.Jr: All right, gents?

Gaston: Yes.

H.M.Jr: See what I mean? Let's just do it once.

"The financing of the self-liquidating projects would require the sale of \$2,700,000,000 of government guaranteed obligations."

Gaston: I think we're throwing \$2,700,000,000 up in their face too much.

White: You can cut that next paragraph out altogether.

Foley: Won't have anything left.

H.M.Jr: No, there's plenty left. I don't want to be immodest, but all the purpose that I serve in going

- 32 -

up there - I, as Secretary of the Treasury, endorse this program. Now, that's the whole purpose of my walking up there. I mean the less I say the better.

Bell: I'd say that last sentence some place else in it.

Gaston: I think there are two other things that are important for you to say. One is this latter part here about the world situation, and the other is the fact - to point out the hope that this is a transition from the unbalanced budget to self-liquidating enterprise.

H.M.Jr: Now, say that again. Now, listen, gentlemen, just get this, and will you please - that isn't in this. Go ahead.

Gaston: Oh yes, it is; that this program represents the hope of a transition from unbalanced budgets to self-liquidating enterprise.

H.M.Jr: Where do you see it?

Gaston: It's on page 3. It isn't very emphatically stated.

H.M.Jr: I'd like to say that in here three times - three times - instead of throwing the interest rate around so much. I'd like to say that - that this is a bridge - that's what I use; and I'd like to say it three times.

Gaston: On page 5 - "The extension, however, is important. It may well turn out to mark a transition point in the public finances. If we can substitute with the same beneficial results on the national income the employment of self-liquidating loans in place of outright government expenditures we shall have made a great step forward in solving both our economic and our fiscal problem on a sound business basis."

White: We can say "have constructed a bridge to pass from deficits to balanced budgets" if you want to use the word "bridge" in there.

H.M.Jr: Yes, and I want to say something else here, and I said this to Kintner and Alsop - that I feel this is a movement in the direction of - that we can look forward that we again will live within our means.

- 33 -

Gaston: Yes, yes.

H.M.Jr: Say something like that.

Gaston: It's the same idea.

H.M.Jr: I'd like to say this thing in three different ways three times. Now, the interesting thing - Kintner, who is a spender - when I said this, he liked it. He liked it, didn't he?

Duffield: Uh-huh.

White: I like it because a statement of that philosophy means you'll have to do some more of this.

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

Bell: That's the reason you like it.

White: I just thought of it.

H.M.Jr: Wait a minute, Harry. You mean we agree.

White: Yes, otherwise you wouldn't make a statement you believe in it.

H.M.Jr: I want to say somewhere in here that through this sort of thing we are again, over a period of four or five years - we may look forward to the time when we may again live within our means.

Bell: (Looks very skeptical).

H.M.Jr: I know. Well, I'll say this, Danny. As far as I am concerned - I'm saying this with all the sincerity - this is the only program that I know that will bring this about.

Bell: O. K.

Gaston: I was about to say, this is the road and, as I see it, the only road toward a balanced budget.

Haas: You explain the setting for that by changing the back, putting the back up front.

- 34 -

Well - and if they get mean and dirty about it, I'm going to say, "What have you gentlemen done here to stop spending the money above the President's estimate in his budget?" Incidentally, I want those figures; I want to know what it is for, approximately.

And while I'm on that, Bell is going to go with me, and the people in the room will go with me. And then what I'm going to do is - for instance, if they say, "What about the self-liquidating...." - I want MacDonald there; I want a Rural Electrification fellow there; I want a Farm Security man. But I want these fellows so that when they call on me for technical knowledge I can say, "Now, Mr. MacDonald, please answer this. Mr. Rural Electrification, please answer this. Mr. Baldwin of Farm Security, please answer this." But I haven't got time to learn all of that.

- Foley: Baldwin, Foster, Adams and MacDonald. We don't need anybody from Public Works.
- H.M.Jr: You'll do that.
- Foley: We can do that. They'd only be a detriment anyway.
- H.M.Jr: Please, three times - three times get this thing into it.
- White: Have RFC for railroads?
- Foley: Railroads, Lauch Currie.
- White: Eastman or Lauch Currie.
- H.M.Jr: We'll take Lauch Currie with us. But I want to have it in here at least three times that this is a bridge. Little Chinese philosophy.
- Bell: Well, if you believe that this program will raise the national income sufficiently to produce tax revenues amounting to nine billion and a half dollars, well then, you've bridged that gap between deficit financing and....
- White: He didn't say that.
- Bell: That's exactly what you've got to do.

- 35 -

- Gaston: No, that's only half of it, a piece, the unimportant piece. What he is saying is that he can substitute self-liquidating expenditures which will produce the same economic effect for outright budget expenditures, and reduce your actual budget expenditures within the dimensions of the income you can count upon.
- Bell: I'm telling you that you're not going to reduce your expenditures below 9 billion dollars, and I'd bet a good dinner on it.
- H.M.Jr: All right, and I'm afraid, Dan, by the time you can say that you win or lose, I won't have any teeth left.
- Bell: By the time I win or lose, you what?
- H.M.Jr: I won't have any teeth left, so I won't enjoy the dinner.
- Bell: If this had been the case back at a 6 billion dollar level, O. K.; you've reached 6 billion dollars in your taxes. But....
- White: The important thing, Danny, is whether you believe this makes some progress toward it, if it does increase the national income somewhat.
- Bell: I don't - I think it makes some progress, but I don't think it will build a bridge until you get 9 billion dollars in tax revenue.
- H.M.Jr: Listen, old man, it did this so far, as of today; it stopped a new public works grant program.
- Bell: Exactly, and that's what I mean; it will stop further budgetary expenditures over and above the 9 billion dollars, but I don't think it will reduce expenditures.
- White: Well, this is a 10 billion dollar country, Danny.
- Bell: We've got a level fixed, and we never go down.
- McR: Who said it was going to reduce them?
- Bell: It says it in here. You've said it will reduce expenditures. One of them did.

- 36 -

White: Doesn't it say we'll reduce expenditures on relief?

H.M.Jr: I've got to plead for mercy, today. You fellows can do this afterwards, when I go home.

Bell: Well, we'll fight it out. I'll probably lose. I'm outnumbered.

H.M.Jr: No, you're not.

Gaston: Of course, what we've been saying here is what I said in the rest of page 6 that you cut out.

H.M.Jr: Well, all right.

White: Put it back, with a bridge.

Gaston: This is the only way we can cut government expenditures.

H.M.Jr: Well, anyway....

Duffield: I thought we'd just cut out the tail-end of it.

H.M.Jr: "The financing of the self-liquidating projects would require the sale...." - do you want to say this here? - "The financing of self-liquidating....."

White: Well, I'd like to get this sentence in here: "It is my opinion that this volume of securities can be sold to the public without disturbing the money market...." I think that's necessary.

Bell: I think that can be put in some place else just as effectively as here.

H.M.Jr: Just that sentence, just that one.

Bell: I'd like to leave out the interest rate.

White: Kind of startling - 6/10ths of a percent a year, huh? It's amazing. Now, this interest rate can be cut down. I tried to make a lot of it.

H.M.Jr: I know, I asked you to. But it's too much. Cut it in about half. I'm not going to try to edit the interest rate. Cut it in half, will you - the interest rate stuff.

- 37 -

White: Yes.

H.M.Jr: Oh, you can almost cut it to a third.

And then I want to go over and re-examine this question of "the practice and tradition of the long-term money market has set up artificial barriers between the long and short term markets which are unimportant...." I don't know whether anybody gives a damn about that.

Haas: That's part of the interest thing.

H.M.Jr: Let Larry Seltzer take a look at this, George.

White: We'll cut it down first, then let him look at it.

H.M.Jr: Let Larry and Henry Murphy take a look at it. But I think that could be cut to a third.

Now, top of page 14.

"This Administration has made great progress in bringing the market rates of interest down to reasonable levels." That's all right.

This stuff is good from the top of page 14 on.

Gaston: Yes, that's good.

H.M.Jr: What?

Gaston: Yes, that's good.

H.M.Jr: Top of page 14 - that's good. That's all good. I like that.

"It is this principle which is implicit in the Bill before you. The government is bringing together idle funds and borrowers who are unable to borrow under existing circumstances. It does more than that. It creates the additional incentive for the lenders to lend and for the borrowers to borrow by giving the stamp of approval and administrative assistance to the development which would otherwise remain unexploited."

I think that's all to the good.

- 38 -

I think that this next - this private capital and eliminating stuff - I think that next paragraph - we've said that enough.

Gaston: I was just about to say, that's been said before.

H.M.Jr: Yes, it's like - oh I think - I'm cutting out the paragraph "Another feature of this Bill...." I think we've said....

Bell: The last sentence in that preceding paragraph - they might ask you why you haven't got boom times.

H.M.Jr: Why not?

Bell: Why we haven't got boom times.

H.M.Jr: We say that in the front - on account of the war hanging over the whole world.

Bell: This ought to be closer. If you're going to keep in the paragraph on top of page 14, "A low rate of interest if effectively utilized constitutes one of the most potent weapons our economic system has developed for stimulating business activity" - I suppose you can hang your hat on "if effectively utilized."

White: No, it is one of the most potent weapons.

Bell: You've got a low rate of interest.

White: That shows none of the other weapons is very good.

Gaston: I think the whole paper ends with the first paragraph on page 15 - "....which would otherwise remain unexploited." I think that's the end of it. That's a good conclusion. Then we pick up on page 16 - "I would like to say one word with regard to the appropriateness of this program at this time" - that all goes over to page 1.

H.M.Jr: May I just - "One element of the program in particular is designed to stimulate...." I don't think I want to single it out and say something for the railroads.

White: I just put that in because Currie said somebody's got to say something for it. It's a lost baby.

- 39 -

H.M.Jr: I mean I don't want to single that out.
Well then, the last part we're bringing - going to bring up to the beginning.

Gaston: It will end "...which would otherwise remain un-exploited."

H.M.Jr: I think it's a good paper. Is 8:30 too early in the morning?

Gaston: No, it just means we do it this afternoon. We can do that.

White: Do it this what?

Gaston: Do the revision this afternoon.

White: We haven't got time.

Foley: He wants to get it out of the way.

H.M.Jr: I've got from 8:30 until 10, and I do the banking thing, which takes half an hour. We can be at our best tomorrow morning.

White: Why can't we work on it right now?

H.M.Jr: You're going to.

Bell: Pretty certain you won't go tomorrow, isn't it?

H.M.Jr: Yes. I might go Monday.
I think this is all right.

We are faced with the simple fact that the resources of the nation are not being adequately employed, that there remains a large pool of idle men, idle equipment and idle capital. The Bill before this Committee is designed to put men to work, to stimulate further capital investment in private industry, to raise the level of business activity, and to yield permanent benefits to the people of this nation.

The Self-liquidating Projects Act authorizes the following revolving expenditures:

1. 750 million dollars for self-liquidating highway improvements;
2. 350 million dollars for non-federal public works;
3. 500 million dollars for the lease of railroad rolling stock and shop equipment;
4. 460 million dollars (plus 40 million dollars already appropriated) for rural electrification projects;
5. 500 million dollars (plus not more than 100 million dollars already appropriated) for facilities for farm tenants, share croppers and farm laborers;
6. 100 million dollars (plus 100 million dollars already appropriated) for the financing of foreign trade.

Draft 2 - 7/13/39

- 2 -

The President has estimated that, of the sums made available for the first time by this Act, about 770 million dollars, made up in the following way, would be spent during the current fiscal year:

1. 150 million dollars for highway improvements;
2. 150 million dollars for non-federal public works;
3. 100 million dollars for railroad equipment;
4. 20 million dollars for rural electrification;
5. 250 million dollars for the farm tenant program;
6. 100 million dollars for the financing of foreign trade.

The program of self-liquidating investment authorized in the Act would be financed by the Reconstruction Finance Corporation. The Public Roads Administration, the Public Works Administration, the Rural Electrification Administration, the Department of Agriculture, and the Export-Import Bank -- in addition to the Reconstruction Finance Corporation -- would be operating agencies to carry out the purposes of the Act.

Specifically the Bill is designed to achieve four important objectives:

Draft 2 - 7/13/39

- 3 -

1. To give employment in private industry to at least one-half million persons;
2. To stimulate and not compete with private enterprise;
3. To increase the real wealth of the nation;
4. To provide additional investment opportunities for idle capital.

The important thing about this Bill is that it will accomplish these objectives without adding to the tax burden or to the Federal debt. ~~In fact the opposite is true because~~ with the execution of this program the national income will be increased and the number of persons that need to be supported out of public funds will be reduced.

I do not wish to contend that the program embodied in this Act constitutes a final or adequate solution of our economic problem but it does constitute a realistic approach

- 4 -

to that problem. (~~It does represent a step towards a greater utilization of our labor and capital resources within the framework of a sound fiscal policy.~~)

~~The benefits of this program are not confined to the fields which are specifically mentioned in the Act. The increase of production in these fields will result in increased orders for materials, equipment and services of all kinds and thereby the stimulus will be spread throughout the economy.~~

The Bill does not represent a new fiscal policy. Continuously in the last six years we have employed the device of guaranteed loans to protect the credit structure and to promote productive enterprise. The results have been highly beneficial and highly encouraging. Through this method we have saved farms and homes from foreclosure and lowered interest rates enough to make the great difference between solvency and insolvency. Through it we have given assistance

Draft 2 - 7/13/39

- 5 -

to railroads, banks and a wide range of private industry. We have given assistance to States, to localities and to other public corporations through which they have been able to proceed with beneficial and essential projects for the welfare of citizens at interest costs which have made the projects sound and feasible. The record is a good one. It is a record of a sound investment underwriting business which would not have been done if the Federal Government had not done it.

What is proposed now is merely an extension of this proved method to a somewhat broader field. The extension, however, is important. It may well turn out to mark a transition point in the public finances. If we can substitute with the same beneficial results on the level of national income the employment of self-liquidating loans in place of outright government expenditures we shall have made a great

Draft 2 - 7/13/39

- 6 -

step forward in solving both our economic and our fiscal problem on a sound business basis.

It is idle to say that without some such substitute we can hope soon to reduce government expenditures drastically. Those who assume that we could do that without the most devastating effects on business are probably ignorant of the true facts of the situation. Few people realize the extent to which basic industries are dependent upon the activities of government and government-financed projects for sustaining their level of production. Almost one-half the construction now being carried on in the United States is government-owned or government-financed. More than one-half the cement produced in the United States was used in Federal-financed projects and over 40 percent of the structural steel. The provisions of this Bill will still further increase activity in those basic industries.

- 7 -

The method followed in this Bill represents in essence a substitution of contingent liabilities of government guaranteed obligations for direct obligations of the government, a substitution of self-liquidating undertakings in place of public works financed out of the budget. This distinction is not merely a bookkeeping one, as has often been mistakenly supposed, but is very soundly based. In the case of budget expenditures the servicing of the debts created to finance them is met out of general tax revenues. Taxes must be relied upon in order to pay the interest and the principal on these obligations. In the case of self-liquidating loans, however, such as are incurred by the government in this Bill, the interest and amortization payments are met with the earnings on the investment. Only if the revenues yielded by the investments are insufficient to meet loan costs, is the government called upon to make good any deficiency out of the budget. The Act specifically imposes upon the Reconstruction

Draft 2 - 7/13/39

- 8 -

Finance Corporation as well as upon each operating agency the duty to undertake only such projects and to make only such loans as will repay the full amount invested plus interest sufficient to reimburse the government for the cost of borrowing.

This Bill applies in the realm of public enterprise the identical principles followed by large corporations in the field of private enterprise.

The question has already been raised whether the projects involved are self-liquidating. I do not wish to predict that the government will suffer no loss on any of the various features of this program but I know that these projects have been very carefully selected with the intention of choosing sound investments which have a high probability of repayment. Dozens of other projects totalling many billions of dollars were eliminated in preliminary studies either

Draft 2 - 7/13/39

- 9 -

because they were not entirely self-liquidating or because they involved some conflict with private enterprise. The record of collections by our lending agencies has been extremely good and it is my considered opinion that the risk of loss under the present Act is very small and that even under circumstances much worse than we now anticipate the loss would be a mere fraction of the amount lent. (As I see it the Self-liquidating Projects Act of 1939 will succeed in putting hundreds of thousands of men and billions of private capital to work with very small government administrative expenditures.)

To insure that Congress be kept fully informed on the self-liquidating position of this program, the Act provides that the Secretary of the Treasury and the Federal Loan Administrator shall make an annual appraisal of the assets acquired by the various operating agencies and that they

Draft 2 - 7/13/39

- 10 -

shall request from Congress an appropriation sufficient to make up for any losses which may have been incurred. It is planned, however, that all obligations incurred for the financing of the projected investments shall be liquidated from the proceeds of these investments, and not from the government's general tax revenues. It is expected that all money paid out under this Act will be repaid to the Federal Government through toll and other highway revenues, through rentals on railroad equipment, and through the repayment of public works, rural electrification, farm tenancy and foreign trade loans.

The financing of the self-liquidating projects would require the sale of \$2,700,000,000 of government guaranteed obligations. The most recent issue of five-year notes is now selling to yield about 6/10 percent interest, which rate is far below the maximum stated in the Bill. The yield on

Draft 2 - 7/13/39

- 11 -

the longest term ~~United States obligations~~ is now 2.3 per-
cent. It is my opinion that this volume of securities can
be sold to the public without disturbing the money market
for either private capital or for the normal needs of govern-
ment during ensuing fiscal years.

This Bill embodies another distinctive principle. It
provides that the maximum interest rate which might be charged
by any operating agency or loans under this program should
be limited to the highest yield on the longest term direct
or indirect obligations of the United States then outstanding.

The interest rate on long-term loans and investments
plays a very important role in modern economic life. It
regulates the use of capital. When business activity is high
and when funds are scarce, it is the function of interest
rates to put brakes on investment and to restrict employment
to only the most necessary uses. When, on the other hand,

Draft 2 - 7/13/39

- 12 -

business activity and the volume of investments are low and when there are large pools of idle savings, then the function of interest rates is to expand profitable investment opportunities.

But, in order for the interest rate to function, it is necessary to increase its elasticity; it is necessary to make the rates less "sticky" -- less rigid. In previous decades the degree of flexibility permitted under these conditions though confined in the main to short-term borrowing was adequate for the purpose at hand. The problem is now different. There are two factors present which make it impossible for changes in the interest rate to operate automatically and with complete effect.

In the first place, the disturbed world situation increases economic uncertainty to the point where investors are reluctant to place much of their funds at long term in

Draft 2 - 7/13/39

- 13 -

specific enterprises at the low rates of interest justified by the fundamental economic forces of supply and demand.

In the second place, the practice and tradition of the long-term money market has set up artificial barriers between the long and short term markets which are unimportant during times of high business activity but which become an important deterrent to investment during periods of low business activity. The Government is able to borrow at extremely low rates both on long and short term because it has succeeded in breaking through the artificial barrier between the long and the short term money market. In times like the present it therefore becomes the government's function to act as a catalytic agent to bring together investors who are willing to lend their savings at low rates of interest and the borrowers who are able and willing to employ funds for productive purposes provided the interest rates are made low enough to justify such investment.

Draft 2 - 7/13/39

- 14 -

This Administration has made great progress in bringing the market rates of interest down to reasonable levels. The most important successes have been in connection with loans to farmers and to home owners and for purposes of residential and business construction and non-federal public works. This progress, however, has not been enough and it is my opinion that the time has now come to take the next step forward, that of selecting specific investments which should be given the advantage of an interest rate low enough to assure their being undertaken. A low rate of interest if effectively utilized constitutes one of the most potent weapons our economic system has developed for stimulating business activity.

It is this principle which is implicit in the Bill before you. The government is bringing together idle funds and borrowers who are unable to borrow under existing circumstances. It does more than that. It creates the additional incentive

Draft 2 - 7/13/39

- 15 -

for the lenders to lend and for the borrowers to borrow by giving the stamp of approval and administrative assistance to the development which would otherwise remain unexploited.

Another feature of this Bill is that it exercises great care in confining its projects to those which will not interfere with private enterprise. Each item of investment has been carefully scanned. Many projects totalling many billions of dollars were eliminated in preliminary surveys because there was some possibility that they might conflict with private enterprise.

One element of the program in particular is designed to stimulate production and create employment in perhaps the most depressed of all the capital goods industries, railroad equipment. Through supplementing the present loaning powers of the Reconstruction Finance Corporation, the government will be in a position to enable the railroads of the country to

Draft 2 - 7/13/39

- 16 -

acquire new rolling stock and machine shop equipment on terms and conditions never available heretofore. Here again, the purpose is to aid rather than to compete with private enterprise.

I would like to say one word with regard to the appropriateness of this program at this time. We must not forget that we are in a period which is most unusual in world history. The world has neither peace nor war. It is immersed in a period of international political uncertainty characterized by stupendous expenditures on unproductive military expenditures. It is a period in which the international economic relationships of the United States are being prevented from attaining their full measure of recovery because of the lack of free exchange with which to conduct international trade, the lack of purchasing power on the part of the people of the world with which to buy the products which the United

Draft 2 - 7/13/39

- 17 -

States could export and through the general distortion of the world's economic systems because of the fear and expectancy of a world cataclysm. It is hopeless to expect that private industry unaided can overcome such handicaps. It is futile to await the restoration of that degree of international peace and security and sanity which is essential to a high level of domestic and foreign trade and economic progress. Under these circumstances we must seek within the framework of our institutions and within the requirements of sound fiscal policy to utilize to the fullest extent possible the resources of the government to overcome the difficulties of our epoch.

In a country with enormous potentialities and with the population rapidly marching towards the 150 million mark there is ample possibility for the Federal Government to supplement private enterprise by promoting investment of \$3 billions in self-liquidating projects.

Draft 2 - 7/13/39

- 18 -

In contrast with other important nations of the world we are still in the fortunate position of having the opportunity of utilizing the government credit for the purpose of financing productive investments instead of spending billions on the unproductive military expenditures.

July 13, 1939

My dear Mr. President:

I am sure you will be interested in this unusual bit of information.

Sincerely yours,

The President,
The White House.

July 13, 1939

My dear Mr. President:

I am sure you will be interested in this unusual bit of information.

Sincerely yours,

The President,
The White House.

July 13, 1939

My dear Mr. President:

I am sure you will be interested in this unusual bit of information.

Sincerely yours,

The President,
The White House.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: July 12, 1939, 10 a.m.

NO.: 633

No. 46. FOR TREASURY FROM HEATH.

The following is confidential:

A representative of the American Standstill Committee at present in Berlin was asked by German banks to permit them to utilize, for the financing of shipments to Spain of American cotton, certain dollar lines of credit which under the Standstill Agreement have to be kept open. Apparently the request was agreed to in principle by the American Standstill Committee.

The German bankers would undoubtedly, in making these credit lines available to the Spanish Government or Spanish banks, charge a rate of interest higher than that stated therein to pay the American banks - a 3 percent rate. There are indications, however, that aside from the banking profit the German Government is interested in having its own banks take an active part in the new Spain's trade and financing.

KIRK.

EA:LWW

7-13-39 93

MEMORANDUM FOR DR. FAIS:

At the request of the Secretary of the Treasury, please send the following cable to Berlin:

"With reference to your No. 633, July 12, No. 46 for Treasury from Heath, please cable fullest general information obtainable, and specifically

"One. What provisions of the Standstill Agreement identify the dollar lines in question;

"Two. Is there any precedent under the Standstill Agreement for proposed use of credits to finance sales to a third country;

"Three. Does the proposed utilization require formal consent of American Standstill Committee to modification of Standstill Agreement beyond consultation or agreement in principle reported;

"Four. What amounts and maturities might be involved;

"Five. In the mechanics of utilization of the credit would a debtor-creditor relationship arise

Memorandum for Dr. Feis.
Page #2.

between American banks and Spanish banks or Govern-
ment, and if so, would German banks remain liable."

JPC, JR:BJ 7/13/39 2d draft

MSH:AM
P.C.H.

Pages 95,96,97 dated June 13 and 14;
placed in Book 195

July 14, 1939

My dear Mr. President:

I am sending you herewith a memorandum I have received concerning ~~Mr. [redacted]~~ testimony, today, on the self-liquidating program.

Sincerely yours,

The President,
The White House.

July 14, 1939

My dear Mr. President:

I am sending you herewith a memorandum I have received concerning ~~Mr. [Name]~~' testimony, today, on the self-liquidating program.

Sincerely yours,

The President,
The White House.

July 14, 1939

My dear Mr. President:

I am sending you herewith a memorandum I have received concerning ~~Mr. [Name]~~' testimony, today, on the self-liquidating program.

Sincerely yours,

The President,
The White House.

July 14, 1939

Secretary Morgenthau

E. H. Foley, Jr.

For your information -Re: Testimony of Jesse Jones

Kades reports that Jesse Jones' testimony before the Senate Banking Committee this morning hurt the bill materially and it is now definitely in trouble. While Jones stated he was in sympathy with the general objectives of the bill, it was obvious from his manner and intonation that he was critical of many of its features. While the record will not disclose hostile statements on Mr. Jones' part, nevertheless his attitude toward the bill was deprecatory.

For instance, Jones said that he did not understand the interest formula. When Senator Barkley explained it with great clarity he still persisted in his inability to understand it. He also said that RFC had an additional borrowing margin of more than a billion dollars and it could not use all the money that would be made available to it by the bill. In addition, Jones pointed out two or three times that he had power under the Glass-Steagall bill to make loans to municipalities, implying that the PWA and toll road and bridge provisions of the legislation are unnecessary.

Reclamation Commissioner Page asked for \$85,000,000.00 for his projects. Senators O'Mahoney and Worth Clark appeared as supporting witnesses. Page created a favorable impression, and undoubtedly the Committee will amend the bill to make the amount requested available for Reclamation.

- 2 -

Senator Wagner scheduled the next hearing of his committee for 10:30 A. M. on Tuesday. He announced that you would appear at that time. Senator Berkley told Senator Wagner he was willing to proceed with the hearings tomorrow, but Senator Wagner replied that he was tired and wanted to put the hearings over until next Tuesday. Palley and Eastman will also testify on Tuesday.

In the House, although Mr. Carmody put in appearance, Representative Steagall did not hear him. Instead, the House Committee held an executive session on the USRA amendments. Incidentally, I noticed that Congressman Steagall took Congressman Williams of Missouri, one of his committee members who has been opposed to Straus' legislation, to the White House yesterday. This looks as though the housing bill may be reported favorably ahead of the lending bill.

July 14, 1939

Your Majesties:

I take great pleasure in presenting to you, through the courtesy of Ambassador Kennedy, a copy of the color motion picture film which I took during your visit to Washington and Hyde Park.

I hope that you will enjoy the pictures as much as I enjoyed taking them.

I have the honor to be, Your Majesties,

Respectfully yours,

Their Majesties,
The King and Queen of Great Britain,
London,
England.

July 14, 1939

Your Majesties:

I take great pleasure in presenting to you, through the courtesy of Ambassador Kennedy, a copy of the color motion picture film which I took during your visit to Washington and Hyde Park.

I hope that you will enjoy the pictures as much as I enjoyed taking them.

I have the honor to be, Your Majesties,

Respectfully yours,

Their Majesties,
The King and Queen of Great Britain,
London,
England.

July 14, 1939

Dear Joe:

I am sending herewith a copy of the motion picture film which I took of the King and Queen during their visit here in the United States.

I would appreciate it if you would present this film to Their Majesties with my compliments.

Yours sincerely,

The Honorable
Joseph P. Kennedy,
American Ambassador to
Great Britain,
American Embassy,
London, England.

July 14, 1939

Dear Joe:

I am sending herewith a copy of the motion picture film which I took of the King and Queen during their visit here in the United States.

I would appreciate it if you would present this film to Their Majesties with my compliments.

Yours sincerely,

The Honorable
Joseph P. Kennedy,
American Ambassador to
Great Britain,
American Embassy,
London, England.

RE STATEMENT IN SUPPORT OF SELF-
LIQUIDATING PROJECTS BILL

July 14, 1939.
8:30 A. M.

Present: Mr. Gaston
Mr. Foley
Mr. Bell
Mr. Duffield
Mr. White
Mr. Haas

H.M.Jr: Who's got the copy?

Haas: Harry's got it.

Gaston: He has the original. Here's my carbon.

H.M.Jr: Supposing somebody would start reading it. Every-
body happy about it?

Gaston: Yes, I think it's pretty good.

H.M.Jr: You happy, Dan?

Bell: (Nods affirmatively).

Gaston: Some slight duplication.

"I am appearing before you in support of S. 2759,
the Self-liquidating Projects Act of 1939.

"The Bill before your Committee is designed to
utilize idle resources. Its purpose is to put to
work men, materials and funds not now being employed.
It is intended to stimulate further capital invest-
ment in private industry, to raise the level of
business activity and to yield permanent benefits
to the people of this Nation.

- 2 -

"This program seems to me to be particularly appropriate at this time. We must not forget that we are in a period which is most unusual in world history. The world has neither peace nor war. It is a period of international political uncertainty characterized by stupendous expenditures for unproductive military purposes. International economic relationships are disorganized by the lack of free exchange with which to conduct normal world commerce. Our trade suffers from the lack of purchasing power on the part of the people of the world with which to buy the products which the United States could export and from the general distortion of the world's economic systems because of the fear and expectancy of a world cataclysm."

- W.M.Jr: May I just say - it's a thought; I won't try to put it in very good English. The thought I mean is that after the various countries have spent their money in armaments, there isn't much left to buy peace-time goods from us. What do you think?
- Gaston: Yes.
- W.M.Jr: What? What do you think of that?
- Gaston: Yes.
- W.M.Jr: Because that's the fact.
- Gaston: We could put it right in here - "International economic relationships are disorganized by the lack of free exchange with which to conduct normal world commerce" and then say "In addition...."
- W.M.Jr: Well, I don't care....
- Wait - did you have an idea, George?
- Haas: I was a little apprehensive about spelling that out too carefully.
- Gaston: "It is hopeless to expect that private industry unaided can overcome such handicaps. It is futile to await the restoration of that degree of international peace and security and sanity which is essential to a high level of domestic and foreign trade and economic progress."

- 3 -

H.M.Jr: Do you say "It is hopeless to expect"?

Gaston: "It is hopeless to expect that private industry unaided can overcome such handicaps."

Duffield: I'd like to cut that sentence, because it worries me a little bit, and the next one says practically the same thing.

Gaston: Let's do that.

H.M.Jr: I don't like that.

Gaston: Cut out that sentence "It is hopeless...." Then "It is futile to await the restoration of that degree of international peace and security and sanity which is essential to a high level of domestic and foreign trade and economic progress. Under these circumstances we must seek within the framework of our institutions and within the requirements of sound fiscal policy to utilize to the fullest extent possible the resources of the Government to overcome the difficulties of our epoch.

"In a country with enormous potentialities and with the population rapidly marching towards the 150 million mark there is ample possibility for the Federal Government to supplement private enterprise by promoting investment in self-liquidating projects."

H.M.Jr: There is ample what?

Gaston: "...there is ample possibility for the Federal Government to supplement...."

(White comes in)

H.M.Jr: Have you got the original, Harry? Good morning.

White: Good morning.

Gaston: "In contrast with other important nations of the world we are still in the fortunate position of having the opportunity of utilizing the Government credit for constructive purposes instead of devoting billions to unproductive military expenditures."

- 4 -

Duffield: Middle of page 2.

H.M.Jr: I think I'll go back, if you don't mind, as long as I've got a copy.

"I am appearing before you in support of S. 2759, the Self-liquidating Projects Act of 1939.

"The Bill before your Committee is designed to utilize idle resources. Its purpose is to put to work men, materials and funds not now being employed."

What does this - "Its purpose is to put to work men...."

Duffield: Men to work.

Gaston: "Its purpose is to put to work men, materials and funds...."

H.M.Jr: Oh, I see - "put to work men." Don't want to say "put men to work"?

I see - "put to work men, materials and funds not now being employed. It is intended to stimulate further capital investment in private industry, to raise the level of business activity and to yield permanent benefits to the people of this Nation."

I like that. That's much better. It suits me better.

"This program seems to me to be particularly appropriate at this time."

I don't like the word "appropriate." Can't we say "This program seems to me particularly timely"? I prefer "timely" to "appropriate."

Anybody object to that?

Gaston: No, it's - if you say "timely" you have to cut out "at this time."

H.M.Jr: Yes.

Gaston: "...particularly needed at this time" or "particularly timely"?

H.M.Jr: O. K. Anybody love the word "appropriate"?

- 5 -

Bell: I thought it was all right.

H.M.Jr: All right, leave it there. All right, leave it there.

"We must not forget that we are in a period which is most unusual in world history. The world has neither peace nor war. It is a period of international political uncertainty characterized by stupendous expenditures for unproductive military purposes. International economic relationships are disorganized by the lack of free exchange with which to conduct normal world commerce. Our trade suffers from the lack of purchasing power on the part of the people of the world with which to buy the products which the United States could export and from the general distortion of the world's economic systems because of the fear and expectancy of a world cataclysm."

I think that's swell. I think that's swell.

Bell: Could you cut out that "which" - "which the United States could export." You've got two "whiches" there right together. I don't know whether it sounds well in reading.

Duffield: You read it all right. It looks long and complicated to me, but you read it all right. That's the test.

Gaston: You could cut out that "which" and say "the products' the United States could export."

H.M.Jr: In the next sentence I want to leave out, Harry - leave out that sentence "It is hopeless to expect...."

Then "It is futile to await the restoration of that degree of international peace and security and sanity which is essential to a high level of domestic and foreign trade and economic progress. Under these circumstances we must seek within the framework of our institutions and within the requirements of sound fiscal policy to utilize to the fullest extent possible the resources of the Government to overcome the difficulties of our epoch."

"....of our epoch" or "of this epoch"?

- 6 -

Duffield: "Our."

H.M.Jr: Why "our"?

White: This is ours.

H.M.Jr: Well, it isn't only ours.

Duffield: It's theirs, too, huh?

Gaston: I would prefer to say "this age."

(Foley comes in)

H.M.Jr: Good morning.

No, I don't like this. "...difficulties of this...." - just change the word from "our" to "this," will you?

Bell: "...overcome some of our difficulties"?

H.M.Jr: No - "to overcome the difficulties of this epoch." That's all right. I just don't want it "our." It'll give me a word or two anyway.

"In a country with enormous potentialities and with the population rapidly marching towards the 150 million mark there is ample possibility for the Federal Government to supplement private enterprise by promoting investment in self-liquidating projects."

I think this is a swell statement. How long were you fellows here?

Duffield: 6:30.

H.M.Jr: Is that all?

"The President has estimated that, of the sums made available for the first time by this Bill, about 770 million dollars, made up in the following way...."

"....the sums made available...."

Gaston: "...that, of the sums made available for the first time...."

- 7 -

- H.M.Jr: What do you mean "for the first time"?
- Duffield: There are some of them that are transferred, you know, Mr. Secretary.
- H.M.Jr: I don't like that. Is that clear to you, Dan?
- Gaston: It means that out of the authorization created in the Bill, there's about 770 million dollars we're going to spend in the current year.
- H.M.Jr: Can't you say "of the new sums made available by this Bill"?
- Gaston: I just think we could leave out "for the first time." Say "of the sums made available by this Bill."
- H.M.Jr: I don't like "for the first time." Dan?
- Bell: That isn't strictly accurate. I think what you can do - the President has estimated - you can say about 800 million, and it will take in not only that, but a hundred million transferred.
- Gaston: To say "of the sums made available by this Bill" is just the same as saying "made available for the first time by this Bill."
- Bell: That isn't strictly accurate either, because there's 140 million dollars made available by this Bill under this Bill, transferred from other programs to this Bill.
- H.M.Jr: How would it be accurate?
- Bell: It's accurate the way it's stated - "for the first time." The President said in his letter that these were in addition to other funds made available.
- Gaston: You could say "additional sums made available by this Bill."
- Bell: You could say "of the additional sums made available by this Bill."
- H.M.Jr: That's all right. I don't like "for the first time," that's all. All right, gents?

- 8 -

"The program of self-liquidating investment authorized in the Bill would be financed through the Reconstruction Finance Corporation. The Public Roads Administration, the Public Works Administration, the Rural Electrification Administration, the Department of Agriculture, and the Export-Import Bank - in addition to the Reconstruction Finance Corporation - would be operating agencies to carry out the purposes of the Act."

I would say "the operating agencies to carry out the purposes of this Act would be...." See? It would be the same as the sentence before, if you bring that up forward. You say "The program of self-liquidating investment authorized in the Bill would be financed through the Reconstruction Finance Corporation." And I'd say "The operating agencies to carry out the purposes of the Act would be...." At least, it makes the two sentences read the same.

- Ball: Do you want to say "detailed purposes of the Act"? After all, the Public Roads is under a Federal Works Administrator.
- Duffield: It goes direct through them; doesn't go through the other.
- Ball: Yes, it does. There is a provision in the end of the Bill that says it doesn't change the reorganization, it goes through the Administrator.
- H.M.Jr: What's the point?
- Ball: I don't think it's important.
- Boley: We want to mention the sub-divisions of the new agencies that have been set up.
- H.M.Jr: Question of mentioning them?
- Duffield: As a matter of fact, the authorizations are made direct to them, not made to the agencies.
- Gaston: These agencies are listed here in this paragraph just as they are listed in the Bill.
- H.M.Jr: What's your objection to saying "The operating agencies are...." and then listing them?

- 9 -

Foley: That they are a breakdown of the lending agency and the works agency.

H.M.Jr: I think it's good. Do you mean it's inaccurate?

Bell: No, no, I don't think it's inaccurate.

H.M.Jr: Do you mind saying it the way I do? "The operating agencies are...."

"Specifically the Bill is designed to achieve four important objectives:

in private

"1. To give employment/industry to at least one-half million persons;

"2. To stimulate and not compete with private enterprise;

"3. To increase the real wealth of the nation;

"4. To provide additional investment opportunities for idle capital.

"The important thing about this Bill is that it will accomplish its objectives without adding to the tax burden or to the debt of the Federal Government."

Bell: That's the first bridge.

H.M.Jr: That's all right. This is important.

Bell: Better to put - didn't we put "Federal" before "tax burden"?

White: Well, we changed it.

Bell: Oh yes - "tax burden or to the Federal debt."

H.M.Jr: Want to say "public debt"?

Duffield: I think it's a little more precise to say "public debt."

H.M.Jr: All right. That's what you're (Bell) here for.

Gaston: What's that?

- 10 -

- Duffield: "Public debt."
- Gaston: No, "the public debt of the Federal Government."
- White: What other kind of a debt is there?
- Duffield: Contingent.
- White: No, that's not the comparison. We have public and private. The contingent debt is not the antithesis of the public debt.
- Duffield: What do you call the contingent debt?
- White: It's a contingent debt.
- Duffield: Of who?
- White: It's a contingent debt of the Federal Government. It's a contingent obligation.
- Bell: I just thought of the Secretary being asked the question "What is this debt you are creating, if not of the Federal Government?"
- White: Why isn't a contingent debt just as public as a direct obligation, if it's a debt?
- Gaston: It isn't a question of what the word means. It's a question of the official designation of those securities we list on the public debt statement.
- H.M.Jr: Gentlemen, would it be good English to make that "The Bill, therefore, constitutes...." - to make that a separate paragraph?
- Gaston: No, that would be all right.
- H.M.Jr: Would you make that a little short paragraph? What?
- Haas: There's a question that might be asked, Mr. Secretary, when you say "the funds needed to support...."
- H.M.Jr: I can't hear you, George.
- Haas: They may ask you a question with regard to this statement that "the number of persons that need to be supported out of public funds will be reduced."

- 11 -

They might ask you if you're going to use relief labor on these projects.

H.M.Jr: What's the answer?

Hans: I don't think it's contemplated.

Sell: Not as such. If any relief labor can....

Gaston: What we hope is that this will give jobs to men and cut down the relief rolls.

Worfield: I had another question on this phrase, whether this 500 thousand is in addition to the increment that you expect in the working force, whether this really will bring a net reduction.

White: It doesn't say it will reduce unemployment. It says in effect that it will give employment.

Worfield: It says "the number of persons that need to be supported out of public funds will be reduced."

White: Will be reduced from what it would have been. That's implicit in what you say above in the specific objectives. You don't say it will reduce unemployment, you say it will give employment.

H.M.Jr: Of course, this one sentence - it looks as though we had solved everything. I mean it almost reads - it's almost too good. "...accomplish its objectives without adding to the tax burden or to the debt of the Federal Government. At the same time the national income will be increased and the number of persons that need to be supported out of public funds will be reduced. The Bill, therefore, constitutes a real advance toward the goal of bringing our governmental expenditures within our receipts."

White: I think you help that out and make it a closer approach to accuracy if you say "The principle embodied in this Bill constitutes...."

H.M.Jr: I think so. It's almost too glib the way it is.

Gaston: Yes, I think so.

H.M.Jr: Would you put that in, Harry?

- 12 -

Incidentally, I think you people will be interested - Earle Baillie was down here and he had a man down - he had Tim Fox down for a couple days going into this thing, and he studied this thing very, very closely, spent a lot of time on it himself. And he says this is the first answer that he is willing to accept as a way out in Federal financing, that he is wholly for it. He says this is the first time he's seen anything come out of Washington that he will accept looking towards a balanced budget and providing work and everything else. It's very interesting.

White: I think you'll have to cut the "therefore" out.

H.M.Jr: He's going to proceed to sell it to New York, too.

Gaston: No, I don't think so. I don't see why you have to cut the "therefore" out.

White: Leave it in.

H.M.Jr: Why "therefore"? I don't see why you need a "therefore."

Gaston: The point is it connects with the sentence immediately before, that the national income is going to be increased.

H.M.Jr: It's going to be a separate paragraph.

Gaston: That doesn't make any difference.

H.M.Jr: I won't argue on words.

White: If you leave the "therefore" in there, it means that the principle arises out of those two facts. I suppose it does.

Gaston: I suppose it does. If it doesn't, we oughtn't to have it. It's all right either way.

H.M.Jr: You fellows fight it out, but I like that addition of "principle."

"I do not wish to contend that the program embodied in this Bill constitutes a final or adequate solution of our economic problem but it does constitute a realistic approach to that problem."

- 13 -

This is what I'd like to say, but I won't: "...the first realistic...." - but I won't.

"The program does not represent a new fiscal policy. Continuously in the last six years we have employed the device of guaranteed loans to protect the credit structure and to promote productive enterprise. The results have been highly beneficial and highly encouraging. Through this method we have saved farms and homes from foreclosure and lowered interest rates enough to make the great difference between solvency and insolvency. Through it we have given assistance to railroads, banks and a wide range of private industry. We have given assistance to States, to localities and to other public corporations through which they have been able to proceed with beneficial and essential projects for the welfare of citizens at interest costs which have made the projects sound and feasible. The record is a good one. It is a record of a sound investment underwriting business which would not have been done if the Federal Government had not done it."

Now, I think that the trouble with this thing is, you say, "Well, if this is all good, why do you need the other thing?" Don't you mean here that the program does not represent a new fiscal program? I think what you're - I mean the guaranteeing of government bonds doesn't represent a new thing, but this thing of self-liquidating is new.

Easton: Well, of course, they're not all self-liquidating in the true sense at all.

H.A.Jr: Well then, I don't see why this is such a wonderful program.

Easton: This is - I think it is perfectly correct to state that this is merely an extension of something that we have been doing heretofore.

White: I rather agree with the Secretary there, and I think that can be changed. Instead of saying "The program does not represent a new fiscal policy," say "The fiscal policy embodied in this program does not represent a departure...."

- 14 -

- Duffield: "The fiscal aspects of the program...."
- White: You're not talking about the self-liquidating nature of the program here. That's supposed to be the principle which you think is a way out. This other statement is an attempt to approach it from another side, the fiscal aspect.
- Haas: "The fiscal policy embodied...."
- Gaston: We're not saying the program isn't new, we're just saying it doesn't represent a new fiscal policy. That's what you're saying.
- White: But it does give greater emphasis to the fiscal policy than would be the case....
- Gaston: "The fiscal policy embodied in this program would not be new."
- H.M.Jr: How did somebody say that?
- Gaston: "The fiscal policy embodied in this program is not new."
- H.M.Jr: Leave it that way, would you, gentlemen?
- White: Unfortunately, we use "embodied" shortly before.
- H.M.Jr: Use the word "incorporated."
- White: "Employed" would be better.
- H.M.Jr: Anything. Now, how would it read, gentlemen?
- Gaston: "The fiscal policy employed in this program is not new."
- H.M.Jr: All right.
- "What is proposed now is merely an extension of this proved method to a somewhat broader field. The extension, however, is important."
- Look here, Harry, what you're talking about is guaranteed bonds, aren't you?

- 15 -

White: In this part here.

H.M. Jr: Well, you don't say it in that paragraph. Merely an extension of what?

White: Of the device.

Gaston: Of this proved fiscal method.

H.M. Jr: What is it? You keep talking about it.

Bell: "...we have employed the device of guaranteed loans to protect the credit structure and to promote productive enterprise." We're going to extend it to this field.

S.M. Jr: Where do you say that?

Bell: In the paragraph you just left.

H.M. Jr: I'd repeat it. Where are you reading?

Bell: Mine doesn't correspond to yours, but the sentence just before - the sentence following "new fiscal policy." It reads "Continuously in the last six years we have employed the device of guaranteed loans...." We've used "employed" twice.

H.M. Jr: I didn't see the words "guaranteed loans." That's what I was looking for.

Maas: Have to get another word for "employed."

White: Yes - "incorporated."

S.M. Jr: That's all right. I was looking for "guaranteed loans."

"The extension, however, is important. It may well turn out to mark a transition point in the public finances. If we can substitute self-liquidating investments in place of outright Government expenditures with no less beneficial effects on national income, we shall have made a great step toward bridging the gap between revenue and expenditures."

White: I think I'm a little bit troubled about that. I think this is saying more than you have ever said in the past.

- 16 -

H.M.Jr: I'll tell you what bothers me. What bothers you, first?

White: You've never taken the position that expenditures have contributed to the national income, have you?

Duffield: Don't think you have. I marked that, too.

H.M.Jr: "It may well turn out...." - thank you, Harry. I mean that sincerely. "It may well turn out to mark a transition point in the public finances." It's just what I.... "If we can substitute self-liquidating investments in place of outright Government expenditures...." - just leave out "with no less beneficial effects on national income." Just leave out "with no less...."

White: Yes.

H.M.Jr: That's all. I was coming to it. I saw something rang a red bell.

"It may well turn out to mark a transition point in the public finances. If we can substitute self-liquidating investments in place of outright Government expenditures we shall have made a great step toward bridging the gap between revenue and expenditures."

That's all right.

"This distinction between self-liquidating investments and non-recoverable expenditures is not merely a bookkeeping one, but is very soundly based."

What do you mean by "non-recoverable expenditures"?

White: We wanted an antithesis for a self-liquidating investment. A self-liquidating investment is one which obviously yields a return in recoverables, and the only one thing we could think of that would be the opposite phrase is "non-recoverable expenditures."

H.M.Jr: Is that a grant?

Duffield: Yes. You don't get it back.

- 17 -

- White: Or an expenditure on a public purpose.
- Daston: Or an expenditure on a public purpose from which there is no income.
- Bell: It's been used right along in reports on public expenditures.
- H.M.Jr: All right.
- "In the case of non-recoverable expenditures the servicing of the debts created to finance them must be met out of general tax revenues. In the case of self-liquidating loans, however, such as are proposed in this Bill, the interest and amortization payments are met out of the earnings on the investment. Only if the revenues yielded by the investments are insufficient to meet loan costs, is the Government called upon to make good any deficiency out of general revenues. The Bill imposes upon the Reconstruction Finance Corporation as well as upon each operating agency the duty to undertake only such projects and to make only such loans as will repay the full amount invested plus interest sufficient to reimburse the Government for the cost of borrowing."
- Bell: There is a....
- H.M.Jr: Now, wait a minute - "...interest sufficient to reimburse the Government...." Aren't you going to have any amortization? How do you get the capital back?
- Daston: It will repay the full amount invested plus interest, you see.
- Bell: In the Bill, I recall, is the word "reasonable." I wonder if that shouldn't be stated here.
- Foley: "...as reasonably will repay...."
- Bell: Yes.
- White: Is that where the "reasonable" comes?
- Bell: I'm not sure that it comes there.
- Duffield: Check it.

- 18 -

Foley: Yes.

H.M.Jr: What's that?

White: "Reasonable expectation."

Gaston: "Reasonable expectation."

H.M.Jr: Where is that, gentlemen?

Bell: The sentence you were reading.

H.M.Jr: "The Bill imposes upon...." - where was it?

White: Just put the word "reasonably." That makes a lot of difference.

Bell: Maybe it isn't important. It's in the Bill.

White: It is really important, but I don't know whether it is important to put here.

Bell: It's important in the Bill, but I don't know....

Gaston: "...can be reasonably expected to repay...." That's the language of the Bill.

White: Or "as will on the whole," if you want to substitute....

H.M.Jr: No, I'd use the exact language of the Bill.

Bell: Well, we'll fix it up.

H.M.Jr: Now, I suppose I'd be over-honest, if that's possible - you say "Only if the revenues yielded by the investments are insufficient to meet loan costs, is the Government called upon to make good any deficiency out of general revenues" - I suppose that's important, putting that in.

Bell: You follow that later on with this audit, and so forth.

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

"I do not wish to predict that the Government will suffer no loss on any of the various features of this program but I know that these projects have

- 19 -

been selected with the intention of choosing sound investments which have a high probability of re-payment. Other types of projects totaling billions of dollars were eliminated in preliminary studies either because they were not entirely self-liquidating or because they involved some conflict with private enterprise."

White: It seems to me you can cut out that "Other types of."

H.M.Jr: What's that?

White: Just begin with "projects" - say "Projects totaling billions of dollars were eliminated...."

Bell: Well, "Other types" - Herbert put that in.

Caston: I'm bothered here by the characterization of the items on the program as projects. They're not projects at all. They are loan fields, they are types of investment. They are not projects.

Bell: There will be a lot of projects under those.

White: You could use the word "projects," I think, in both cases.

Caston: It could be, in a broad sense, but not the sense we are accustomed to use it in.

H.M.Jr: What's the question, gentlemen?

White: I think the words "Other types of" should be deleted.

H.M.Jr: Where's that?

Duffield: Bottom of page 5.

H.M.Jr: I'm not there.

"I do not wish to predict that the Government will suffer no loss on any of the various features of this program but I know that these projects have been selected with the intention of choosing...." - I'd like to say "sound and useful investments...."

White: That's all right.

H.M.Jr: What?

- 20 -

- White: "Productive" or "useful."
- Duffield: I'm wondering if we aren't being over-honest in repeating what is said in the first sentence - "I do not wish to predict" and so forth.
- White: I think it's a good thing to say; shows he's honest and sincere.
- Bell: You said that above.
- White: I think it's good to repeat. They're banging away at that, and if they can pick one project....
- Duffield: I didn't mean to leave the whole sentence out, Harry. I just meant the first part of it.
- H.M.Jr: I think this is all right. I don't want to predict that it's a hundred percent.
- Duffield: I don't want them to say, "Some place you're losing money. Where is that place?"
- H.M.Jr: "Yes, absolutely."
- White: You should say that, because it's true.
- Bell: Wallace said that.
- White: Any other position would be indefensible, really.
- H.M.Jr: "I'd rather take this chance, gentlemen, than to have another 500 million dollar PWA appropriation" - what's the grant, 45 or 55? -
- Foley: Forty-five.
- H.M.Jr: "...and a 45 percent grant; and you know before you start you're losing 45 percent." I mean you're 45 percent in the hole before you start.
- Gaston: Even the banks suffer losses. They charge off a lot of loans every year.
- Bell: That's the reason for the higher rate.
- H.M.Jr: That's all right.

- 21 -

What's the thing you don't like - "Other types of projects...."?

White: Is it necessary to keep comparing this with Public Works? Isn't it better to make the comparison with banks? Even banks have losses.

H.M.Jr: I'll keep that in mind, but I've got the 500 million dollar thing in mind, too.

White: Yes, I know that.

Boston: Harry thinks the words "Other types of" in the next sentence are not necessary. Just simply "Projects totaling billions of dollars were eliminated...." is enough.

H.M.Jr: All right.

Mr. White, what projects did you eliminate which conflicted with private enterprise?

White: We didn't select them in the first place. There would be billions that would conflict.

Duffield: There were some on that long list.

H.M.Jr: Well, give me an example.

Duffield: Rural Telephone.

White: Rural Telephone is one that went out. No, for that reason, really - well, we didn't actually eliminate them, because I never put them in; but we could put them in if that weren't a limitation.

H.M.Jr: Well, haven't you - how many other times have you talked about conflict with private enterprise?

White: We haven't talked of it before, and I'd like to even leave it out here, for another reason. Reading it over, Kades is very much concerned over the way they're going after that aspect of it in the Bill, and if you say this and Senator Taft, who is particularly interested in it, says, "You say, Mr. Secretary,"

Foley: Adams.

White: Adams? I thought he said Taft. He says, "You say this doesn't conflict at all with private enterprise, and you eliminated them all. Now, how about a...."

- 22 -

- Foley: "....a provision in the Bill?"
- White: There isn't any provision in the Bill, and they want to put such a provision in the Bill. I think you can leave it out.
- H.M.Jr: You see, some of you people keep wanting to talk about the conflict with private enterprise. It doesn't bother me so much. I think we've said it once. Well, in the list of four things we've said that.
- Gaston: Yes.
- H.M.Jr: "....or because they involved some conflict with private enterprise" - out.
- Foley: Good.
- Duffield: I think, if this is the time to bring it up, that there is an argument against the railroad thing, because it does compete with those railroads now in the business of renting this equipment.
- Bell: That's a racket you want to break.
- Duffield: So is the TVA breaking a racket. The other side regards it as competition. I'm not urging that the railroad thing be dropped, but I'm just wondering whether the language can't be softened down, so they don't say, "Well, won't this compete with the Pennsylvania, which leases so many cars?"
- White: You mean back in the objectives you'd like to soften it?
- Duffield: It runs wherever this thing is mentioned.
- White: This is the only other place, and it's cut out now, so the only place left is where it says "To stimulate and not compete with private enterprise." That's an objective. It doesn't say there may not be some portion in which there may be competition.
- H.M.Jr: Where is that?
- White: That's early, when we say "Specifically the Bill is designed to achieve four important objectives."

- 23 -

The second is "To stimulate and not compete with private enterprise."

H.M.Jr: Duffield, is that all right?

Duffield: Yes.

Foley: I'd like to play it down, because if you get strong language like that in your legislation, it will be an invitation to sue and tie up your legislation in litigation.

Duffield: I think that's right.

Bell: You can strike out "because they involved some conflict...."

H.M.Jr: Pardon?

Bell: Strike out "or because they involved some conflict with private enterprise."

H.M.Jr: I don't know whether you're doing that.

White: We just did.

H.M.Jr: Oh yes, that whole sentence - not the sentence, but the phrase "or because they involved some conflict with private enterprise."

White: Yes.

H.M.Jr: "To insure that Congress be kept fully informed on the self-liquidating position of this program, the Bill provides that the Secretary of the Treasury and the Federal Loan Administrator shall make an annual appraisal of the assets acquired by the various operating agencies and that they shall request from Congress an appropriation sufficient to make up for any losses which may have been incurred."

Now, I would like to say here - put - "In this we are following the model of the Commodity Credit."

Duffield: Mr. Secretary, I understand that when they took the section-by-section summary of the Bill to the

- 24 -

White House and that comparison was made, the President said, "That's a bad comparison, because the Congress this year didn't make the appropriation."

- H.M. Jr: No, what the President said was, "That's a bad comparison to make, with the Surplus Foods," and he thought it was the Surplus Foods Corporation. Then we said, "No, we're talking about Commodity Credit." He said, "That's an entirely different matter."
- Gaston: I think it's a very bad comparison to make, for the reason that the Commodity Credit Corporation is strictly a money-losing enterprise.
- Fell: Subsidy proposition.
- H.M. Jr: Enough said.
- Bell: The first part of that sentence, "To insure that Congress be kept fully informed on the self-liquidating position of this program...." - now, we said it's a self-liquidating program; how about saying "kept fully informed as to the progress of this program"?
- White: It isn't "portion," it's "position."
- Bell: Well, we've taken the position all through that this is a self-liquidating program.
- White: You're interpreting it somewhat differently. We meant the status of the program.
- Bell: I realize what you meant.
- H.M. Jr: How would you say it, Dan?
- Bell: Well - "on the progress of the program" or "the status of the program." Leave out the "self-liquidating."
- Duffield: "Financial status."
- Bell: That's all right - "financial status."
- Woley: Really the value of the assets acquired under the program.
- Bell: I think "financial status."

- 25 -

H.M.Jr: "Financial status" is acceptable to me, gentlemen.

Bell: I think we question the self-liquidating part of it when we put it in in this place.

H.M.Jr: "This Bill embodies another distinctive principle. It provides that the maximum interest rate which might be charged by any operating agency on loans under this program should be limited to the highest yield on the longest term direct or indirect obligations of the United States then outstanding."

Haas: That "highest" should be out there, because there is only one yield on the longest.

White: Yes, yes.

H.M.Jr: All right.

"The interest rate on long-term loans and investments plays a very important role in modern economic life. It regulates the use of capital. When business activity is high and when funds are scarce, it is the function of interest rates to put brakes on investment and to restrict employment to only the most necessary uses. When, on the other hand, business activity and the volume of investments are low and when there are large pools of idle savings, then the function of interest rates is to expand profitable investment opportunities."

Now, wait a second, this is what bothers me: "It regulates the use of capital." That's too didactic. I want to say it is one of the things; it isn't the only thing that regulates the use of capital.

Haas: That's right. The European situation....

H.M.Jr: People will come back and say, "What about the SEC? What about this?"

White: It helps to regulate it.

H.M.Jr: What?

White: It helps to regulate it.

Gaston: Why not say "The interest rate on long-term loans

- 26 -

and investments plays a very important role in modern economic life through its effect on the use of capital"?

- Haas: I don't like the "brakes" part.
- H.H.Jr: Wait a second before you change it. I'd leave it out - "It regulates the use of capital" - Harry.
- White: It's all right.
- H.H.Jr: I mean it doesn't. If it regulates....
- White: You're correct. It is didactic, standing alone.
- H.H.Jr: If it regulated, then with the rates we have had, we ought to have had the biggest boom ever.
- White: We then went on to explain why it doesn't....
- H.H.Jr: It "plays a very important role in modern economic life" - I'd underwrite that a hundred percent.
- "When business activity is high...." - now, again - "When business activity is high and when funds are scarce...." - instead of saying "it is the function" - in other words, it isn't the function, I mean.
- White: Well, in this particular case, I think, this can be accurate. It is the function....
- H.H.Jr: Wait a second. Harry, what I get that you're saying - that it's the duty - you expect it to. Well, we don't. I want some other word for "function." As I say, this is what usually happens, but it isn't - you don't create it for that purpose.
- White: I was thinking from another point of view, that of economic principles. You may not want to include that here. The theoretical justification and function of interest rates is just that. But it's all right.
- H.H.Jr: But now, today's - you see, to go back to what I said, for instance, about our interest rates and the French rates: the French rates are high and they are getting a recovery due to their stimulation of war manufacturing, manufacture of war goods.

- 27 -

Let's get away from the word "function." I don't want to be - would you say "doctrinarian"?

White: "Doctrinaire" would possibly be the word. It wouldn't apply here.

H.M.Jr: I mean I don't want to say that.

Duffield: "When business activity is high and when sums are scarce, interest rates usually put brakes on investment."

Bell: How about "interest rates rise and thereby help to restrict employment...." - I don't know.

Haas: Leave the "brakes" out, I think.

Question: "The increase in interest rates tends to put brakes on investment and...."

Haas: I'd like to leave out "to put brakes on investment." What it does is sort out different things. It may not decrease the volume at all.

White: It will decrease the volume if you sort it out.

Haas: You may get a bigger volume.

H.M.Jr: "When business activity is high and when funds are scarce, interest rates...."

White: "...tend to reduce investment."

H.M.Jr: "Tend" - that's the word. "Interest rates tend...." What?

White: That's all right.

Bell: To what?

H.M.Jr: "...to put brakes on investment and...."

White: That's a perfectly safe statement.

H.M.Jr: I mean that's the thought. What?

White: By using the word "tend," it's perfectly accurate.

- 28 -

- H.M.Jr: I mean it's apt to - same meaning. Isn't that the same?
- White: Well, it tends to if other forces aren't more powerful.
- Haas: Tends to restrict....
- White:the use of capital.
- Gaston: It has that tendency.
- H.M.Jr: That's the word I want to get. Do you see what I'm trying to get away from?
- White: Yes. Perfectly just criticism.
- H.M.Jr: You could take that out of a text-book on Economics.
- White: Bad one.
- H.M.Jr: Well, we're trying to write a good one. Right, Harry?
- White: That's right.
- H.M.Jr: Now, how would it be, gentlemen?
- Gaston: "When business activity is high and when funds are scarce, interest rates tend to put brakes on investment and restrict employment to only the most necessary uses."
- H.M.Jr: That's all right.
- Haas: You've got to do the same in the next sentence.
- H.M.Jr: "When, on the other hand, business activity and the volume of investments are low and when there are large pools of idle savings, then the tend of interest rates...."
- Gaston: "Then the tendency of interest rates...."
- H.M.Jr: That's all right. You satisfied, Harry?
- White: Yes. It's more accurate. We're weakening it. It's all right.

- 29 -

- H.M. Jr: But it's more accurate. George?
- Maas: Yes, I had that same question. You fixed it up.
- H.M. Jr: If we're right, at the present interest rate level we ought to have the darndest boom you ever saw.
- White: We go on to say that there are factors which interfere. The thought behind it - I might take a moment to express it - there is something in that, that low interest rates should stimulate investment and high interest rates should restrict it. In fact, that's the chief justification, economic justification, for interest. However, there are certain reasons why it is not operating now, and we sifted the reasons, and then we said, "Therefore, the Government has to step in and try to break down those...."
- H.M. Jr: But you've got to protect my defense. That is, they always ask me, "Mr. Morgenthau, when you have recovery, your interest rates are going to go up and your Government bonds are going to go down." And my answer - you've (Bell) heard me answer that about half a dozen times - I've said, "It doesn't work that way" so forth and so on. "The tendency is...."
- White: This is much safer.
- H.M. Jr: It's more accurate.
- White: More accurate when standing alone. It's all right.
- H.M. Jr: What does he say?
- Keaton: Why don't you let it stand alone, Harry, and say it's more accurate?
- White: No, no, I say it's more accurate this way than the other way when standing alone. You remember, we pulled out three or four paragraphs on that interest, which were in support of that thesis, trying to build up a case why the Government should step in and force down interest rates. But the way it is now, your corrections are better and advisable.
- H.M. Jr: "There are factors in the present situation, however, which make it impossible for changes in the interest

- 30 -

rate to operate automatically and with complete effect." Perfect.

"The disturbed world situation increases economic uncertainty to the point where investors are reluctant to place much of their funds at long term in specific enterprises at the low rates of interest justified by the fundamental economic forces of supply and demand."

I'll repeat.

"The disturbed world situation increases economic uncertainty to the point where investors are reluctant to place much of their funds at long term...." - I don't like that.

- Duffield: "For long terms."
- Haas: "...put their funds in long-term investments."
- White: You can cut out "long term" if you want to.
- H.M.Jr: I like "long term," but just the way you put it - "for a long term"?
- Gaston: And "specific enterprises" - of course, any enterprise is specific.
- Bell: You can say "in long-term investments."
- Gaston: "In long-term investments."
- H.M.Jr: Now, I don't see why you're saying this particularly. I mean some of these oil companies are borrowing thirty, forty-year money at 2 3/4 percent.
- White: Yes, some corporations are low. We had that qualifying factor in there first. That's why I put the "much" - "much of their funds."
- H.M.Jr: What purpose does this paragraph serve?
- White: Well, this paragraph is a kind of build-up....
- Duffield:for the next one, which is important.
- White: To justify the Government stepping into the market,

- 31 -

interfering with the competitive forces of supply and demand on an interest basis. Interest is just the cost of capital, and here is the Government stepping in and interfering with private enterprise - private competition in the field of money, and saying, "We'll loan these funds at one percent or two percent interest or three percent interest, where these particular corporations could not borrow at less than four or five, and we'll do this because interest rates should be low in times of depression, plethora of capital. Interest rates are low, but because of these uncertainties, the lenders are not willing to extend these loans at the low rate of credit and the borrowers are not willing to borrow at a high rate of credit."

Roll: I think it's the answer to your question, "Why haven't we got a boom"?

Easton: The previous paragraph says that low interest rates ought to stimulate investment. This paragraph says, "But they're not doing it."

White: And the next paragraph says, "Therefore, it is the function of Government to step in."

H.M.Jr: This paragraph - I just wonder if it's strong enough and long enough.

"There are factors in the present situation, however, which make it impossible for changes in the interest rate to operate automatically and with complete effect." I'm satisfied with that.

"The disturbed world situation increases economic uncertainty to the point where investors are reluctant to place...."

White: "...much of their funds...."

H.M.Jr: They do place some.

"....much of their funds...."

White: "...in long-term investments...."

H.M.Jr: You've got that - "in long-term investments in specific enterprises...."

- 32 -

White: You'd better leave that out - "...in long-term investments...."

H.M.Jr: "...in long-term investments...."

White: "...at the low rates of interest...."

H.M.Jr: "...at the low rates of interest justified by the fundamental economic forces of supply and demand."

That's all right. That's all right.

"In times like the present it therefore becomes the Government's function to act as a catalytic agent to bring together...." - how would you like to use the word "schaschen"?

White: What?

Gaston: What word is that?

H.M.Jr: Schaschen - marriage broker.

White: The way you pronounce it....

Gaston: I thought he had some obscure reason why he wouldn't take it.

Bell: Harry might go into an explanation.

H.M.Jr: "In times like the present it therefore becomes the Government's function to act as a schaschen to bring together investors who are willing to lend their savings at rates of interest low enough to attract borrowers who are able and willing to employ funds for productive purposes."

Duffield: You had that same idea, Herbert.

Gaston: Yes, it cost us 15 minutes of laughter.

H.M.Jr: Oh, really?

White: But he didn't pronounce it the way you did. He didn't pronounce it the way you did, or we'd have gotten 20 minutes of laughter.

H.M.Jr: Old Butterworth loves to put in his cables - I mean he always uses such words - "Today 10 gold bars were married." He always uses that.

- 33 -

Klotz: What?

H.M.Jr: "Ten gold bars were married," instead of saying they were matched.

White: Is he married?

H.M.Jr: Yes.

White: Got it on his mind. I know what's on his mind, then.

H.M.Jr: Do you know Butterworth?

White: All right. It's amazing what a catalytic agent will do.

H.M.Jr: "This Administration has made great progress in bringing the market rates of interest down to reasonable levels. The most important successes have been in connection with loans to farmers and to home owners and for purposes of residential and business construction and non-federal public works. This progress, however, has not been enough and it is my opinion that the time has now come to take the next step forward, that of selecting specific investments which should be given the advantage of the low interest rates which the Government can command."

"Can command" - I don't like that. "...which the Government...."

White: Sounds too dictatorial. "...low interest rates which the Government can obtain."

H.M.Jr: "Mussolini" that word out.

Gaston: Yes.

H.M.Jr: "A low rate of interest if effectively utilized constitutes one of the most potent weapons our economic system has developed for stimulating business activity."

I never said that before.

White: Neither did anybody else.

- 34 -

H.M.Jr: No, it's all right.

"It is this principle which is implicit in the Bill before you."

It is implicit?

Gaston: Implicit - that's the word.

H.M.Jr: I don't like "It is this principle which is implicit."
Can you change that?

White: You don't like the word "implicit"?

Gaston: It's explicit.

White: No, it's not explicit.

Gaston: "Embodied in the Bill."

White: We've used "embodied" three times.

Gaston: Well, it's a long time since we used it.

White: We can find another word for "implicit" - "incorporated,"
"employed," "utilized," "made the most of."

Gaston: "Utilized," I think, is good.

White: "Stressed"?

Gaston: No, we're making use of it.

White: "Made use of."

Gaston: "...utilized in the Bill before you," I think, is better.

H.M.Jr: Put something there.

"The Government is bringing together idle funds and borrowers who are unable to borrow under existing circumstances. It does more than that. It creates the additional incentive for the lenders to lend and for the borrowers to borrow by giving the stamp of approval and administrative assistance to the development which would otherwise remain unexploited."

- 35 -

I don't like "unexploited." "Undeveloped"?

Bell: "...undeveloped fields."

Foley: Change "development" and use "assistance to...."

H.M.Jr: Would you gentlemen just take your hand at this last paragraph.

White: I don't like to end that way. It needs another paragraph. And I'd like to say, in general criticism, I don't like that first part first, for this reason. I'll just say it and we'll pass over.

Duffield: You mean the form.

White: I mean the part beginning "This program seems to be particularly appropriate at this time." It appears as though the New Deal is looking for a new alibi now. The whole program is based on the assumption of international difficulties instead of justifying the program on the basis that you want to increase employment because you have a lot of unemployed. I'm wondering whether you're not placing too much emphasis upon the world uncertainty.

H.H.Jr: Harry,

White: You see, England has, Sweden has....

H.H.Jr: Do you want to make a speech, want me to answer you?

White: Well, I just wanted to object. If you still stand convinced, leave it alone.

H.H.Jr: Yes, because - what was it, a ten billion dollar program?

Bell: Ten billion dollar appropriation program this year, if that's what you mean.

H.H.Jr: Why do we, a country like this,

White: Because we've still got ten million unemployed.

- 36 -

H.M.Jr: Harry, without going into it....

White: O. K.

H.M.Jr: You notice I've changed a little bit from yesterday to today. I have definite principles. I want you to raise the point, but I still think that for me, the kind of suit that fits me - this is the best, and I don't think it hurts the presentation any, do you, Ed? Do you think it hurts it?

Foley: No.

H.M.Jr: What?

Foley: No.

H.M.Jr: If it doesn't hurt it, leave it my way. If you tell me it weakens it or....

White: I think it weakens your position. Looks as though you're in search of an alibi.

H.M.Jr: Well, I am.

White: Let's pick a good one - I mean a real good one.

H.M.Jr: Now, you're just going to do the last sentence over. I'd like to get it into my hands by 1:00 o'clock, see? I won't go over it again with you, but I'll take it up to the farm and read it to the family.

Duffield: Are you going to appear Monday morning?

H.M.Jr: That's what Mr. Foley says, who is general manager of this Bill on the Hill.

Duffield: I just wonder about Spencer and the other fellow.

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

White: You say Monday? I think we can improve these first couple pages over the week-end. We'll show you another draft.

H.M.Jr: What I can do - what I told Mrs. Morgenthau I'm prepared to do - is be back here Sunday night, take a train. If I'm going to appear Monday morning,

- 37 -

I can't take a chance on flying back Monday morning.

Foley: 10:30 Monday morning will be all right?

H.M.Jr: Yes. So I would have a chance to see it, huh, Sunday night? And with this highly efficient machine in the press section, if they get it 2:30 in the morning they can get out a stencil. As a matter of fact, if they came in at eight in the morning, they could make the stencil.

Duffield: If we had enough help.

Foley: Just Jones is testifying before the Senate, and Carmody before the House today. Lauch Currie saw Eastman and Eastman is willing to be called if Wagner will write him a letter and say that he wants him to give his personal views and not the views of the ICC as to the necessity for this railroad program, which I can arrange.

I don't know whether you've seen the Merry-Go-Round this morning.

H.M.Jr: I did. Unfortunate.

Foley: Couldn't have come at a worse time - the very day that Jones appears.

Duffield: What's that?

Foley: Had the incident out at the house.

White: It couldn't have come at a worse time?

Raas: No, because he's just coming up there.

White: Does it put Jones in a bad light?

Foley: Yes - talks about there not being any real need for this, that RFC has got these powers.

White: Then it doesn't put Jones in a bad light.

H.M.Jr: Well, you (Foley) had a different reaction.

Foley: I think it's the most unfortunate time for it to come out.

- 38 -

- H.M.Jr: I thought if it had to come, today was perfect. Jones will go up and show that the Merry-Go-Round was wrong and how much he's for it.
- Foley: I hope that's right.
- H.M.Jr: That's what my reaction - I mean that this puts him on the spot, and he's either with it or he isn't, and he told the President he's with him. Now, if he's with him, today he can show the Merry-Go-Round up, that they're wrong.
- White: Why doesn't somebody say in the hearings, "If Jesse Jones can do all these things, why hasn't he done some of them over the last five or six years?" Can't somebody say that, somebody ask why he hasn't done them, what he's waiting for?
- H.M.Jr: The only thing I thought was particularly unfortunate was the remark which said that Carmody had been to a cocktail party before he came to the house.
- White: Oh, that isn't so bad. People do that. Maybe that....
- H.M.Jr: No, the inference - they go to cocktail parties, we all go to cocktail parties - the inference was that when he came there he was under the influence of liquor. I mean you can't say it any plainer. What?
- Foley: That's right..
- White: One slight question here. I notice that Kades suggested referring to this as the Barkley-Steagall Bill in the first sentence.
- Bell: Oh no.
- White: I don't know what's customary.
- Bell: H.R. or S.
- Gaston: The bill they have before the Senate is the Barkley Bill.
- H.M.Jr: Just the number.
- May I say, gentlemen, this is the best job you've turned out in the time - as good as that, and with as little friction.

July 17, 1939

Statement of Secretary Morgenthau Before the Senate Committee
on Banking and Currency on S. 2759.

I am appearing before you in support of S. 2759, the
Self-liquidating Projects Act of 1939.

The bill before your Committee is designed to utilize
idle resources. Its purpose is to put to work men, materials
and funds not now being employed. It is intended to stimu-
late further capital investment in private industry, to
raise the level of business activity and to yield permanent
benefits to the people of this Nation.

This program seems to me to be particularly appropriate
at this time. We must not forget that we are in a period
which is most unusual in world history. The world has
neither peace nor war. It is a period of international
political uncertainty characterized by stupendous expendi-
tures for unproductive military purposes. International
economic relationships are disorganized by the lack of free

- 2 -

exchange with which to conduct normal world commerce. Our trade suffers from the lack of purchasing power on the part of the people of the world with which to buy the products which the United States could export and from the general distortion of the world's economic systems because of the fear and expectancy of a world cataclysm.

It is hopeless to expect that private industry unaided can overcome such handicaps. It is futile to await the restoration of that degree of international peace and security and sanity which is essential to a high level of domestic and foreign trade and economic progress. Under these circumstances we must seek within the framework of our institutions and within the requirements of sound fiscal policy to utilize to the fullest extent possible the resources of the Government to overcome the difficulties of our epoch.

In a country with enormous potentialities and with the population rapidly marching towards the 150 million mark

there is ample possibility for the Federal Government to supplement private enterprise by promoting investment in self-liquidating projects.

In contrast with other important nations of the world we are still in the fortunate position of having the opportunity of utilizing the Government credit for constructive purposes instead of devoting billions to unproductive military expenditures.

The Self-liquidating Projects Act authorizes the following productive investments:

1. 750 million dollars for self-liquidating highway improvements;
2. 350 million dollars for non-federal public works;
3. 500 million dollars for the lease of railroad rolling stock and shop equipment;
4. 460 million dollars (plus 40 million dollars already appropriated) for rural electrification projects;
5. 500 million dollars (plus not more than 100 million dollars already appropriated) for facilities for farm tenants, share croppers and farm laborers;
6. 100 million dollars (plus 100 million dollars already appropriated) for the financing of foreign trade.

- 4 -

The President has estimated that, of the sums made available for the first time by this Bill, about 770 million dollars, made up in the following way, would be spent during the current fiscal year:

1. 150 million dollars for highway improvements;
2. 150 million dollars for non-federal public works;
3. 100 million dollars for railroad equipment;
4. 20 million dollars for rural electrification;
5. 250 million dollars for the farm tenant program;
6. 100 million dollars for the financing of foreign trade.

The program of self-liquidating investment authorized in the Bill would be financed through the Reconstruction Finance Corporation. The Public Roads Administration, the Public Works Administration, the Rural Electrification Administration, the Department of Agriculture, and the Export-Import Bank -- in addition to the Reconstruction Finance Corporation -- would be operating agencies to carry out the purposes of the Act.

Specifically the Bill is designed to achieve four important objectives:

1. To give employment in private industry to at least one-half million persons;
2. To stimulate and not compete with private enterprise;
3. To increase the real wealth of the nation;
4. To provide additional investment opportunities for idle capital.

The important thing about this Bill is that it will accomplish its objectives without adding to the tax burden or to the debt of the Federal Government. At the same time the national income will be increased and the number of persons that need to be supported out of public funds will be reduced. The Bill, therefore, constitutes a real advance toward the goal of bringing our governmental expenditures within our receipts.

I do not wish to contend that the program embodied in

- 6 -

this Bill constitutes a final or adequate solution of our economic problem but it does constitute a realistic approach to that problem.

The program does not represent a new fiscal policy. Continuously in the last six years we have employed the device of guaranteed loans to protect the credit structure and to promote productive enterprise. The results have been highly beneficial and highly encouraging. Through this method we have saved farms and homes from foreclosure and lowered interest rates enough to make the great difference between solvency and insolvency. Through it we have given assistance to railroads, banks and a wide range of private industry. We have given assistance to States, to localities and to other public corporations through which they have been able to proceed with beneficial and essential projects for the welfare of citizens at interest costs which have made the projects

- 7 -

sound and feasible. The record is a good one. It is a record of a sound investment underwriting business which would not have been done if the Federal Government had not done it.

What is proposed now is merely an extension of this proved method to a somewhat broader field. The extension, however, is important. It may well turn out to mark a transition point in the public finances. If we can substitute self-liquidating investments in place of outright Government expenditures with no less beneficial effects on national income, we shall have made a great step toward bridging the gap between revenue and expenditures.

This distinction between self-liquidating investments and non-recoverable expenditures is not merely a bookkeeping one, but is very soundly based. In the case of non-recoverable expenditures the servicing of the debts created to finance them must be met out of general tax revenues. In the case of self-liquidating loans, however, such as are proposed in

- 8 -

this Bill, the interest and amortization payments are met out of the earnings on the investment. Only if the revenues yielded by the investments are insufficient to meet loan costs is the Government called upon to make good any deficiency out of general revenues. The Bill imposes upon the Reconstruction Finance Corporation as well as upon each operating agency the duty to undertake only such projects and to make only such loans as will repay the full amount invested plus interest sufficient to reimburse the Government for the cost of borrowing.

I do not wish to predict that the Government will suffer no loss on any of the various features of this program but I know that these projects have been selected with the intention of choosing sound investments which have a high probability of repayment. Other types of projects totalling billions of dollars were eliminated in preliminary studies either because

- 9 -

they were not entirely self-liquidating or because they involved some conflict with private enterprise.

To insure that Congress be kept fully informed on the self-liquidating position of this program, the Bill provides that the Secretary of the Treasury and the Federal Loan Administrator shall make an annual appraisal of the assets acquired by the various operating agencies and that they shall request from Congress an appropriation sufficient to make up for any losses which may have been incurred.

This Bill embodies another distinctive principle. It provides that the maximum interest rate which might be charged by any operating agency on loans under this program should be limited to the highest yield on the longest term direct or indirect obligations of the United States then outstanding.

The interest rate on long-term loans and investments plays a very important role in modern economic life. It regulates the use of capital. When business activity is high

- 10 -

and when funds are scarce, it is the function of interest rates to put brakes on investment and to restrict employment to only the most necessary uses. When, on the other hand, business activity and the volume of investments are low and when there are large pools of idle savings, then the function of interest rates is to expand profitable investment opportunities.

There are factors in the present situation, however, which make it impossible for changes in the interest rate to operate automatically and with complete effect. The disturbed world situation increases economic uncertainty to the point where investors are reluctant to place much of their funds at long term in specific enterprises at the low rates of interest justified by the fundamental economic forces of supply and demand.

In times like the present it therefore becomes the Government's function to act as a catalytic agent to bring together

investors who are willing to lend their savings at rates of interest low enough to attract borrowers who are able and willing to employ funds for productive purposes.

This Administration has made great progress in bringing the market rates of interest down to reasonable levels. The most important successes have been in connection with loans to farmers and to home owners and for purposes of residential and business construction and non-federal public works. This progress, however, has not been enough and it is my opinion that the time has now come to take the next step forward, that of selecting specific investments which should be given the advantage of the low interest rates which the Government can command. A low rate of interest if effectively utilized constitutes one of the most potent weapons our economic system has developed for stimulating business activity.

It is this principle which is implicit in the Bill before

- 12 -

you. The Government is bringing together idle funds and borrowers who are unable to borrow under existing circumstances. It does more than that. It creates the additional incentive for the lenders to lend and for the borrowers to borrow by giving the stamp of approval and administrative assistance to the development which would otherwise remain unexploited.

July 14, 1939
(As corrected by H.M.G.)

Statement of Secretary Morgenthau Before the Senate Committee on
Banking and Currency on S. 2759.

I am appearing before you in support of S. 2759, the Self-liquidating Projects Act of 1939.

The bill before your Committee is designed to utilize idle resources. Its purpose is to put to work men, materials and funds not now being employed. It is intended to stimulate further capital investment in private industry, to raise the level of business activity and to yield permanent benefits to the people of this Nation.

This program seems to me to be particularly appropriate at this time. We must not forget that we are in a period which is most unusual in world history. The world has neither peace nor war. It is a period of international political uncertainty characterized by stupendous expenditures for unproductive military purposes. International economic relationships are disorganized by the lack of free exchange with which to conduct normal world commerce. Our trade suffers from the lack of purchasing power on the part of the people of the world with which to buy the products which the United States could export and from the general distortion of the world's economic systems because of the fear and expectancy of a world cataclysm.

~~It is hopeless to expect that private industry unaided can overcome such handicaps.~~ It is futile to await the restoration of that degree of international peace and security and sanity which is essential to a high

- 2 -

level of domestic and foreign trade and economic progress. Under these circumstances we must seek within the framework of our institutions and within the requirements of sound fiscal policy to utilize to the fullest extent possible the resources of the Government to overcome the difficulties of ^{this} ~~our~~ epoch.

In a country with enormous potentialities and with the population rapidly marching towards the 150 million mark there is ample possibility for the Federal Government to supplement private enterprise by promoting investment in self-liquidating projects.

In contrast with other important nations of the world we are still in the fortunate position of having the opportunity of utilizing the Government credit for constructive purposes instead of devoting billions to unproductive military expenditures.

The Self-liquidating Projects Act authorizes the following productive investments:

1. 750 million dollars for self-liquidating highway improvements;
2. 350 million dollars for non-federal public works;
3. 500 million dollars for the lease of railroad rolling stock and shop equipment;
4. 460 million dollars (plus 40 million dollars already appropriated) for rural electrification projects;
5. 500 million dollars (plus not more than 100 million dollars already appropriated) for facilities for farm tenants, share croppers and farm laborers;
6. 100 million dollars (plus 100 million dollars already appropriated) for the financing of foreign trade.

- 3 -

The President has estimated that, of the sums made available for the first time by this Bill, about 770 million dollars, made up in the following way, would be spent during the current fiscal year:

1. 150 million dollars for highway improvements;
2. 150 million dollars for non-federal public works;
3. 100 million dollars for railroad equipment;
4. 20 million dollars for rural electrification;
5. 250 million dollars for the farm tenant program;
6. 100 million dollars for the financing of foreign trade.

The program of self-liquidating investment authorized in the Bill would be financed through the Reconstruction Finance Corporation. The Public Roads Administration, the Public Works Administration, the Rural Electrification Administration, the Department of Agriculture, and the Export-Import Bank -- in addition to the Reconstruction Finance Corporation -- would be operating agencies to carry out the purposes of the Act.

Specifically the Bill is designed to achieve four important objectives:

1. To give employment in private industry to at least one-half million persons;
2. To stimulate and not compete with private enterprise;
3. To increase the real wealth of the nation;
4. To provide additional investment opportunities for idle capital.

The important thing about this Bill is that it will accomplish its objectives without adding to the tax burden or to the debt of the Federal

- 4 -

Government. At the same time the national income will be increased and the number of persons that need to be supported out of public funds will be reduced. The Bill, therefore, constitutes a real advance toward the goal of bringing our governmental expenditures within our receipts.

I do not wish to contend that the program embodied in this Bill constitutes a final or adequate solution of our economic problem but it does constitute a realistic approach to that problem.

The program does not represent a new fiscal policy. Continuously in the last six years we have employed the device of guaranteed loans to protect the credit structure and to promote productive enterprise. The results have been highly beneficial and highly encouraging. Through this method we have saved farms and homes from foreclosure and lowered interest rates enough to make the great difference between solvency and insolvency. Through it we have given assistance to railroads, banks and a wide range of private industry. We have given assistance to States, to localities and to other public corporations through which they have been able to proceed with beneficial and essential projects for the welfare of citizens at interest costs which have made the projects sound and feasible. The record is a good one. It is a record of a sound investment underwriting business which would not have been done if the Federal Government had not done it.

What is proposed now is merely an extension of this proved method to a somewhat broader field. The extension, however, is important.

- 5 -

It may well turn out to mark a transition point in the public finances. If we can substitute self-liquidating investments in place of outright Government expenditures ~~(with no less beneficial effects on national income)~~, we shall have made a great step toward bridging the gap between revenue and expenditures.

This distinction between self-liquidating investments and non-recoverable expenditures is not merely a bookkeeping one, but is very soundly based. In the case of non-recoverable expenditures the servicing of the debts created to finance them must be met out of general tax revenues. In the case of self-liquidating loans, however, such as are proposed in this Bill, the interest and amortization payments are met out of the earnings on the investment. Only if the revenues yielded by the investments are insufficient to meet loan costs, is the Government called upon to make good any deficiency out of general revenues. The Bill imposes upon the Reconstruction Finance Corporation as well as upon each operating agency the duty to undertake only such projects and to make only such loans as will repay the full amount invested plus interest sufficient to reimburse the Government for the cost of borrowing.

I do not wish to predict that the Government will suffer no loss on any of the various features of this program but I know that these projects have been selected with the intention of choosing sound investments which have a high probability of repayment. ~~Other types of projects totalling billions of dollars were eliminated in preliminary studies either because they were not entirely self-liquidating, or because they involved some conflict with private enterprise.~~

To insure that Congress be kept fully informed on the self-liquidating position of this program, the Bill provides that the Secretary of the Treasury and the Federal Loan Administrator shall make an annual appraisal of the assets acquired by the various operating agencies and that they shall request from Congress an appropriation sufficient to make up for any losses which may have been incurred.

This Bill embodies another distinctive principle. It provides that the maximum interest rate which might be charged by any operating agency on loans under this program should be limited to the highest yield on the longest term direct or indirect obligations of the United States then outstanding.

The interest rate on long-term loans and investments plays a very important role in modern economic life. (~~It regulates the use of capital~~). When business activity is high and when funds are scarce, it is the function of interest rates to put brakes on investment and to restrict employment to only the most necessary uses. When, on the other hand, business activity and the volume of investments are low and when there are large pools of idle savings, then the function of interest rates is to expand profitable investment opportunities.

There are factors in the present situation, however, which make it impossible for changes in the interest rate to operate automatically and with complete effect. The disturbed world situation increases economic uncertainty to the point where investors are reluctant to place much of their funds at long term in specific enterprises at the low rates of interest justified by the fundamental economic forces of supply and demand.

- 7 -

In times like the present it therefore becomes the Government's function to act as a catalytic agent to bring together investors who are willing to lend their savings at rates of interest low enough to attract borrowers who are able and willing to employ funds for productive purposes.

This Administration has made great progress in bringing the market rates of interest down to reasonable levels. The most important successes have been in connection with loans to farmers and to home owners and for purposes of residential and business construction and non-federal public works. This progress, however, has not been enough and it is my opinion that the time has now come to take the next step forward, that of selecting specific investments which should be given the advantage of the low interest rates which the Government can command. A low rate of interest if effectively utilized constitutes one of the most potent weapons our economic system has developed for stimulating business activity.

It is this principle which is implicit in the Bill before you. The Government is bringing together idle funds and borrowers who are unable to borrow under existing circumstances. It does more than that. It creates the additional incentive for the lenders to lend and for the borrowers to borrow by giving the stamp of approval and administrative assistance to the development which would otherwise remain unexploited.

7-14-39
2 164

*Final
Read previous versions,*

Statement of Secretary Morgenthau Before the Senate Committee on Banking and Currency on S. 2759. (7-17-39)

I am appearing before you in support of S. 2759, the Self-liquidating Projects Act of 1939.

The bill before your Committee is designed to utilize idle resources. Its purpose is to put to work men, ~~materials~~ ^{and resources} and funds not now being employed. It is intended to stimulate further capital investment in private industry, to raise the level of business activity and to yield permanent benefits to the people of this Nation.

This program seems to me to be particularly timely. We must not forget that we are in a period which is most unusual in world history. The world has neither peace nor war. It is a period of international political uncertainty characterized by stupendous expenditures for unproductive military purposes. International economic relationships are disorganized by the lack of free exchange with which to conduct normal world

- 2 -

commerce; our trade suffers from the lack of purchasing power on the part of the people of the world with which to buy the products ~~which~~ the United States could export. Business in this country suffers from the general distortion of the world's economic systems, from the fear and expectancy of a world cataclysm.

It is futile to await passively the restoration of that degree of international peace and security and sanity which is essential to a high level of domestic and foreign trade and economic progress. Under these ^{present} circumstances we must seek within the framework of our institutions and within the requirements of sound fiscal policy to utilize to the fullest extent possible the resources of the Government to overcome the difficulties of this epoch.

In a country with enormous potentialities and with the population rapidly marching towards the 150 million mark there is ample possibility for the Federal Government to supplement

- 3 -

private enterprise by promoting investment in self-liquidating projects. In contrast with some other important nations of the world we are still in the fortunate position of having the opportunity of utilizing the Government credit for constructive purposes instead of devoting billions to unproductive military expenditures.

The Self-liquidating Projects Act authorizes the following productive investments:

1. 750 million dollars for self-liquidating highway improvements;
2. 350 million dollars for non-federal public works;
3. 500 million dollars for the lease of railroad rolling stock and shop equipment;
4. 460 million dollars (plus 40 million dollars already appropriated) for rural electrification projects;
5. 500 million dollars (plus not more than 100 million dollars already appropriated) for facilities for farm tenants, share croppers and farm laborers;
6. 100 million dollars (plus 100 million dollars already appropriated) for the financing of foreign trade.

The President has estimated that, of the additional sums made available by this Bill, about 770 million dollars, made

up in the following way, would be spent during the current fiscal year:

1. 150 million dollars for highway improvements;
2. 150 million dollars for non-federal public works;
3. 100 million dollars for railroad equipment;
4. 20 million dollars for rural electrification;
5. 250 million dollars for the farm tenant program;
6. 100 million dollars for the financing of foreign trade.

The program of self-liquidating investment authorized in the Bill would be financed through the Reconstruction Finance Corporation. The operating agencies to carry out the purposes of the Act would be the Public Roads Administration, the Public Works Administration, the Rural Electrification Administration, the Department of Agriculture, and the Export-Import Bank, in addition to the Reconstruction Finance Corporation.

Specifically the Bill is designed to achieve four important objectives:

1. To give employment in private industry to at least one-half million persons;
2. To stimulate ~~and encourage~~ private enterprise;
3. To increase the real wealth of the nation;
4. To provide additional investment opportunities, ~~for~~
~~idle capital.~~

The important thing about this Bill is that it will accomplish its objectives without adding to the tax burden or to the public debt of the Federal Government. At the same time the national income will be increased and the number of persons ^{who} need to be supported out of public funds will be reduced.

The principle embodied in the Bill, therefore, constitutes a real advance toward the goal of bringing our governmental expenditures within our receipts.

I do not wish to contend that the program embodied in this Bill constitutes a final or adequate solution of our economic problem but it does constitute a realistic approach to that problem.

The fiscal aspects of the program do not represent a new departure. Continuously in the last six years we have employed the device of guaranteed loans to protect the credit structure and to promote productive enterprise. The results have been highly beneficial and highly encouraging. Through this method we have saved farms and homes from foreclosure and lowered interest rates enough to make the great difference between solvency and insolvency. Through it we have given assistance to railroads, banks and a wide range of private industry. We have given assistance to States, to localities and to other public corporations through which they have been able to proceed with beneficial and essential projects for the welfare of citizens at interest costs which have made the projects sound and feasible. The record is a good one. It is a record of sound investment which would not have been undertaken if the Federal Government had not sponsored it.

What is proposed now is an extension of this proved method to a somewhat broader field. The extension, however,

- 7 -

is important. It may well turn out to mark a transition point in the public finances. If we can substitute self-liquidating investments in place of outright Government expenditures we shall have made a great step toward bridging the gap between revenue and expenditures.

This distinction between self-liquidating investments and non-recoverable expenditures is not merely a bookkeeping one, but is very soundly based. In the case of non-recoverable expenditures the servicing of the debts created to finance them must be met out of general tax revenues. However, in the case of self-liquidating loans such as are proposed in this Bill, the interest and amortization payments are met out of the earnings on the investment. Only if the revenues yielded by the investments are insufficient to meet loan costs is the Government called upon to make good any deficiency out of general revenues. The Bill imposes upon the Reconstruction Finance Corporation as well as upon each operating agency the duty to

undertake only such projects and to make only such loans as will reasonably be expected to repay the full amount invested plus interest sufficient to reimburse the Government for the cost of borrowing.

I do not wish to predict that the Government will suffer no loss on any of the various features of this program but I know that these projects have been selected with the intention of choosing sound investments which have a high probability of repayment. Projects totalling billions of dollars were eliminated in preliminary studies because they were not ~~entirely~~ self-liquidating.

To insure that Congress be kept fully informed on the financial status of this program, the Bill provides that the Secretary of the Treasury and the Federal Loan Administrator shall make an annual appraisal of the assets acquired by the various operating agencies and that they shall request from Congress an appropriation sufficient to make up for any losses which may have been incurred.

- 9 -

This Bill embodies another distinctive principle. It provides that the maximum interest rate which might be charged by any operating agency on loans under this program should be limited to the yield on the longest term direct or indirect obligations of the United States then outstanding.

The interest rate on long-term loans and investments plays a very important role in modern economic life. When business activity is high and when funds are scarce, interest rates tend to put brakes on investment and to restrict employment to only the most necessary uses. When, on the other hand, business activity and the volume of investments are low and when there are large pools of idle savings, then lower interest rates tend to expand the field of profitable investment opportunities.

There are factors in the present situation, however, which make it impossible for changes in the interest rate to operate automatically and with complete effect. The disturbed world

- 10 -

situation increases economic uncertainty to the point where investors are reluctant to place ^{a large amount} ~~much~~ of their funds in long term investments at the low rates of interest justified by the fundamental economic forces of supply and demand.

In times like the present it therefore becomes the Government's function to act as a catalytic agent to bring together investors who are willing to lend their savings at rates of interest low enough and borrowers who are able and willing to employ funds for productive purposes.

This Administration has made great progress in bringing the market rates of interest down to reasonable levels. The most important successes have been in connection with loans to farmers and to home owners and for purposes of residential and business construction and non-federal public works. This progress, however, has not been enough and it is my opinion that the time has now come to take the next step forward, that of selecting specific investments which should be given the advantage of the low interest rates which the Government can obtain. A low rate

of interest if effectively utilized constitutes one of the most potent weapons our economic system has developed for stimulating business activity.

It seems to me that it is high time for the Govt to make full use of that instrument rather than continue to depend upon grants & subsidies as heretofore.

It is this principle which is utilized in the Bill before you. The Government is bringing together idle funds and borrowers who are unable to borrow under existing circumstances. It does more than that. It creates the additional incentive for the lenders to lend and for the borrowers to borrow by giving the stamp of approval and administrative assistance to useful and paying enterprises which otherwise would not be undertaken at this time. Thus men and capital now unemployed are put to work.

It is this principle which is utilized in the Bill before you. The Government is bringing together idle funds and borrowers who are unable to borrow under existing circumstances. It does more than that. It creates the additional incentive for the lenders to lend and for the borrowers to borrow by giving the stamp of approval and administrative assistance to useful and paying enterprises which otherwise would not be undertaken at this time. Thus men and capital now unemployed are put to work.

~~I cannot overestimate the importance of this time~~

~~element.~~ It is an economic loss to permit investment funds to lie unused when they could be used in productive effort. But that loss is trivial in comparison with the permanent and irreparable economic loss of allowing men of many skills to be idle when there is useful work that they could be doing.

Alternate

175

commerce; our trade suffers from the lack of purchasing power on the part of the people of the world with which to buy the products the United States could export. Business in this country suffers from the general distortion of the world's economic systems, caused by the fear and expectancy of a world cataclysm.

It is futile to await passively the restoration of that degree of international peace and security and sanity which is essential to a high level of domestic and foreign trade and economic progress. Under the present circumstances we must seek within the framework of our institutions and within the requirements of sound fiscal policy to utilize to the fullest extent possible the resources of the Government to overcome the difficulties of this epoch.

In a country with enormous potentialities and with the population rapidly marching towards the 150 million mark there is ample possibility for the Federal Government to supplement

- 9 -

This Bill embodies another distinctive principle. It provides that the maximum interest rate which might be charged by any operating agency on loans under this program should be limited to the yield on the longest term direct or indirect obligations of the United States then outstanding.

The interest rate on long-term loans and investments plays a very important role in modern economic life. Low interest rates tend to stimulate investment, and therefore to raise the level of business activity and the volume of employment.

There are factors in the present situation, however, which make it impossible for low interest rates to operate unaided with complete effect. The disturbed world

39 LE MONO. SECTION

It is suggested that some dollar appropriations be provided, so that there has been a slight improvement in the situation. There has been a slight improvement in the situation. There has been a slight improvement in the situation.

Year 1937: Average monthly deficit	\$2,140	66,379
Year 1938: Average monthly deficit	1,750	5,733

The best of earnings is not a fair estimate of the true picture of the road. The property has been a very good one. The property has been a very good one. The property has been a very good one.

It is equally obvious that the deficit is not the result of abnormal high operating expenses. Exactly the opposite is true. The breakdown of operating expenses as set forth in the summary report had to be made. A breakdown of operating expenses as set forth in the summary report had to be made.

I only offer this to show that while these projects, I think, are very desirable, in my mind they are not self-liquidating, and they really ought to be treated like an appropriation; they ought to go before the Appropriations Committee, where the last rural electrification project went. I think the Appropriations Committee appropriated \$40,000,000 this year.

Senator TAYLOR. One hundred millions, was it not?

Senator TAYLOR. Fifty millions, I think, this year. It seems to me that it really ought to be considered by the Appropriations Committee.

Senator HICKLEY. I would like to simply observe, in connection with what Senator Telford put into the record, that the more fact that one of these projects out in Ohio had set up to now developed into a paying proposition is no evidence that the program as a whole is not self-liquidating. I do not know what the facts are about the matter over some States out in Ohio.

Senator TAYLOR. This is the statement of the Government's attorney himself, the attorney of the Rural Electrification Administration. The project is in the best rural district in Ohio in which such a project could be operated.

Senator HICKLEY. I do not know how it is managed. Certainly was project like that is no evidence that they are all like that and that therefore the thing should not be undertaken.

Senator TAYLOR. No, I did not say that it ought not to be undertaken; only that they are not self-liquidating.

The CHAIRMAN. The committee will now hear from Mr. Jesse H. Jones.

STATEMENT OF JESSE H. JONES, FEDERAL LOAN ADMINISTRATOR WASHINGTON, D. C.

The CHAIRMAN. I am going to ask that there be a little conversation in not having outside conversations while the witness is testifying. It makes it very difficult to hear.

We have under consideration, as you know, Mr. Jones, a bill introduced by Senator Barkley, S. 2750, and the committee is very anxious to get your views with reference to the proposed legislation.

Mr. JONES. May I answer questions?

The CHAIRMAN. If you have any statement to make, we would like to hear that first. I take it the members of the committee will want to ask you some questions.

Did you want to ask me a question?

Mr. JONES. No. I thought maybe I could answer questions and save your time.

The CHAIRMAN. The first question would be, What is your opinion of the proposed legislation?

Mr. JONES. Well, I think the object of the legislation is good, particularly the self-liquidating loan feature. We have had a good deal of experience in self-liquidating loans at the R. F. C., and we know that if the loans are properly made and they can be made properly, they will be self-liquidating, and out of the savings of the Government any money. Such loans were a useful program. They provide employment; they stimulate business, and that is not confined to sections. Materials come from all over the country, and the employment is distributed all over the country. So, as to the self-liquidating feature of this bill, the purpose is good.

Senator TOWNSEND. What amounts does the R. F. C. have now to make self-liquidating loans?

Mr. JONES. We have authority under the Administration bill to make self-liquidating loans. We have authorized in the last year about a hundred million dollars and millions of dollars.

Senator TOWNSEND. You have been willing to make them at all times, have you not?

Mr. JONES. Yes.

Senator TOWNSEND. What amount of money have you that you could loan to self-liquidating projects?

Mr. JONES. We have authority borrowing authority the R. F. C. has; that is, the amount is not allocated in the act.

Senator TOWNSEND. What amount is that?

Mr. JONES. For that purpose we could have something like a billion dollars. That is for all purposes.

Senator TOWNSEND. From your experience, and to be sure, will you do you think that a billion dollars would take care of the self-liquidating loans for which applications are being made now and will continue to be made?

Mr. JONES. This bill will provide for self-liquidating loans.

Senator TOWNSEND. That is what I mean.

Senator BARKLEY. Are you speaking of the R. F. C. loanable type of loans that have been made by the R. F. C.?

Mr. JONES. That is correct.

Senator BARKLEY. Under self-liquidating under the Administration bill, and you mean you have a billion dollars in the R. F. C. and you refer to the same self-liquidating of the R. F. C.?

Mr. JONES. That is correct.

Senator BARKLEY. For the purpose of the Administration bill, you mean you have a billion dollars in the R. F. C. and you refer to the same self-liquidating of the R. F. C.?

Mr. JONES. That is correct.

Senator BARKLEY. When the bill is passed, you will have a billion dollars in the R. F. C. and you refer to the same self-liquidating of the R. F. C.?

Mr. JONES. That is correct.

44 L.H.
MONO. SECTION

Mr. JONES. I think that is what you might do in the case of Senator BARRETT. If other language satisfies the purpose better, of course there is no objection to its substitution.

Senator TAPP. What would you think was the proper rate of interest on these railroad equipment loans?

Mr. JONES. It would depend upon the credit of the road. Good roads can get equipment at anywhere from 2 to 3 percent now, depending upon the length of time and the credit of the road.

Senator TAPP. If they can get it now, why give the R. F. C. power to do this?

Mr. JONES. Some people have thought, as we all know, that this is one way to stimulate business and industry and employment, to get the railroads to use equipment, buy it or rent it or whatever.

Senator TAPP. Is it not a fact that the only reason they do not do that today is that they do not want to add to their fixed charges?

Mr. JONES. There are several reasons, Senator. We have tried for the past year, since the Glass-Steagall bill was passed, to encourage railroads to do things now that they might be able to pay for that would give employment and would stimulate business. We might sell the idea to the president of a mail, but when he gets in his directors they might not want to go into it, and usually do not. That has made it impossible to do a great deal along this line. We have gotten railroad money as low as 2 percent.

Senator TAPP. Why should they do it any more for the R. F. C. than for private sellers? Are you going to having persons be taken to the railroads to make them buy this equipment when the directors do not want to buy it?

Mr. JONES. No; you can't do that and don't want to.

Senator TAPP. Then I do not understand what advantage it is to any railroad for the R. F. C. to have this power that the bill provides.

Mr. JONES. Some of them prefer to lease than to pay for their cars.

Senator TAPP. But the bankers are just as willing to handle loan equipment trusts as any other kind of equipment trusts, in my experience.

Mr. JONES. Some of them are; many of them are.

Senator TAPP. Since States have issued lease bonds of equipped trusts.

Mr. JONES. I think this would make it possible to supply some railroads, which have not too great credit, with new equipment.

Senator TAPP. You think that there are some roads that cannot sell even equipment trusts?

Mr. JONES. They cannot sell them to good advantage on good many roads.

Senator TAPP. You mean they might have to pay 4 percent?

Mr. JONES. And they might not be able to get the money at that. They might not be able to get it at all.

Senator TAPP. Can you not loan over on some kind of equipment trusts?

Mr. JONES. We do every day.

Senator TAPP. I do not understand the reason for this additional power in here.

Senator TOWNSEND. There is no additional power except that you can purchase old equipment.

Mr. JONES. It is a little more easy way to do it under this bill.

Senator TAPP. I am asking you about the power.

Senator TOWNSEND. You do not have any additional power under this bill that you do not have at the present moment except that you can purchase old equipment?

Mr. JONES. Yes. We have the power here to buy equipment.

Senator TAPP. You can really go into the railroad business under this bill.

Mr. JONES. We have not got that authority in.

Senator TOWNSEND. That is the only power you do not have.

Senator BARRETT. You can agree with the road that they will have certain equipment constructed on their own responsibility, and you will lend them money to pay for it on a long-term contract. It is not a lease; it is a contract to repay the loan; is that right?

Mr. JONES. Yes; that is correct.

Senator BARRETT. So that you could, in a roundabout way, now bring about the construction of equipment by making a loan to the company, and then taking a mortgage on the equipment after it is constructed?

Mr. JONES. We can do that.

Senator MALONEY. Would this just apply to equipment within the United States?

Mr. JONES. Yes, sir.

Senator MALONEY. You could not lend the money to South America or other countries under this particular feature of the bill, could you?

Mr. JONES. No, sir.

Senator MALONEY. Of course you could, under the export bank provision, where, in this bill, there is appropriated \$100,000,000. Would the railroad feature of this bill tie up with the export bank feature of this bill?

Mr. JONES. There is no relation.

Senator MALONEY. Could you, if the bill passed, go to buy some of the equipment of railroads of foreign countries?

Mr. JONES. We could not.

Senator MALONEY. Could you?

Mr. JONES. I don't know.

Senator TAPP. What provision of law is there that binds this in any way to domestic railroads?

Senator BARRETT. This bill provides that these loans shall be made subject to the provisions of the R. F. C. Act, which requires approval by the Interstate Commerce Commission.

Senator TAPP. I am sure it does not say that.

Senator MALONEY. The Interstate Commerce Commission has not any power over foreign railroads.

Mr. JONES. It is entirely a non-constitutional and a void and in force, and there is no objection to putting it all over the bill so that effect of it will be null.

Senator MALONEY. As a member of the Mr. CHRISTIANSEN asks if what Mr. JONES has said concerning construction or approval of the Interstate Commerce Commission, and will in some direct or indirect railroads than it is for American railroads.

Mr. JONES. It is not intended to affect foreign railroads, Senator.

Senator MALONEY. At least we have been accustomed to having that.

Mr. JONES. Under the present act we usually have.

Senator WOODRUFF. How would the railroads have to borrow (100,000,000) under the present law?

Mr. JONES. No.

Senator MALONEY. You have a 4 percent interest on the money.

Mr. JONES. The 4 percent interest is on the money.

Senator MALONEY. The 4 percent interest is on the money.

Mr. JONES. Yes.

Senator TOWNSEND. Don't you think it is about time we stopped making loans to Mexico, when they can't do it properly down there?
Mr. JONES. I am here to testify to the bill.
Senator TOWNSEND. I am asking you that question.
Mr. JONES. I think I had better telephone Capitol Hill before I answer that.

The CHAIRMAN. We will get into the Silver Purchase Act pretty soon. We might as well stop right here.
Senator TOWNSEND. I think we might as well get into it.

The CHAIRMAN. On another question.
Senator ADAMS. You suggested in your opening statement that you were in the purpose of the bill. Do you have an opinion as to the machinery, as to the amount? What is in my mind in this? What will be the effect as to the increase in what is the equivalent of Government indebtedness of \$2,500,000,000 which is roughly the amount that is included in this bill? Will there be a detrimental effect from increased Government borrowings to any extent?
Mr. JONES. I think the good will offset the bad. I think if you have a little money on hand of it, it will come back to the country.

Senator ADAMS. I had in mind, in part, the effect on general economic conditions of an increase in the aggregate national indebtedness. I think you will agree that that is a thing which businessmen are considering.

Mr. JONES. Yes.
Senator ADAMS. Here we are increasing that indebtedness. My inquiry is whether or not we might not be a little more moderate in the amount we put in and accomplish the results without so much increase on the part of the people who are concerned with the debt.

Mr. JONES. I do not think the railroad equipment part will use anything like \$200,000,000; that is, in a year or two, certainly not within a year. It does not know how much you can put out on rural electrification. That doesn't feed very fast.

Senator BARCLAY. Last year, under the 10-year program originally contemplated of \$40,000,000 a year for 10 years, Congress added \$100,000,000 to that \$40,000,000, which made it \$140,000,000, and practically every dollar was absorbed.

Senator ADAMS. In round numbers.
Mr. JONES. It was estimated, not all expended.

Senator BARCLAY. No. They have got to spend it at the work is completed.
Mr. JONES. If you add \$100,000,000 for the next year it will probably be 2 or 2 years.

Senator ADAMS. There is an extra added commitment this year, it went back to the \$40,000,000.

Senator BARCLAY. They had to go back to \$40,000,000 when Congress did not give them any more money.
Let me ask you about the procedure.

Senator ADAMS. May I get him to go on through?
Senator BARCLAY. Excuse me. I thought you had finished.

Mr. JONES. Suppose you might have had a billion dollars' worth of farms to sell. I don't know how the machinery would function. You would have the land in place of the note.

Senator ADAMS. I gather that you feel that a pretty good job would be done with less money?
Mr. JONES. I figure it will be done with less money. I do not think you will get the money out. It just doesn't work that fast.

Senator RANSCLIFFE. If what is contemplated here could be done by private capital—I think Senator Taft said that—
Senator TAFT (interposing). Mr. Jones made that statement.

Senator RANSCLIFFE. Would you care to express any opinion as to why it is not being done? Is the difficulty with the railroads or with the private lending institutions?
Mr. JONES. Are you talking about railroads?
Senator RANSCLIFFE. Yes. Why is it that private capital, in your opinion, is not doing it at this time?

Mr. JONES. It is being done some now.
Senator RANSCLIFFE. To a very limited extent and to an inadequate extent.

Senator TOWNSEND. There is power in the U. S. under the present authority now. He has the power to lend to railroads in any amount he chooses and at any rate for classes.

Senator RANSCLIFFE. I am talking about lending by private capital. It is not being done except to a very limited extent, is it?
Mr. JONES. To a limited extent.

Senator RANSCLIFFE. Yes, on for equipment or whatever purpose it may be.
Mr. JONES. There is no refunding in this.

Senator RANSCLIFFE. Except as you referred a little while ago to the purchase of these obligations.
Mr. JONES. That is not in the bill.

Senator RANSCLIFFE. Then let us restrict it to equipment. It is not being done except to a very limited extent, is it?
Mr. JONES. They do not need the equipment.

Senator RANSCLIFFE. The railroads do not need it?
Mr. JONES. No.
Senator RANSCLIFFE. What is it that the railroads do need? We are contemplating something that the railroads are doing to use. If private capital can do it, why is it not doing it?

Mr. JONES. When I see they do not need it, I mean they are using old and inadequate equipment, and they really probably do a better job with newer equipment.

Senator RANSCLIFFE. They probably realize that, do they not?
Mr. JONES. Yes.

Senator RANSCLIFFE. Why is it, if private capital is able to do it, private capital does not do it?
Senator JONES. That you may state that it was because the railroads did not want to buy the equipment? They are afraid to assume additional fixed charges. There is no evidence that they have been turned down by private capital.

Senator RANSCLIFFE. Mr. Jones stated that in some cases they preferred to do it that way. I was just questioning why they should be this location of private capital.
Mr. JONES. We are really talking about a children of loan and investment that is made out of the Federal Reserve System, currency, the Federal Reserve System. We are not talking about the bill with the Government's money.

Senator RANSCLIFFE. In the 10-year period.
Mr. JONES. At least now.
Senator JONES. The Government did not give that practically all the money that it has loaned private capital since at least 1913 to 1914. They were not making any loans to the railroads.

Mr. JONES. That is correct.
Senator JONES. And the fact that they do not do it is because they do not have the money to do it. They are afraid to assume additional fixed charges. There is no evidence that they have been turned down by private capital.

Senator RANSCLIFFE. A little while ago you said the business had been in a bad way. A little while ago you said the business had been in a bad way. A little while ago you said the business had been in a bad way. A little while ago you said the business had been in a bad way.

46 LH
MONO. SEC.

The CHAIRMAN: At the time you made that loan, they were unable to get any money from the banks?

Mr. JONES: That is correct.

The CHAIRMAN: But after the tunnel was completed and operating for a short time, I understood that the matter is taking those bonds?

Mr. JONES: We have not sold those bonds.

The CHAIRMAN: Did you sell the bond for the Triborough Bridge?

Mr. JONES: We did, yes.

The CHAIRMAN: That was the same situation. Then they could not get the money.

Mr. JONES: The bridge has gotten itself. The tunnel is not completed.

The CHAIRMAN: It is operating now.

Mr. JONES: The Mid-Town Tunnel is not.

The CHAIRMAN: I was speaking about the tunnel between New York and New Jersey, the Lincoln Tunnel.

Mr. JONES: Oh, yes.

The CHAIRMAN: The point I want to make is that in the case of the Triborough Bridge, private capital was not willing to undertake the venture, and they had to come to the Government to secure the funds with which to construct the bridge, but since its operation for a short period of time, showing that it is a successful venture, those funds have now been sold?

Mr. JONES: Yes.

The CHAIRMAN: There are many cases like that, are there not?

Mr. JONES: Yes.

Senator TAPP: Were there P. W. A. grants in connection with those projects?

Mr. JONES: Yes.

Senator TAPP: Would they have been self-liquidating for a limited period?

Mr. JONES: Some would, probably, and some would not. We have sold \$100,000,000 worth.

Senator TAPP: Let me ask you about these highways. You spoke of one self-liquidating highway in Pennsylvania where there was a 4 percent grant, and you thought your loan would be self-liquidating?

Mr. JONES: Yes.

Senator TAPP: Would a 100-percent loan have been self-liquidating there?

Mr. JONES: We do not think so, out of 4 percent.

Senator TAPP: What do you think of this idea of toll roads or completely self-liquidating projects without any grant?

Mr. JONES: I have never studied it very much from that standpoint. There probably are some scattered ones where a toll road would pay. The toll roads in Pennsylvania (tollpike) will pay, in my opinion, is that they are going through tunnels and it is a large grade road instead of over the mountains. It took the grant to justify our loan. We think we have a good loan.

Senator TAPP: I rather understood from Mr. MacDonnell yesterday that he was doubtful about the ability to charge enough tolls, except in very limited areas, to make toll roads completely self-liquidating. Is that your view of the situation?

Mr. JONES: I have made no study of that at all; but I think there are suggested areas where a toll road would probably pay for itself.

Senator TOWNSEND: You have authority at present to make loans for that purpose, have you not?

Mr. JONES: Yes.

Senator TOWNSEND: And you have the money?

Mr. JONES: Yes.

Senator DAWSON: Will you please look at page 11, line 27 of the bill, and will you tell us for what purpose P. W. A. would wish to organize corporations (there is authority)?

Mr. JONES: Is this about roads?

Senator BARKLEY: No; that is P. W. A. non-Federal projects.

Mr. JONES: I would not know how to answer that.

Senator BARKLEY: I can explain that. I have done so a time or two. That is a procedure that was invented by the P. W. A. initially, particularly in my own State, in which I have referred, where the local school district or county which was not, under its jurisdiction, authorized in terms itself to build a schoolhouse or a schoolhouse, and where the legislature authorized the creation of a corporation or holding company to build the schoolhouse or the schoolhouse, and through an arrangement with the school board and the county officers they provided for amortization over a period of years. It was simply a device by which the county or the school district could borrow money, Senator ARNOLD, by which they could grade the institutional provisions of the State.

Senator BARKLEY: That may be. If we State would if they do not have to use it. It is not vital to this bill. But that is why that was put in.

Senator TAPP: May I ask a question about non-Federal public works? Has the U. S. C. power to lend to any municipal corporation today for any public improvement that they wish to make?

Mr. JONES: Yes.

Senator BARKLEY: Getting back to railroad equipment, Mr. Jones, I have been informed—and if the information is incorrect, our railroad friends here can correct it—that 45 percent of all freight cars are over 20 years of age.

Mr. JONES: Yes.

Senator BARKLEY: And that 76 percent of all locomotives are over 20 years of age, and that only about 2 percent of the existing locomotives there are less than 10 years of age. Would it be fair to say that there are many railroads that really need new equipment? They are going on with the old equipment because of their financial condition and they would rather use that old equipment than to incur substantial debt to purchase new. Are there in the country many railroads that through the operation of this plan here, would be able to purchase themselves with additional modern equipment, or otherwise, would still be able along with this old equipment, and not incur an additional debt that would show up on their books?

Mr. JONES: I have conceived that already agree with.

Senator BARKLEY: Were the percentage figures as to new and progress which I gave correct?

Mr. JONES: I think so, approximately. I have seen the figures. There is, as I have said, a great deal of old equipment that has not got a little life in it.

Senator BARKLEY: There is no desire to have a road build it unless they want to?

Mr. JONES: No. All kinds of reference to hypothetical, the matter is being changed from road to road and in both and also are actually a little bit broader about getting out the other way, down or with the road building.

Senator BARKLEY: The way you would operate, I imagine, would this would be to enter into a contract with the manufacturers of locomotives, the Baldwin or Alco, Inc., or that would purchase the equipment, for the manufacture of so many engines of a certain type, and then you would enter into a contract with the manufacturer to buy the thing at that moment in time?

Mr. JONES: Yes. The deal would be made in a contract between the proposed manufacturer and the railroad, and very much easier to do to begin the operation.

Senator TOWNSEND: That would be very, yes, they not?

Mr. JONES: Yes.

Senator BARKLEY: That may be all by agreement, the Government is not going to do it. You have all the authority in the Government to do it. The only thing that the bill does that I am sure is the authority to do it is that you can purchase old equipment.

Mr. JONES: Yes.

I have asked Mr. Page to prepare a list of projects already under construction but, by reason of the limitation of the reclamation fund, from which this money comes, which are going ahead very slowly—where he can justify and with sound reasons stop up construction of small corresponding units that will later have to be built, a cost of 100 from now; and also a list of projects that can be immediately started and that have been surveyed and approved and authorized by Congress, or deemed authorized, with a view to giving the immediate this picture.

SENATOR TAYLOR. Are these Federal projects or loans to irrigation districts?

SENATOR CLARK of Idaho. All Federal projects, Senator Taylor. So they do not come under the 1906 Federal loan? SENATOR CLARK of Idaho. No, sir.

Mr. Page, I think you might tell us your experience as Commissioner of the Bureau of Reclamation, from the point of view of self-liquidating projects and how those loans have been liquidated in the past.

Mr. PAGE. The Bureau has been operating since 1902, being organized by the act of Congress of June 2, 1902. During that period the total investment put in by the Federal Government, in the Western States where irrigation is essential, has been approximately \$400,000,000 of Federal funds. These funds have been put out on the security of repayment contracts from the beneficiaries of the projects, or in some instances by power contracts, where power was developed as an incidental to the irrigation works.

To date, from fifty to sixty million dollars has been repaid of those funds and during the early years the total investment was materially less than the \$400,000,000 which I just mentioned. In other words, the return which has been made was approximately 25 to 30 percent of the investment in the projects which are now in a position or in a state of development which permits repayment. In other words, the projects are completed to the point where repayments are possible.

Of the amounts due, the statement given by Senator Clark of Idaho, that 97.7 percent had been paid, is accurate. On different occasions, Congress has set up different standards for this repayment, starting first with the 30-year and then later with the 20-year, and now the standard maximum is 10 years for the repayment of the principal of this investment. The investment is made by the United States in actual construction of the projects themselves, under the supervision of the Bureau of Reclamation. The policy has been to contract all the construction work, and at the present time we have construction contracts only amounting to approximately \$102,000,000 in operation. In addition, there are purchase contracts, for equipment and supplies, amounting to about \$70,000,000, outstanding at the present time. That gives some conception of the scope of the operations which are now going on and which could be hastened if additional funds can be provided.

It may be of interest to the committee to know that in connection with the repudiation we have made, we have to a limited extent traced the destination of the money, and we find that something over 50 percent of the money spent in the 17 Western States goes to the manufacturing and equipment centers of the Eastern States.

SENATOR BANKHEAD. What percentage is that, please?

Mr. PAGE. Something over 50 percent—51 or 52 percent, directly. The balance, because that, we have not followed in the final origin.

SENATOR CLARK of Idaho. Let me interrupt you, Mr. Page, to say that a careful survey was made on the Boise project, which is a big one, about a year ago. The survey was a very careful scientific survey and showed that 75 percent of all of the farmers' income and the people's income on that project, went for manufactured and processed articles of the East.

Mr. PAGE. Well, I was referring partly partly to the Federal money which was spent on the construction.

SENATOR CLARK of Idaho. Oh, yes, I am.

SENATOR BANKHEAD. How many of these projects are now under construction, may I ask?

Mr. PAGE. About 20.

SENATOR BANKHEAD. How many more now do you have in mind?

Mr. PAGE. Why, there are about 20 more that we have considered.

SENATOR BANKHEAD. With respect to those 20 that are under construction, are they being constructed directly because of the lack of sufficient appropriations to carry them out more rapidly?

Mr. PAGE. Yes, but possibly speaking they are all moving at a slower pace than they could and should, because the returns do not come in with rapidity. For that reason, they should be carried forward more rapidly.

SENATOR BANKHEAD. How many acres of land are involved in the projects that are under construction, and how many acres are involved in the new projects that you have in mind?

Mr. PAGE. There are approximately two and one-half million acres which could be developed under the projects which are now under construction, and something less than—or not much over—500,000 acres would be added by the new ones.

SENATOR BANKHEAD. For what purpose would that land be utilized?

Mr. PAGE. It is used for the specialty crops which are grown in the high mountain and western areas, and confined to fruits and vegetables.

SENATOR BANKHEAD. I assume, therefore, there would be no conflict between the development of this area and any reforestation project that is now under way in the other reforestation communities?

Mr. PAGE. We don't think there is any.

SENATOR BANKHEAD. Yes.

Mr. PAGE. As a matter of fact, as these areas are developed, they are now receiving the salary of government farmers who have had to develop other areas in that section.

SENATOR BANKHEAD. Yes.

SENATOR CLARK of Idaho. The Department of Agriculture's official statistics, which I have available, show that 80 percent of all the crops raised in the western irrigated lands are fed to livestock, right on the ground. Of course a great proportion of this is hay and feed for the cattle and sheep industries.

Of the remaining 20 percent, a very important portion is concentrated right on the farms on by-product, and another very substantial proportion of the production of various crops, in miscellaneous crops, such as sugar beets, which are raised side by side with hay and beans and peas and other of these factors, of which there is an surplus in that locality.

Are there any, Mr. Page?

Mr. PAGE. Yes, sir.

SENATOR BANKHEAD. I wanted to ask about that January 1911 report, may I ask?

Mr. PAGE. Yes, sir. That report, I think, states that the irrigated lands in the West are being developed at a rate which is sufficient to supply the demand for growing products that are now made by irrigation, and that to meet the demand.

Mr. PAGE. About a percentage in growing products, is the total amount of a percentage in growing products.

SENATOR BANKHEAD. How long would that amount of land supply the demand for growing products, and how long would the total amount of land supply the demand for growing products?

I should like to say that the only reason that 87.2 percent has not been increased to 100 percent, to date, is that some of the other projects were probably a little ill-advised. However, now the other projects are gone into with such thoroughness that there is no question about 100-percent repayment.

The Chairman: When you consider the expenditures made, under these, in the welfare of the communities, I think that even 87 percent is an excellent record. Of course, I am only one member of the committee, but I have been persuaded, myself, that they should be included in these authorizations.

Senator ROCKLEY: I want to say that so far as I am concerned, I am thoroughly sympathetic with the amendment. I suppose the language should be worked out; but I am glad, personally, to embrace the theory of the amendment.

Senator CLARK of Idaho: Well, I appreciate that a great deal coming from the majority floor leader and from the chairman of the committee.

Senator O'Mahoney, who is the joint author of the amendment with me, is here.

The Chairman: Would you care to say something, Senator O'Mahoney?

Senator O'Mahoney: Mr. Chairman, I shall not attempt to add very much to what has been said.

The Chairman: I think you have the cumulative pretty much with you.

Senator O'Mahoney: That is fine. I do not want to talk it out.

However, I do want to call this particular fact to your attention: When the Appropriations Committee was in session and was considering one of the recent bills, the representatives of the Farm Security Administration came before us and told a rather depressing story of the number of farm families which are now in a migratory status. As I recall it, something over 200,000 farm families are now moving around in the West. Many of these have come from what has been known as the dust bowl area. I do not think any greater public service can be rendered than to attempt to stabilize families of that character upon the land. The opportunity is presented by the development of irrigation. The water is there; the dust sites are there. All that is necessary to do is to construct the works, to store the water, to put it out upon the land, and thereby to afford an opportunity for these families to establish themselves as they want to establish themselves.

I feel that it will be a great pity if this committee should not include this item in this bill. If the bill is going to pass, the provision for the development of the West might be included. When you consider the harmony between rural electrification and reclamation, you see the great opportunity which is presented for stabilization of farm families upon homes; and I certainly express the hope that the committee will act as has been indicated by the two members who have spoken.

Senator HENRICK: I wonder if I could ask the Senator a question: What is done under the present reclamation law?

Senator O'Mahoney: Well, sufficient funds are not available to take advantage of all the opportunities that are presented.

Senator HENRICK: We would buy the land and resettle these people about when you have been talking?

Senator O'Mahoney: Well, in many cases the land is already owned by the Government.

Senator HENRICK: I did not know whether it was altogether as whether you were amending the law now, under this bill, providing for the irrigation of land that had already been resettled under the resettlement program.

Senator O'Mahoney: Oh, no; that is not the purpose at all. This is extending the projects that are possible.

Senator HENRICK: Because nothing in this bill is limiting that at all.

Senator O'Mahoney: That is what we mean; we feel this should be in there.

Senator HENRICK: Yes. You have about everything the Senator O'Mahoney. May I say, in response to what the Senator from Delaware has said, that my own judgment is that the reclamation program is definitely and clearly a self-insulating program and one that will probably build not only in the long-run up of particular communities but in the return which will come to the Federal Treasury. That has already been demonstrated by our 20-year experience under reclamation.

The Chairman: May I say to the Senator that that has already been covered by Senator Clark of Idaho and Mr. Page. Of course, we are very glad to have your confirmation of that point.

Senator HENRICK: I do not understand the thing; and what I was trying to find out was whether we had the program set up entitled "Reclamation," which had nothing to do with this law, and whether this is something separate and distinct, or whether it is a part of it, or whether they are all integral matters.

The Chairman: This is to bring water to the farmer. The life blood of the farmer is water.

Mr. PAGE: And checks for the construction of works to accomplish that.

The Chairman: Perhaps you have already covered this point, and perhaps it is self-evident that it does not. But it does not conflict in any way with the so-called farm program of the Department of Agriculture, does it?

Mr. PAGE: No, sir; I think not; and I think the Department of Agriculture agrees with it.

The Chairman: They did, they have said that.

Well, gentlemen, the committee will take adjourn until Tuesday at 10:30, when Senators MacCumber will be the first witness.

(Proceedings at 12:30 p. m.; an adjournment was taken until Tuesday, July 15, 1930, at 10:30 a. m.)

7-14-39

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

191

-----X

BANCO de ESPANA, :

Plaintiff :

~~against~~ :

FEDERAL RESERVE BANK OF NEW YORK, :

Defendant, :

L 71/96

-----X

BANCO de ESPANA, :

Plaintiff, :

~~against~~ :

L 71/326

UNITED STATES LINES COMPANY, :

JAMES E. ROBERTS, "JOHN DOE", and :

"RICHARD ROE", being fictitious :
persons intended to designate :
persons in possession of the chatt- :
els, :

Defendants. :

-----X

BANCO de ESPANA, :

Plaintiff, :

~~against~~ :

L 71/239

SIGMUND SOLOMON, individually and :
as Superintendent of the United :
States Assay Office at New York, :

Defendant. :

-----X

John Foster Dulles,
Inzer B. Wyatt, and
Richard G. Pettingill,
Attorneys for Plaintiff
(Sullivan & Cromwell, Of Counsel)
48 Wall Street, New York City.

John T. Cahill, United States Attorney
for the Southern District of New York.
Attorney for Defendants, Sigmund Solomon,
etc. and United States Lines Company.
Foley Square, New York City

Winthrop, Stimson, Putnam & Roberts,
Attorneys for defendant, Federal Reserve
Bank of New York,
32 Liberty Street, New York City.

Henry L. Stimson,
Special Assistant to the Attorney General.

Paul Campbell,
Special Assistant to the Attorney General.

William S. Ward,
Special Assistant to the Attorney General.

William L. Lynch,
Assistant United States Attorney.
Of Counsel.

LEIBELL, D. J.

The Bank of Spain claims the title to and the
right to possession of certain silver, in the form of
Spanish coin, now in the United States Assay Office, New
York City. To enforce its claims it instituted the above
entitled actions in replevin.

Motions have been made on behalf of the respective
defendant in each of these three actions, asking for the

following relief:- (1) for summary judgment for defendant on the ground that title to and right of possession of the silver is in the United States, having been purchased from the Government of Spain, and accordingly that plaintiff has no right to the possession thereof; or, in the alternative, (2) for a judgment dismissing the action for want of jurisdiction since the silver, the subject matter of the action, is the property of the United States; or (3) for a judgment dismissing the action on the ground that the suit is one in effect against the United States and the Court has no jurisdiction thereof. In the suits against the Federal Reserve Bank and the United States Lines Company respectively the defendant's motion for summary judgment is granted, and the alternative relief, for a dismissal of the action for want of jurisdiction, is denied. In the action against Sigmund Solomon, individually and as Superintendent of the United States Assay Office at New York, dismissal is sought by said defendant on the additional ground that the complaint fails to state a claim against him upon which relief can be granted. The action against him is dismissed for lack of jurisdiction, on the ground that the suit is one in effect against the United States, which has not consented to be sued. It is therefore unnecessary to consider the other grounds of his motion.

The Government of the United States has appeared specially in each action and moved to dismiss the complaint

principally on the following grounds:- that the silver involved was purchased by the United States in the Spring and Summer of 1938 from the former Republican Government of Spain; that to the extent of 95% of the contract price payment was made to the then Spanish Ambassador; that the silver is owned by and is in the possession of the United States; that the suit is in effect a suit against the United States. This motion is granted in the suit against Sigmund Solomon, individually and as Superintendent of the United States Assay Office, New York, but the motion is denied in the suits against the Federal Reserve Bank and the United States Lines Company.

In each action the named defendant has also moved "to strike or dismiss the summons and complaint and all other papers served herein by Messrs. Sullivan & Cromwell, as attorneys for the alleged plaintiff, on the ground that the Bank of Spain has not authorized Messrs. Sullivan & Cromwell or any other person to commence or prosecute the above entitled action in its name or on its behalf". By stipulation, since filed herein, it has been requested that decision thereon be reserved until the trial. Those three motions are therefore not now decided.

I have made the above disposition of these various motions for reasons which will be hereinafter stated.

In the action against Sigmund Solomon, individually and as Superintendent of the Assay Office, New York, three shipments of silver, costing \$6,450,000 are involved. The suits against the Federal Reserve Bank and the United States Lines Company respectively, relate each to a separate lot of the three lots or shipments of silver which are the subject of the above-entitled Solomon action. Each of said three shipments comprised 2334 cases of Spanish silver coin and weighed approximately 5,000,000 troy ounces.

The suit against Sigmund Solomon, individually and as Superintendent of the United States Assay Office is in replevin, solely to recover possession of the three lots or shipments of Spanish silver coin, and seeks no money damages. The suit against the Federal Reserve Bank is also in replevin and relates to the shipment of 2334 cases of Spanish silver coin which arrived in the port of New York on the S. S. "Normandie" on May 30, 1938. In that action plaintiff seeks to recover as damages the value of the silver, \$2,150,000, in the event that the defendant is unable to deliver the silver to plaintiff. The suit against the United States Lines Company is similar to that against the Federal Reserve Bank, and it involves another lot of silver in the same amount, which was shipped here on the S. S. "President Harding", arriving on July 2, 1938. It also seeks damages in the sum of \$2,150,000, in the event that the defendant, United States Lines Company, is unable to deliver the silver to plaintiff.

The material facts, out of which this litigation developed, are as follows:-

In January of 1938 His Excellency, Fernando de los Rios, at that time Ambassador Extraordinary and Plenipotentiary at Washington for the Government of Spain asked the Hon. Henry Morgenthau, Jr., Secretary of the Treasury of the United States, if the United States would purchase silver from the Government of Spain. After consideration of the request, Secretary Morgenthau submitted to the Spanish Ambassador a memorandum of the procedure to be followed in the purchase of foreign silver by the United States.

On March 29, 1938, the Spanish Ambassador advised Secretary Morgenthau that his Government desired to sell approximately 5,000,000 troy ounces of its silver to the United States. Thereupon the Federal Reserve Bank of New York, as fiscal agent of the United States, at the direction of the Secretary of the Treasury, delivered through the Treasury Department to the Spanish Ambassador at Washington a cable addressed to the Bank of Spain at Barcelona, which under the arrangement between the two governments was to act as fiscal agent of the Spanish Government. The cable offered to purchase 5,000,000 ounces, .999 fine of silver at the rate of 43 cents United States currency per ounce, to be shipped to arrive on or before June 30, 1938, the offer to be accepted

not later than April 2, 1938. The further particulars of this offer will be discussed later. On April 1, 1938, the Spanish Ambassador delivered to the Treasury Department a copy of a cable dated March 31, 1938, signed Negrin, Premier and Minister of Finance, requesting the Ambassador to inform the Federal Reserve Bank of New York of the acceptance by the Bank of Spain of the silver purchase.

On May 27, 1938, the Spanish Ambassador delivered to the Treasury Department for transmission to the Federal Reserve Bank of New York a letter in which he set forth cabled instructions he had received from his Government and the Bank of Spain stating that, in accordance with the contract for the purchase of the silver arranged for in the cable of March 31, 1938 "by order and for account of the Treasury of the Spanish State", the silver had been shipped on the S. S. "Normandie" which sailed on May 26, 1938; that the Spanish Consul in New York would deliver to the Federal Reserve Bank the shipping documents and that the Federal Reserve Bank could make payment for the shipment "by check drawn to the order of the Spanish Ambassador in Washington". The silver, in the form of Spanish silver coin, arrived in New York on May 30, 1938. Following instructions of the Treasury Department, the Federal Reserve Bank of New York on May 31, 1938 received the bill of lading from the Spanish Consul in New York, endorsed it and on the same day assisted in the transportation

of the silver to the United States Assay Office located at No. 32 Wall Street and No. 32 Old Slip, New York. The bill of lading named "Etablissements Edouard Aget" as the shipper or consignor and provided that the silver was to be delivered to "Reserve Federal Bank New York or to its order (for the account of the Consul General of Spain, 515 Madison Avenue, New York)". The Etablissements Edouard Aget was the agent of the Spanish Government formally designated as such to arrange this shipment. On June 2, 1938, payment for the silver to the extent of 95% was made to the Spanish Ambassador by check drawn to the order of "The Ambassador Extraordinary and Plenipotentiary of Spain to the United States" by the Federal Reserve Bank of New York as fiscal agent of the United States, on the Treasurer of the United States. The check was cashed for the Ambassador at the United States Treasury on June 3rd, 1938. The balance of 5% of the purchase price was, under the contract, to be withheld until the silver was assayed. This has not yet been done.

On June 3, 1938, an action in replevin to obtain possession of this silver, or in lieu thereof for damages, was commenced in the Supreme Court of the State of New York against the Federal Reserve Bank of New York by the Bank of Spain. The action was removed to this Court on July 8, 1938, where it is now pending as No. L 71/96.

On June 3, 1938, the Spanish Ambassador again advised Secretary Morgenthau that his Government was desirous of selling to the United States an additional 5,000,000 (second lot) .999 fine troy ounces of "its" silver. On the same date the Secretary of the Treasury delivered to the Spanish Ambassador pursuant to such request, an offer of the Government of the United States addressed to "The Government of Spain, Barcelona, Spain" to purchase on or before July 15, 1938 on the terms and conditions therein stated approximately 5,000,000 fine troy ounces of silver "owned" by the Government of Spain. On June 6, 1938, the Spanish Ambassador accepted on behalf of his Government the above mentioned offer of June 3, 1938, and agreed to sell the silver "owned by it", payment to be made by check drawn to the order of the Spanish Ambassador in Washington. On or about July 2, 1938 this second lot of silver arrived at New York on the S. S. "President Harding" of the United States Lines Company, the ship having sailed from Havre, France, on June 23, 1938. Under the express terms of the contract as set forth in paragraph (e) of the offer made by the Secretary of the Treasury on June 3, 1938, it was provided:- "Title to the silver shall vest in the United States upon being delivered on board a steamship bound for New York City". The bill of lading, covering this shipment, named the Spanish Government as the consignor and the Superintendent of the United States Assay Office, Old Slip 32 New York, as the consignee. Shipping

documents, under the terms of the contract, were to be forwarded directly to the designated consignee. The bill of lading covering the second shipment was delivered by mail to Superintendent of the United States Assay Office at New York pursuant to instructions of the Spanish Government. On arrival, the silver was received by representatives of the United States Assay Office and taken to the aforementioned United States Assay Office in New York. In accordance with the contract of purchase, payment to the extent of 95% was made by check drawn on the Treasurer of the United States on July 14, 1938, to the order of the Spanish Ambassador at Washington, by the Superintendent of the Assay Office, New York, and the check was cashed for the Ambassador at the United States Treasury on July 15, 1938. The balance of 5% has not yet been paid because the silver has not been assayed.

On or about July 2, 1938 an action in replevin for this second lot of silver, or in lieu of delivery of the silver, for damages, was brought in the Supreme Court of the State of New York by the Bank of Spain against the United States Lines Company and against James E. Roberts, an employee of the company. The action was later discontinued as to Mr. Roberts. On September 6, 1938, the action was removed to this Court, where it is now pending as No. L 71/326.

On July 8, 1938, the Spanish Ambassador at Washington again advised the Secretary of the Treasury of the United States that the Spanish Government was desirous of selling a third lot of silver, also approximately 5,000,000

fine troy ounces, to the Government of the United States. On July 8, 1938, the Secretary of the Treasury delivered to the Spanish Ambassador, pursuant to such request, an offer of the United States addressed to The Government of Spain, Barcelona, Spain, to purchase approximately 5,000,000 fine troy ounces of silver "owned" by the Spanish Government on or before August 15, 1938, on terms and conditions which are similar to those relating to the above described second purchase, including the provision that title to the silver should vest in the United States of America on delivery of the silver on board a steamship bound for New York City. On July 10, 1938, the Spanish Ambassador advised the Secretary of the Treasury of the United States that the Government of Spain agreed to sell 5,000,000 fine troy ounces of silver "owned by it" on the terms of the offer of July 8, 1938. This third lot of silver arrived in New York on or about July 22, 1938 on the S. S. "Washington" of the United States Lines, which sailed from Havre on July 15, 1938. The bill of lading named the "Government of the Spanish Republic" as the consignor and the "Secretary of the Treasury of the United States; Washington, D. C. at New York", as the consignee. The bill of lading covering the third shipment was delivered to representatives of the Secretary of the Treasury by the Spanish Consul at New York. On its arrival the silver was received according to the terms of the purchase contract and was taken to the United States Assay Office at New York. On August 4, 1938, a payment of 95% for this third lot of silver was made by check drawn to

the order of the Spanish Ambassador by the Superintendent of the Assay Office, New York, on the Treasurer of the United States. The check was cashed for the Ambassador at the United States Treasury on August 5, 1938. The balance of 5% of the purchase price remains unpaid because under the terms of the contract it is not due and payable until the silver is assayed. This has not been done.

On August 15, 1938, an action in replevin, not claiming damages, was commenced in this Court against Sigmund Solomon, individually and as Superintendent of the United States Assay Office at New York, for the above-described three lots of silver. That action is No. L 71/239 on the docket of this Court. No suit was brought against United States Lines Company in respect to this third shipment.

The suit against Sigmund Solomon, individually and as Superintendent of the United States Assay Office at New York is, as stated above, an action solely in replevin, to recover possession of all three lots of silver, valued at \$6,450,000. The complaint alleges that "at the time of the commencement of this action defendant, in violation of plaintiff's rights, wrongfully and without authority from the United States or otherwise held and now holds said chattels in his possession at the premises occupied by said Assay Office at 32 Wall Street and 32 Old Slip New York, N. Y. and wrongfully detained and now detains said chattels from plaintiff"

after demand therefor. The judgment prayed for is that "defendant be adjudged and required to deliver to plaintiff" the three lots of silver described in the complaint. The defendant Solomon is not holding or possessing any part of the three lots of silver as an individual. If he were to attempt to comply with the demand as an individual, he would commit a criminal act. The silver was bought and paid for by the Government of the United States and is now part of its monetary stocks. It is in the possession of the Government of the United States and is physically located at the United States Assay Office, New York. The Court cannot require Sigmond Solomon to perform any act as an individual in respect to this silver. In his official capacity, as Superintendent of the United States Assay Office at New York, he is only a mandatary, his possession being that of the Government of the United States. The assay office is a part of the Treasury Department. He is an employee of the Treasury Department and is subject to the laws of the United States and the rules, regulations and instructions of the Treasury Department. The affidavits in support of this motion show that he has received specific instructions from the Acting Secretary of the Treasury that the silver in question shall not be delivered to anyone other than a duly authorized officer of the United States. Naming Sigmond Solomon individually in the replevin action, as though he personally, and not officially, possessed the silver, does violence to the facts and is contradicted by

other allegations in the complaint. He should not have been sued as an individual. The suit against him in his official capacity is in effect a suit against the United States. This Court may not assume jurisdiction or grant any relief therein, since the United States has not consented to be sued. Haskins Bros. & Co. v. Morgenthau, 85 Fed. (2d) 677. If this Court had jurisdiction of the action, I would have granted defendant's motion for summary judgment on the ground that it is clearly established that title to and right to the possession of the silver are in the Government of the United States and not in the plaintiff, and there is no genuine issue as to any material fact.

I am of the opinion that this Court has jurisdiction of the action against the Federal Reserve Bank and the action against the United States Lines Company. In each of these cases damages are sought, if the silver cannot be delivered by those defendants to the plaintiff. The fact that this silver is now owned and possessed by the Government of the United States does not deprive this Court of jurisdiction. The United States Lines was a common carrier for hire and cannot claim to be immune from suit, on the theory that the suit against the carrier is in effect a suit against the Government of the United States. Nor can the Federal Reserve Bank successfully advance that plea, although by statute it is required to act as the fiscal agent of the Government of

the United States, as it did in respect to the first lot of silver which arrived on the S. S. "Normandie". The Federal Reserve Bank is much more than a corporate agency, created by Act of Congress, "for governmental ends". Even corporate governmental agencies, with only a few exceptions, have no legal immunity. See, Keifer & Keifer v. Reconstruction Finance Corp. et al., 305 U. S. 588, and cases cited therein.

In the suit against United States Lines Company in respect to the second lot of silver brought here on the S. S. "President Harding", the motion for summary judgment is granted. Title to the silver had passed to the Government of the United States when the silver was put on board the ship at Havre, under the express terms of the contract with the Government of Spain. The silver was bought directly by the Government of the United States from the Government of the Spanish Republic and it was shipped from Barcelona, Spain, by the Spanish Government through the firm of Aget, designated as the Government's agent in a Ministerial Order dated June 20, 1938, to the Superintendent of the United States Assay Office at New York, where it was claimed and received by him as such Superintendent. At the time the Ministerial Order was made on June 19th, 1938, directing the Bank of Spain to make this lot of silver available to the Ministry of Finance and Economy in the form of a loan, pursuant to the decree of April 29, 1938, the silver was, as the Order states, "held

in the custody of this Ministry of Finance and Economy". The Government of Spain acquired the Bank's title to the silver at Barcelona, Spain, on June 19, 1938. The Bank of Spain had no title to the silver or right to the possession thereof when it demanded the silver from this defendant, and it has no claim for damages for the failure of defendant, United States Lines Company, to comply with its demand for delivery of the silver.

As to the first lot of silver, plaintiff argues that the contract for its purchase was with the Bank of Spain, as principal, and that it provided for the purchase of silver, property of the bank, to be paid for by payment to the bank. The argument is based mainly on the fact that the Federal Reserve Bank in its cable to the Bank of Spain stated "We, as fiscal agent of the United States will purchase from you up to approximately 5,000,000 ounces .999 fine of silver"; and "95% of cost of silver to be paid to you by us upon delivery of the silver". Plaintiff also relies on the letter of authorization to the Federal Reserve Bank from the Acting Secretary of the Treasury, dated March 29, 1938, confirming "specific authorization telephoned to you today, to agree to purchase, as fiscal agent of the United States, from the Bank of Spain, Barcelona" and stating further that "instructions regarding payment of the cost of the silver to be made by you, as fiscal agent of the United States, to the Bank of Spain,

Barcelona, will be given to you by me on or before the date of delivery of the silver to you at a designated depository pursuant to the terms of your cable."

At the beginning of the negotiations between the two governments the procedure outlined by the Secretary of the Treasury and communicated to the Spanish Ambassador at Washington on January 28, 1938, contained the two following paragraphs:-

"3. The Federal Reserve Bank of New York, acting as fiscal agent of the United States, will cable the Bank of Spain, acting as fiscal agent of the Spanish Government, a message similar in form to the one enclosed, which is for your confidential information."

5. The cable sent by the Federal Reserve Bank of New York, acting as fiscal agent of the United States, and cable acceptance of the Bank of Spain as fiscal agent of the Spanish Government received by the Federal Reserve Bank of New York will constitute a contract. No other papers relating to the contract are exchanged."

This clearly indicated that the contract was to be between the two Governments with the banks acting as their fiscal agents. In fact, the instructions of January 28, 1938, have an introductory clause:- "The steps to be taken by your Government with respect to sale of silver to the Treasury Department of the United States would be as follows."

In paragraph "7" of the outlined procedure reference was made to a form of cable that the Federal Reserve Bank would send and to the method of payment. That form of cable was a general form, to be sent to a foreign bank whose name was left blank, and while it mentioned the fact that the offer was from the Federal Reserve Bank of New York "as fiscal agent of the United States" it did not name the foreign bank as a fiscal agent of the selling government. It appears to be a form of offer used on other occasions in the purchase of silver abroad.

On this point we should not overlook the provisions of Articles Two and Three (quoted in footnote 1) of the Decree of the Spanish Government dated April 29, 1935, authorizing the Minister of Finance and Economy "to take as a loan for the necessities of the war the necessary quantities of gold and silver coins, ingots, or bars, property of the Bank of Spain" and authorizing the Minister of Finance "in accord with the President of the Council of Ministers, freely to dispose of the gold and silver proceeding from the loans to which this decree refers." Article Three of the said decree then goes on to provide:- "The Minister of Finance and Economy may determine, if circumstances warrant, that sales or hypothecations be carried out by the Bank of Spain as if they were operations by said establishment and without prejudice to the application to the operation in so far as the

Footnote # 1 Articles two and three of the decree are as followst-

ARTICLE TWO: The Minister of Finance and Economy is authorized to take as a loan for the necessities of the war the necessary quantities of gold and silver coins, ingots or bars, property of the Bank of Spain; and the latter establishment is authorized to lend them to the Ministry of Finance and Economy. The said loans will be perfected by means of an Order, which the Minister of Finance and Economy will issue in accord with the President of the Council of Ministers, without prejudice to the establishment in due time of the requisite credits in conformity with the Budgets. Said order will oblige the Bank of Spain to deliver the specie and quantities referred, and for these, will constitute a certificate of credit in favor of the Bank, representing the obligation of reimbursement by the Spanish State. When the loaned specie are those in the custody of the Bank of Spain, the original Order will be delivered to it. When the loaned specie are those in the custody of the Minister of Finance and Economy, the latter will retain in his possession the Loan Order to discharge in due course the obligation of delivering to the Bank of Spain the quantities which are deposited with him according to the terms referred to in Article one of this Decree.

ARTICLE THREE: The Minister of Finance is authorized, in accord with the President of the Council of Ministers, freely to dispose of the gold and silver proceeding from the loans to which this decree refers. The Minister of Finance and Economy may determine, if circumstances warrant, that sales or hypothecations be carried out by the Bank of Spain as if they were operations by said establishment and without prejudice to the application to the operation in so far as the relations between the Bank of Spain and the State are concerned of the laws described in the preceding article."

relations between the Bank of Spain and the State are concerned of the laws described in the preceding article."

This decree of April 29, 1938 was made after the exchange of cables between the two banks on March 30th and April 1st, 1938, but before any of the first lot of silver was shipped on the Normandie on May 25, 1938. After the adoption of said decree on April 29, 1938 the Ministry of Finance and Economy of the Government of Spain promulgated two Ministerial Orders, dated May 17th, 1938, and May 19th, 1938, which are quoted in a footnote. (2 and 3)

The silver shipped on the S. S. "Normandie" was that acquired in Barcelona, Spain, by the Government of Spain from the Bank of Spain under the Ministerial Order of May 17th, 1938. The instructions for shipment given to the Bank of Spain in the Ministerial Order of May 19th, 1938, directed the Bank to effect the transportation of the silver through the firm of Aget across French territory and its embarkation at the Port of Havre by order and for account of the Ministry of Finance and Economy". In my opinion these two Ministerial Orders, issued under said decree, show that the manner in which the transaction for the purchase and sale of this silver was concluded is the method originally outlined in the negotiations, namely as a transaction between the two governments, and that the extent of the part played by the Bank of Spain in the transaction was that of a fiscal agent of the Government of

Footnotes #s 2 and 3

Ministerial Order of May 17, 1938:-

In conformity with the provisions of Article 2 of the Decree of the 29th of April, One thousand nine hundred and thirty-eight of this Ministry, with the approval of the President of the Council of Ministers, in the name of the Government of the Republic has decided as follows: That the Banco de Espana shall make available to the Ministry of Finance and Economy, in the form of a loan on the terms and conditions laid down in the Decree of April 29th, 1938, 175,000 kilograms of 5-Peseta silver coin representing a nominal value of 35,000,000 peseta.

Ministerial Order of May 19, 1938:-

This Ministry has decided to instruct the banking Institution, in connection with the silver which was the subject of a loan authorized by Ministerial Order of the 17th of the current month to effect, by order and for account of the Ministry of Finance and Economy, the operations necessary for the transportation in transit across French territory and the embarkation at the Port of La Havre of the cases containing said metal for shipment and documentation in the name of the Federal Reserve Bank of New York, as fiscal agent of the Treasury of the United States of America. The transportation shall be entrusted to the representatives of the firm of AGET in accordance with instructions received at this Ministry from the Departments of the Under-Secretary General of Armaments, which firm will carry out, for transit purposes, all operations of transportation in France and of embarkation at the above mentioned Port, and shall deliver the documents relative to the embarkation to its Agency in Paris, which shall then carry out the necessary operations of verification and will forward the relative documents to the Consul General of Spain in New York for transmittal by him to the above mentioned banking Institution in that country.

Spain. The record before me contains a copy of the letter from the Spanish Ambassador to the "Federal Reserve Bank of New York as Fiscal Agent of the United States", dated May 27, 1938, in which he states "I am in receipt of the following cabled instructions from my Government and the Bank of Spain." The letter quotes the cable he received in which, among other things, he was instructed to advise the Federal Reserve Bank, "you can make payment for this shipment by check drawn to the order of the Spanish Ambassador in Washington."

Subsequently, and undoubtedly as a result of the demands and litigation made and instituted in the United States in respect to this first shipment of silver by persons assuming to act for the Bank of Spain, the two governments decided to deal directly with each other and eliminate the banks as fiscal agents in any future transactions for the purchase and sale of silver. This change is clearly established by the contracts for the second and third lots of silver and by the new form of ministerial orders issued in respect to the loan of said silver by the Bank of Spain to the Ministry of Finance and Economy, and its shipment. (See footnotes 4 and 5).

Assuming, arguendo, that the contract for the first lot of silver was between the Federal Reserve Bank, acting as fiscal agent of the United States and the Bank of Spain, as a principal, I do not see that the plaintiff's position is in-

Footnotes #s 4 and 5

Ministerial Order of June 19, 1938:-

In conformity with the provisions of Article 2 of the Decree of the 29th of April, One thousand nine hundred and thirty-eight this Ministry, with the approval of the President of the Council of Ministers, in the name of the Government of the Republic has decided as follows: That the Banco de Espana shall make available to the Ministry of Finance and Economy, in the form of a loan on the terms and conditions laid down in the Decree of April 29th, 1938, 175,000 kilograms in 5-Peseta silver coin representing a nominal value of 35,000,000 pesetas, held in the custody of this Ministry of Finance and Economy.

Ministerial Order of June 20, 1938:-

Please give instructions to effect the operations relative to the embarkation and transportation of the 175,000 kilograms of 5-Peseta silver coin which are the subject of the Order of this Ministry, dated today, and which the firm of AGET is shipping to the Federal Reserve Bank of New York as fiscal agent of the Treasury of the United States of North America.

proved. Plaintiff's suit against the Federal Reserve Bank is in replevin and is based on the claim that the title to and right to possession of the first lot of silver was in the plaintiff at all times, and that the Federal Reserve Bank "wrongfully received the chattels above described in violation of plaintiff's rights as owner thereof." Plaintiff's complaint in said action is inconsistent with its counsel's argument that the cables indicate that plaintiff entered into a contract as principal for the sale of the first lot of silver to the Federal Reserve Bank, as fiscal agent of the United States.

Although the Bank of Spain was privately owned by its stockholders, it performed certain governmental functions. It alone issued the paper currency used in Spain. It was created under a special statute and its rights, privileges and management were the subject of legislation. The management of the Bank was in charge of a Governor, two or three Sub-Governors and twenty-one Consejeros, who formed the Council of the Establishment; the Governor and sub-governors constituted the executive management of the Bank. Its Governor was appointed by the Spanish Government and so were the sub-governors. The Governor had the dual character of representative of the State and Chief Executive Officer of the Bank. He could delegate some of his powers under certain conditions to the Sub-Governors. He presided over the Council of the Bank.

Plaintiff argues that it was contrary to the Laws of Spain, as they existed in 1936 when the Franco revolt started, and contrary to the By-Laws (Statutes) of the Bank, to dispose of any monetary metal required as a reserve against the paper currency issued by the Bank and that therefore both the Spanish Government and the Bank were without power to do so.

To the affidavit of the former Spanish Ambassador, Fernando de los Rios, which he made October 17th, 1938 while he was the duly recognized Ambassador of the Republic of Spain to the United States, there are annexed properly authenticated copies of the following:-

1. Law of the Spanish Republic of October 14, 1937, authorizing legislation by decree under the circumstances and for the purposes therein specified, as published in the "Gaceta De La Republica", of October 15, 1937, the "Diario Oficial" of the Republic of Spain for the publication of laws and decrees.
2. Decree of April 29, 1938 authorizing the Spanish Government to borrow silver from the Bank of Spain and directing the Bank of Spain to loan silver to the Spanish Government upon order of the Minister of Finance and Economy, with the approval of the President of the Council of Ministers, providing for the terms and methods of payment for such loans of silver; and authorizing the Minister of Finance and Economy to dispose of the silver for the Government.
3. Certificate of the Secretary General of the Bank of Spain, upon the order and approval of the Governor of said Bank, that a copy of the foregoing decree of April 29, 1938 was transmitted to the Governor of said Bank on April 30, 1938.

4. Six Ministerial Orders, relating to these three lots of silver, dated May 17th, May 19th, June 19th, June 20th, and July 8th, 1938 (2).

Under the above statute and decree defendants contend that any former requirements as to a monetary metal reserve were legally changed and the Bank of Spain was obliged to loan to the Spanish Government the silver later sold by that Government to the Government of the United States.

The law of the Spanish Cortes, dated October 14, 1937 was published in the Official Gazette of the Spanish Republican Government. The existence of that law is not challenged by plaintiff. It authorized government by decree for certain purposes, although plaintiff contends it did not authorize government by decree in respect to the metal resources of the Bank of Spain, or government by secret decree. The decree of April 29, 1938 states that it is issued pursuant to that law. In fact the decree quotes as authority for its issuance part of the law of October 14, 1937. (See footnote ⁶). It further appears on the face of the decree of April 29, 1938, that the loan of the gold and silver, which the Bank of Spain was directed to make to the Ministry of Finance, was "for the necessities of the War". The opening paragraph so states and gives the reasons therefor. (See footnote ⁷).

Footnote # 6

Part of law of October 14, 1937, quoted in decree of April 29, 1938:-

Determination of the maximum limit of circulation, establishing a coverage, in metals, securities, effects, or credits to guarantee all kinds of notes or paper money; fixing of the limits and conditions of credits which may be opened with the State by public credit entities; and liquidation of juridical question and accounts created by the needs of the Minister of Finance and Economy.

Footnote # 7

Part of opening paragraph of decree of April 29, 1938:-

The circumstances of the war which the legitimate Government of the Republic maintains in defense of the independence of Spain demand that the economic resources of the country contribute to the military effort of the Spaniards. It is not to be doubted that among these resources, and as National Treasure, are the gold and silver reserves accumulated by the Bank of Spain by virtue of its privilege of issuing notes, and, therefore, it is necessary to authorize the disposal of said reserves without prejudice to the obligation of reimbursement, in the same proportion as they may be used, which the State assumes with that establishment.

The decree of April 29, 1938, provided that on the compliance by the Bank with the terms of an Order of the Ministry of Finance made pursuant to the decree, the Order itself would constitute a "certificate of credit in favor of the Bank, representing the obligation of reimbursement by the Spanish State". There is nothing extraordinary about this arrangement, when we consider the course followed by other foreign countries in debasing their currencies.

Plaintiff argues at length that the loan of the silver by the Bank to the Minister of Finance did not pass title to the silver and therefor that the Spanish Government could not in turn give good title to others. Further, that any expropriation of the silver by the Government of Spain took place outside the territory of Spain either in France, on the last two shipments, or in the United States, on the first shipment. A consideration of the provisions of the decree and the Ministerial Orders issued thereunder leads to the conclusion that plaintiff's contention is unsound and incompatible with the facts.

What was loaned by the Bank of Spain to the Spanish Government was Spanish coin. This was not like the loan of a specified chattel, to be returned by the borrower. Considering only that part of the decree (Article Two) it must be evident that the Government was not required to pay back

the identical coin it borrowed. The same would be true if the loan were gold or silver bullion. The loan passed title to the silver, from the Bank of Spain to the Spanish Republican Government, at Barcelona, Spain. The decree went beyond a bare provision for the loan. It specifically gave to the Minister of Finance and the President of the Council of Ministers the right "freely to dispose of the gold and silver proceeding from the loans to which the decree refers". From the decree and the Ministerial Orders issued in respect to the last two lots of silver, it readily appears that title to that silver and possession thereof were acquired by the Spanish Government in Barcelona. The Bank of Spain was not even a fiscal agent in respect to the said last two silver transactions. As to the first lot of silver, the same conclusion is no less clear when the two Ministerial Orders of May 17th and May 19th are read in connection with the decree. The Bank of Spain by the Ministerial Order of May 17th, 1938 is directed to "make available to the Ministry of Finance and Economy," in the form of loans on the terms and conditions laid down in the Decree" the designated quantities of 5-Peseta silver coin.. Under the Ministerial Order of May 19, 1938, the Bank was instructed to effect the transportation of the silver through the firm of Aget, the Government's agent, "by order and for account of the Ministry of Finance and Economy".

To all three transactions the provisions of Article Two of the decree applied, that the Ministerial Order "will oblige the Bank of Spain to deliver the specie and quantities referred, and for these will constitute a certificate of credit in favor of the Bank, representing the obligation of reimbursement by the Spanish State".

In my opinion the documentary record shows that there is no genuine issue as to when or where the Government of Spain acquired title to the silver. It was in Barcelona, Spain, before the silver was shipped out of Spain.

Plaintiff has attempted to raise an issue as to the genuineness of the aforementioned Decree of April 29, 1938, and the six Ministerial Orders dated May 17th, May 18th, June 19th, June 20th and July 8th, 1938, issued pursuant to the decree. Plaintiff has obtained a certificate (dated May 22nd, 1939) from Asdrubal Ferreiro Cid, Chief of Administration of the Third Class of the Expert Accounting Division of the State, Senior Official of the Ministry of Finance, the present official charged with the custody of the Archives of the Ministry of Finance. This certificate is necessarily limited. He states:- "I have under my custody the official archives of this Ministry, in which, after minute investigations made in all the offices where the services of Finance and Economy of the Republican Government were successively installed, there has not been found any original document.

entry or record of the purported measures of said Ministry which are detailed as follows." Then follows a list of the decree of April 29th, 1938 and the six ministerial orders, of which duly authenticated copies have been submitted by defendants, annexed to the affidavit of Don Fernando de los Rios, sworn to October 17, 1938. The May 22nd, 1939 certificate is of course by an official of the present Government of Spain, the successful Franco forces of the late civil war in Spain. The certificate does not state, and of course could not state, that this official has in his custody all the official archives of the Ministry of Finance and Economy of the former Republican Government. Nor does the certificate state whether or not any copies of the documents were found - it is limited to original documents, entries or records. If the certificate related to documents, entries or records of the Franco Government it would have some probative value, but it purports to relate to archives of the former Republican Government of Spain. It is not the certificate of an official who succeeded to the office of custodian of records without any interruption and in the usual orderly way in which one official follows another in that capacity in an established government. Whatever records of the former Spanish Republican Government came into this custodian's possession did so as the result of the conquest by the Franco forces of the territory formerly occupied by the Spanish Republican Government. When we

consider that the former Government of Spain (the Loyalist) was defeated, that it abandoned Barcelona and other places to which it successively retreated, until its officials and a large part of its army crossed into France, and that the former Spanish Government soon thereafter ceased to exist, of which we can take judicial notice, it may very well be that when the new Government of Spain took possession of Barcelona and other territory formerly held by the Loyalist forces, it did not find these documents "after minute investigations made in all the offices where the services of Finance and Economy of the Republican Government were successively installed."

Even the limited probative value of the certificate of the present custodian of the archives of the Ministry of Finance, made May 22nd, 1939, is further weakened, if not completely destroyed, by the duly authenticated copies of these same documents, all certified to in August 1938 and annexed to the affidavit of the Spanish Ambassador, sworn to on October 17, 1938. Further, defendants have submitted the certificate of S. Regueria, Secretary General of the Bank of Spain, made in August 1938, countersigned by Luis Nicolau D'Olwer, the Governor of the Bank, sealed with the seals of the Bank and the Minister of State. It reads:-

"CERTIFIES: That in the confidential archives of this Banco de Espana there is retained a confidential certification for-

warded by The Honorable the Under-Secretary of the Treasury in Barcelona on the 30th of April, 1938 covering transmittal to the Governor of the Banco de Espana of the text of a decree of the Minister of Finance, also confidential, promulgated on the 29th of the above mentioned month and year."

That certificate is duly authenticated by Don Adolfo Sisto Hontan, Under-Secretary of the Ministry of Finance.

Plaintiff's counsel intimates that the decree of April 29, 1938 and the ministerial orders issued thereunder may have been an after-thought, that they were not made on the dates they bear but were manufactured after this litigation was instituted for the purpose of satisfying the Government of the United States that the acts of the Spanish Republican Government with respect to the sale of the silver were taken pursuant to said Decree and Ministerial Orders. That argument is based on suspicion only. It is obviously weak because the Law of the Cortes of October 14, 1937, published in the Official Gazette on October 15th, 1937, gave the officials of the Government of Spain the right to govern by decree in relation to many matters, including its currency and credits, the subject matter of the decree of April 29, 1938. If the power to make the decree existed, what would be the necessity for not exercising that power, especially by a secret decree. The decree itself provided that it was

to be secret, "its publication in the Gaceta de la Republica being withheld until the Government considers it opportune". Secrecy was neither unreasonable or suspicious under the circumstances then existing. Government by decree, secret decrees, was not limited to Spain, either then or now.

An examination of the decree of April 29, 1938, discloses many provisions which would not have been necessary, if its only purpose was to meet the issue of title to the silver raised by plaintiff's suits. Articles Two and Three of the decree, hereinbefore quoted in a footnote, would have sufficed for that purpose. The whole decree, by its references to other statutes and decrees and by its numerous other provisions, appears to be a carefully drawn document, intended to meet all the conditions arising from the loan of gold and silver by the Bank of Spain to the Government of Spain. If this decree were a document manufactured for the purposes of these suits, which relate solely to silver, how is it that the decree provides for borrowings of gold as well as silver, from the Bank of Spain by the Republican Government of Spain?

It cannot reasonably be argued that these documents, the decree and the Ministerial Orders, did not physically exist in August 1938, because certified copies were prepared at that time and part of their authentication passed through the hands of the diplomatic representative of the United States at Barcelona, Spain. And if they did so exist in

August 1938, of what probative value is the certificate of the present custodian of the records of the Ministry of Finance under the present Government of Spain, that he could not find the originals in May 1939? It is not sufficient to raise any genuine issue of fact.

The motions of the respective defendants are supported by the affidavit of Henry Morgenthau, Jr., the United States Secretary of the Treasury, and the affidavit of Don Fernando de los Rios, sworn to October 17, 1938, while he was the Spanish Ambassador to the United States. It was he who in the Spring and Summer of that year conducted the above described negotiations with the Secretary of the Treasury for the sale of the silver by his Government to the Government of the United States. Their affidavits are specific and direct. They recite the details of these transactions and annex documents to support their averments. The facts set forth in the affidavit of Mr. Morgenthau are not put in issue by any opposing affidavits. As to the affidavit of the Spanish Ambassador plaintiff suggests that perhaps he was not properly informed of what was really happening at Barcelona, Spain, in other words that his Government was deceiving him as to the true facts.

Formal objection is made by plaintiff to the receipt and consideration by this Court of the aforementioned affidavit of the Spanish Ambassador on two grounds, (1) that it

does not appear that his government authorized him to make the affidavit and waive his immunity in respect to testifying, and (2) that the documents annexed to the Ambassador's affidavit are not properly authenticated. Taking up the last point first:- All of these documents were certified early in August 1938 by Don Adolfo Sisto Hontan, the Under-Secretary of the Ministry of Finance. Don Hontan's signature as the Under-Secretary of the Ministry of Finance is certified to by Emilio Pavon, the Chief of Legalizations of the Ministry of State of the Spanish Republic. Mr. Pavon's signature and office were in turn certified to in August 1938 by Mr. Lee Worley, the Vice-Consul of the United States of America at Barcelona, Spain. On the argument of these motions there was filed with the Court a further certificate by Mr. Worley as said Vice-Consul, dated October 21, 1938, in which he states that these documents were duly certified to by Don Hontan "who on the respective dates on which said certificates were executed by him, was the Under-Secretary of the Ministry of Finance and was, as such, authorized by the Minister of Finance to sign each of the documents certified to by him; such Ministry of Finance being the lawful custodian of the original of each document." If there were any technical defect in the prior certification by the Vice-Consul in respect to custody of the documents, it was cured by this later certificate (Title 28 U.S. C. A. §695e; Rule 44 (c) Federal Rules of Civil Procedure), although even this certificate fails to satisfy plaintiff because the "Ministry"

instead of the "Minister" is certified as the custodian. That is not important. New Mexico v. Texas, 275 U. S. 279.

As to the other point, that it does not appear that his government authorized the Spanish Ambassador to waive his immunity and make the affidavit, I think that all of the surrounding circumstances indicate that he made the affidavit with the full knowledge and approval of his government. He annexes to it duly certified copies of documents from the files of the Spanish Ministry of Finance, which were sent to him by his Government. Why should these documents be so carefully certified if they were not to be used in a legal proceeding? He was not compelled to make the affidavit. He had conducted the negotiations for the sale of the silver by his own government to the Government of the United States. He was the logical man to make the affidavit stating what his Government did, just as Mr. Morgenthau, Secretary of the Treasury, made an affidavit of what the Government of the United States did in these matters. The immunity from testifying is something to be claimed by an Ambassador. If he testifies voluntarily, without the authorization of his Government, that is a matter between him and his Government. "It deprives him neither of his competency, nor of his credibility". United States v. Ortega (4 Wash. C. C. 531) 27 Fed. Cas. 359, 361 (Case No. 15,971). A third party has no right to assert it for his own benefit.

Affidavits of certain experts on Spanish law have been submitted by plaintiff in an endeavor to show that it was not within the power of the Spanish Government to make the decree of April 29, 1938, or to sell the silver it acquired from the Bank of Spain, because of provisions of the Spanish Constitution and certain statutes of the Spanish Cortes. Likewise, plaintiff attacks as unconstitutional the decrees of the Spanish Government, reconstituting the membership of the Board of Directors of the Bank of Spain by removing or declaring ineligible certain members of the Board and naming others in their place. Because what the law of Spain is or was presents a question of fact, plaintiff contends that a material issue of fact is created by the opinions of these experts on Spanish Law, which prevents a determination of this litigation on a motion for summary judgment. The depositions of these experts would be considered if the acts challenged as illegal were not the acts of a foreign sovereign, in respect to property within its territorial borders, acting under some colorable legal sanction. But from all the documentary records in this case it was the sovereign Government of Spain that by its acts was dealing with silver located in Barcelona, Spain, assuming to act under a governmental decree which states that it was issued pursuant to a specified existing statute. This Court cannot go in back of the decree, valid on its face, or the ministerial orders giving effect to the decree, to consider

whether or not they were constitutional in Spain, or consistent with the provisions of any statute of the Spanish Cortes.

"The Courts of one independent government will not sit in judgment on the validity of the acts of another, done within its own territory. * * * When it is made to appear that the foreign government acted in a given way on the subject matter of the litigation, the details of such action or the merit of the result cannot be questioned, but must be accepted by our courts as a rule for their decision." Ricaud v. American Metal Co., 246 U. S. 304, citing cases.

Here the plaintiff was a corporate national of the Spanish Government at the time of the alleged expropriation of the silver located in Barcelona, Spain. Plaintiff should seek relief in the courts of its own country against those who are alleged to have illegally taken the silver. United States v. Belmont, 301 U. S. 324, 332.

Plaintiff's counsel further argues that there is an issue of fact as to whether the officials who acted for the Government of Spain in these transactions were acting for their government or for themselves individually or for some labor organizations. Plaintiff suspects that by these silver transactions the Spanish officials looted the Bank of Spain for themselves or for certain non-governmental organizations. However, we can take judicial notice of the fact that Negrin, who gave the instructions to the Spanish Ambassador, was the

Premier and Minister of Finance of the Republic of Spain. The record shows that the negotiations for the purchase and sale of the silver were carried on with the Secretary of the Treasury of the United States by the duly accredited Spanish Ambassador at Washington. The suspicion of private looting, advanced by plaintiff's counsel, is based on (1) certain initials of Spanish labor organizations appearing on the boxes in which the silver was shipped, and (2) on the fact that the Spanish Ambassador cashed at the Treasury Department the checks given in payment for the silver. Plaintiff's counsel does not directly question the good faith or honesty of the Secretary of the Treasury and his assistants, and so states. The initials on the boxes of silver could properly be accounted for without suspecting that they indicate that the silver was stolen from the Bank of Spain and turned over to those organizations. Likewise the fact that the Spanish Ambassador had the checks cashed at the Treasury Department does not justify the suspicion that he was taking the money for the personal purposes of officials of the Spanish Government or of certain Spanish organizations, or warrant the inference that the Secretary of the Treasury and his assistants connived at it. Indeed the notices and demands and litigation in this country, emanating from certain persons who claimed to be acting for the Bank of Spain, would be a good reason for not depositing the checks in any account which would expose the fund to further litigation.

But why all these suspicions as to the personal motives and purposes of the officials of the Spanish Republican Government? Suspicions are not sufficient to raise a genuine issue of fact. Suspicions might be directed to the other side of this litigation also, as to the real source of the notices, demands and litigations herein, while a civil war was being fought in Spain. The neutralization of these funds through litigation had certain military advantages. This Court will not base its decision of these motions on suspicions, but on facts. Rule 56 (c) of the Federal Rules of Civil Procedure requires the existence of a genuine issue as to a material fact, on which to base a denial of a defendant's motion for summary judgment. The same is true under Rule 113 of the New York Rules of Civil Practice. Curry v. Mackenzie, 239 N. Y. 267. In my opinion the suspicions advanced by plaintiff's counsel serve to create only a feigned issue.

It is claimed that another issue of fact is presented, by affidavits submitted on behalf of plaintiff, as to the consent of the Bank of Spain to the silver transaction with the Spanish Government, whether the consent was given by duly constituted officers and directors and whether it was voluntary. The decree and the ministerial orders were mandatory. The Bank apparently complied. Whether it did so voluntarily or under legal compulsion is not material

to the determination of these motions. In this connection the affidavit of Aurelio Valls, sworn to March 24, 1939, asserts that the "head office of the Bank of Spain is now and has been for some time located at Burgos, Spain." He also states that "the moving papers (defendant's) indicate that the silver was shipped to the United States from the Branch of the Bank of Spain at Barcelona". But his affidavit states in another paragraph that "the Bank of Spain has its head office under normal conditions at Madrid". The records would indicate that the head office of the bank followed the Spanish Loyalist Government when it moved from Madrid to Barcelona. But all of that is beside the point. Those who were in charge of the Bank of Spain at Barcelona, whether elected by the stockholders or appointed by the Government, whether the head office was in Barcelona or elsewhere, complied with the decree of the Spanish Republican Government and with the Ministerial Orders issued thereunder in respect to this silver located in Barcelona. It may be that government by decree does not leave much choice to those affected by the decrees. But it has become quite common in some foreign countries.

In the three cases now before the Court, the present Charge d'Affairs of Spain in the United States has filed a "suggestion" dated May 25, 1939 in which he states that it is the desire of the present government of Spain "in so far as it is concerned and in so far as relate to the issues in the

above-entitled cause, that this important matter should be determined after trial on the merits", at which the full facts will be before the court. In the formal suggestion thus filed reference is made to the aforementioned affidavit of Fernando de los Rios, sworn to October 17, 1938, and the statement is made that the Charge is informed that this Court "as an act of international comity toward my government may feel that it should not inquire into the facts and law, but should give conclusive effect in the above entitled cases to the statement of Mr. de los Rios". The "suggestion" then raises a question as to the reliability of the sources of information available to the former Spanish Ambassador, Mr. de los Rios, and states "My government does not know whether the paper record, as presented by Mr. de los Rios is complete or authentic, or whether the facts with reference to the taking of the silver conform to this paper record."

It was stated in Oetjen v. Central Leather Co.,
246 U. S. 297:-

"The principle that the conduct of one independent government cannot be successfully questioned in the courts of another is as applicable to a case involving the title to property brought within the custody of a court, such as we have here, as it was held to be to the cases cited, in which claims for damages were based upon acts done in a foreign country, for it rests at last upon the highest considerations of international comity and expediency. To permit the validity of the

acts of one sovereign state to be reexamined and perhaps condemned by the courts of another would very certainly 'imperil the amicable relations between governments and vex the peace of nations.'

I am of the opinion that this principle applies in this case even though the successor government of that foreign country has filed with this Court a suggestion that it has no objection to the trial here of issues involving the acts of the government it succeeded. The transactions were between two sovereign governments, one of which bought from the other great quantities of silver, and paid 95% of the purchase price and the title of the purchaser is now attacked in this litigation. International comity and expediency are not unilateral.

The Secretary of the Treasury was authorized by Act of Congress, the Silver Purchase Act of 1934 (48 Stat. 1176, c. 674; 31 U.S.C.A. §448 et seq.) to purchase silver here or abroad (31 U.S.C.A. §734a) for the purpose of maintaining a ratio of 5 to 1 in the monetary stocks of gold and silver held by the United States (31 U.S.C.A. §311a). He paid for the silver with funds made available for that purpose by Congress. The silver thus purchased became part of the reserve against which silver certificates are issued by the United States Treasury (31 U.S.C.A. §405a).

In Underhill v. Hernandez, 65 Fed. 577, the Circuit

Court of Appeals of this Circuit, in an opinion, written by Judge Wallace stated:-

"Considerations of comity, and of the highest expediency, require that the conduct of states, whether in transactions with other states or with individuals, their own citizens or foreign citizens, should not be called in question by the legal tribunals of another jurisdiction. The citizens of a state have an adequate redress for any grievances at its hands by an appeal to the courts or the other departments of their own government."

This case was later affirmed by the United States Supreme Court, 168 U.S. 250.

In American Banana Co. v. United Fruit Co., 213 U.S. 347, Mr. Justice Holmes based the principle on something more than considerations of comity or of the highest expediency. He wrote:-

"The fundamental reason is that it is a contradiction in terms to say that, within its jurisdiction it is unlawful to persuade a sovereign power to bring about a result that it declares by its conduct to be desirable and proper. It does not, and foreign courts cannot, admit that the influences were improper or the results bad. It ~~makes~~ the persuasion lawful by its own act. The very meaning of sovereignty is that the decree of the sovereign makes law."

There is another principle involved which also makes it impossible to consider favorably the "suggestion" filed herein by the Charge de Affairs at Washington of the present Spanish Government. That principle was recently stated by Mr. Justice Stone in Guaranty Trust Co. v. United States, 304 U.S. 126, at page 140 as follows:-

"The very purpose of the recognition by our Government is that our nationals may be conclusively advised with what government they may safely carry on business transactions and who its representatives are. If those transactions, valid when entered into, were to be disregarded after the later recognition of a successor government, recognition would be but an idle ceremony, yielding none of the advantages of established diplomatic relations in enabling business transactions to proceed, and affording no protection to our own nationals in carrying them on."

The principle applies a fortiori to transactions between two governments, one of which is later overthrown and a successor government recognized.

It appears to me that these cases should be disposed of on these motions and not at a trial. No genuine issues of any material facts are presented. The entire transaction is before the Court, evidenced mainly by duly authenticated or undisputed documents. The Rule for summary judgment was intended for just such a situation. Defendants' motions for summary judgment are accordingly granted in the suits against

the Federal Reserve Bank and the United States Lines Company. Summary judgment would also have been granted, if I were of the opinion that the Court had jurisdiction, in the suit against Sigmund Solomon, individually and as Superintendent of the United States Assay Office at New York. As to the Solomon suit I hold that this Court has not jurisdiction, because it is in effect a suit against the United States which has not consented to be sued. The various motions of the defendants and of the United States are disposed of as indicated in the opening paragraphs of this opinion. Submit orders on two days' notice.

Dated, July 14th, 1939.

VINCENT L. LEIBELL
United States District Judge

GROUP MEETING

July 14, 1939.
3:45 P. M.

Present: Mr. Gaston
Mr. Foley
Mr. McReynolds
Mr. Duffield
Mr. Bell
Mr. White
Mr. Haas
Mr. Lochhead

H.M.Jr: The most important thing that I've got is this. Edison is complaining that he can't get enough tonnage of armored plate to complete his steel, see? And we've given him some kind of a ruling, see? They want to put in the armored plate and then have a chance to write it off, so forth and so on.

Who is your man on Procurement?

Foley: Manning.

H.M.Jr: Manning. You see, I want....

(On phone) Captain Collins, please.

McR: He's out.

H.M.Jr: Who?

McR: Captain Collins is out of the office.

H.M.Jr: (On phone) Hello. - They say Collins is in McReynolds' office.

McR: He's not in my office. He's on the way up to Mount.

H.M.Jr: Where?

McR: Mount.

H.M.Jr: What Mount?

McR: Hundred miles out in Maryland.

H.M.Jr: Well, somebody's got to take care of this.

- 2 -

McR: Maul, his assistant.

H.M.Jr: Who?

McR: Captain Maul.

H.M.Jr: Well, I'll give it to you.

McR: O. K.

H.M.Jr: Edison wants to see somebody from the Treasury this afternoon. He's got to get his armored plate, and the Treasury won't give him a definite ruling that if they - it's a question of six million dollars, and if they spend it for this stuff, whether at the end of the period they can write it off. The President says he doesn't want to do that. He makes a counter proposal that possibly the RFC might finance six million dollars, letting these people make proportionate write-offs. Now, they say maybe they'll use it for four years, maybe they'll use it for six years. If at the end of the period, there is still 40 percent of good in it, we'll say, the Government would own it, see? But he just doesn't want to say on a four-year basis, "You can pay six million dollars and charge off the whole amount to the Government at the end of four years."

(On phone) Hello. - I know. McReynolds is going to do it.

But there are two men we need, and somebody has got to go over and see Edison. He considers it a matter of tremendous importance. He discussed it at Cabinet.

Does it make any sense to you (McReynolds), what I'm talking about?

McR: I suppose it's an advancement for setting up of additional factory equipment.

H.M.Jr: Right. And they want to be able to write it off. The thing to do is to send Tom Manning over and somebody else and see Edison, get the story, and report back.

McR: Yes, sir.

- 3 -

H.M.Jr: The President doesn't want - he decided in some case in the Navy Yard to let them write off - spoke of some case where they got a hundred percent back. Edison spoke up - a case involving two million dollars.

McR: I know that case. Been trying to compromise it for two years.

H.M.Jr: I don't know whether this is RFC or what. Edison wanted to introduce a bill where the Congress would say to these companies, "Whenever you are through with the plant, the plant belongs to the Government." I'm not familiar with it, but Edison is familiar with it.

Well, Mac, between you and Ed Foley, will you take this off my shoulders?

McR: Yes, sir, we'll do it.

H.M.Jr: And as soon as we break up....

You don't get in on this, Dan, do you?

Bell: No, I have nothing to do with it.

McR: I don't have any idea of how Supply or Procurement would get in on it either.

H.M.Jr: I'll tell you how. We have to certify as to the 10 percent on the cost.

McR: Oh, that's right.

Bell: That's Internal Revenue, isn't it?

H.M.Jr: No, no, Procurement.

McR: Internal Revenue is the place for that.

H.M.Jr: Well, he kept saying Procurement.

McR: I know, but Internal Revenue is the place where that's done. Procurement had a member on that Board. Internal Revenue is the one that runs that check on the 10 percent - 10 percent cost.

- 4 -

H.M.Jr: It's on the 10 percent, that's what it is.

Bell: That's airplanes.

H.M.Jr: Excuse me,

Bell: Airplanes, too.

Duffield: All naval construction. They took airplanes out of it.

Foley: It's naval construction. I suppose they can't produce this kind of steel without making substantial plant alterations and without putting in new machinery, and they don't want to do it unless the Government is willing to participate in the cost of that installation.

H.M.Jr: They want to charge up the whole cost of the six million dollars to the 10 percent. Now, the President said, "No, but let them charge a fair proportion per year." So I....

Foley: I don't think it's Tom Manning, but I'll have a good man go over.

H.M.Jr: I'd have a very good man go over. Would that be Harold Graves?

McR: The Accounting group - this Cooperative group; it's Internal Revenue people. They have charge of it.

H.M.Jr: Is it you (Bell)?

Bell: No, there are two men in Internal Revenue who handle it all the time. Doctor Vining, who was in the Navy, is now in the Budget. Doctor Vining is the accountant who handled it with Internal Revenue for years.

H.M.Jr: Will you (McR) take care of it?

McR: Yes, sir.

H.M.Jr: Edison is all worked up. The President didn't like his suggestion, wanted to bid for it, charge up the six million for battleships which he's going to specify....

- 5 -

But he's stuck and he says even with the six million dollars expenditures they'll run ten months behind on the schedule; so let's give him our help.

McR: I don't see what objection there could be - of course, it's a question of Internal Revenue's interpretation of what is a proper charge-off on the cost. That committee is the one that would have to pass on it.

H.M.Jr: I don't think the suggestion of the President, letting RFC finance it, is so hot.

Foley: Was it the President's suggestion that you have legislation?

H.M.Jr: No, that's what he didn't like. Edison - I told Edison, "The trouble with that - suppose Congress votes against it. Then we have an intent of Congress facing us. We're trying to help you." I want to help him.

McR: I don't think there's any question but what we can work it out satisfactorily.

H.M.Jr: Who's got something important they want to shoot at me?

White: Nothing that you may not already know about the hearings this morning.

H.M.Jr: He (Foley) gave me a written memorandum, which I just sent to the President. And I don't have to come until Tuesday. I said that Wagner wanted his Monday off.

White: Did Kades get the impression - seems the total impression that my man got was that Jones was - favored the Bill, but certainly was not enthusiastic about it.

H.M.Jr: Oh no, he (Foley) went much further than that.

Foley: Chuck Kades told me that every member of the Committee and every newspaper man in the room knew that Jones was opposed to the legislation; that he did the same kind of job on this Bill as he did on the Mead Bill.

- 6 -

H.M.Jr: Oh, not quite.

Foley: Will said - Will is the clerk of the Committee, and Will said that every man on the Committee knows when Jones is in favor of anything and every man on the Committee knows when Jones is against something, by his attitude; he's down there all the time, it's Jones's Committee. And Will told Kades that everybody there knew that he was opposed to this legislation.

"He can do a beautiful job when he's in favor," Will said. "Did you ever see him when he was in favor of something?"

Kades said, "No."

"You ought to see him when he wants something."

And the New York Times man said to Kades, "Somebody's got to come down and bail this out, or it will never pass."

White: He stressed two things. One was that he emphasized the fact that if it were properly administered, certain of these features were good. He stressed the fact that if it were properly administered.

Foley: That's right. And he didn't understand the interest formula.

White: Didn't understand it. Read it fifteen times and didn't understand it.

Foley: He told Barkley they were shooting at a squirrel's eye. Barkley explained it to him.

White: And he said he still didn't understand it. It got a laugh. "Of course, if this big financier doesn't understand interest rates, you can imagine how cockeyed it is."

H.M.Jr: Who's going to be here tomorrow?

White: I probably will be.

H.M.Jr: Not you. That's all right. No, I don't - you fellows working on this Bill ought to stay away.

- 7 -

- Duffield: Ought to stay away?
- H.M.Jr: You and Foley. I mean White and Foley particularly ought to stay away Saturday.
- White: Don't ask why.
- Duffield: I think he's lining up with Jesse Jones.
- White: He did make one statement that might please you - it wasn't passed on - about the interest rates. He finally said, well, he would be satisfied if they had some flexibility and if they left it with the Secretary of the Treasury's approval - the rate with the Secretary of the Treasury's approval.
- H.M.Jr: Well, I can't help it. I phoned the President, dictated a memorandum yesterday to have him speak to Jones before he went up, and I'll bet anybody a hundred dollars to a dollar he never did it. We're carrying this.
- Gaston: He didn't say anything in support of the program.
- Foley: He did not, and he created the general impression that he was critical of the whole thing, and most of the powers he already had; he didn't need all the money, and he could do most of these things without additional power.
- Taft said, "Isn't it true, Mr. Jones, that you can do substantially everything that is proposed to do here for the railroads?" and he said, "That's right, I can."
- White: With the exception of - no, there were two exceptions. I think he was very careful of what he said, however. I gather from our man....
- Foley: That's what Kades said, that the record would look all right.
- White: It wouldn't look as if he opposed the Bill after it was in writing.
- Foley: It was the way he said it.

- 8 -

Gaston: He reluctantly assented to everything.

White: That was the impression.

July 14, 1939
9:42 a.m.

HMJr: Hello.

Operator: Go ahead.

Robert
Wagner: Hello.

HMJr: Hello. Hello, Bob.

W: Hello, Henry.

HMJr: Yes.

W: Say, about testifying, do you think you ought to come up?

HMJr: Well, you mean at all?

W: Yeah.

HMJr: I'm ready to.

W: Well, I think you ought to myself, but I didn't want to.

HMJr: Well, my statement is all written.

W: Oh. Well, that's fine. Well listen, how would -- about next Tues -- you know, I want to be able to announce it, that's all.

HMJr: Yes.

W: How would next Tuesday morning do?

HMJr: Tuesday or Monday -- whatever you say.

W: Well, I want to -- you know, I don't want to appear to rush this thing too much because some of the members are already saying, "Now listen, we've got to -- we're going to think this over a little bit." You know.

HMJr: Well, I'd be ready Monday.

W: Yeah.

HMJr: Well, do you want.....

W: Either Monday or Tuesday is all right for you, is it?

HMJr: Either Monday or Tuesday.

W: Fine! Well, I'll see how it goes today.

HMJr: Well, would you let.....

W: Oh, I'll let you know.

HMJr: So that I -- if I have to do Monday, then I'd have to come back Sunday night.

W: Yeah. Well, it'll be more likely Tuesday. I'll tell you why. A number of the Senators.....

HMJr: Yeah.

W:they like Monday morning for themselves, you know. It's after the weekend.

HMJr: I see.

W: And I want to have a good attendance and all that.

HMJr: I see.

W: It's all right then.....

HMJr: Well, I've got the statement; it's all written.

W: Yeah. All right.

HMJr: And -- and I think -- I think it's a good one.

W: Yeah. Good.

HMJr: And I think it would help.

W: Yeah. Well, I think so too. The only thing is, I didn't want to do -- suggest something that you didn't feel you ought to do.

HMJr: No, no, I -- I'd like to do this, Bob.

W: Well, that's swell. Fine, Henry.

HMJr: May I ask you, how do you think it's going?

W: Well, it's going very nicely. I think the road thing is going to have trouble - the toll road.

HMJr: You do?

W: Yes, I do. But where did we -- you know, you've got to wait until you get through. The.....

HMJr: Well, this.....

W: Say -- Carter -- it was so funny, Carter Glass, you know, gets -- gets well every time he wants to oppose something, you know.

HMJr: What's that?

W: I say, Carter -- Carter gets well whenever he wants to oppose something.

HMJr: I see. Well.....

W: He was around there now, but on Monday I couldn't get him.

HMJr: Senator Bailey told Jim Farley that he's for this program and it's going to go through.

W: Yeah.

HMJr: I thought you -- maybe you know that.

W: I don't know that, no.

HMJr: Well, Jim told.....

W: He's only one, you know.

HMJr: Well, I thought he might represent a group.

W: Yes, that's right. That's right, and it's -- it's developing nicely. Carmody did very well yesterday.

HMJr: I hear he went after Taft.

W: Yes, not even take any bluffs, you know. (Laughs.) It was funny.

HMJr: It was funny?

W: Yeah.

HMJr: No, I'm ready, and I'd like to come.

- 4 -

W: Swell, Henry. Well, I'll let you know then.

HMJr: All right.

W: Good bye.

July 14, 1939
10:22 a.m.

250

Operator: Go ahead.

HMJr: Hello.

Robert
Doughton: Mr. Secretary?

HMJr: Yes, Bob.

D: Bob Doughton. Well, you think I call you a lot and worry you a lot.

HMJr: No, that's all right.

D: Well, what I called you about is this -- I'm worried myself just a little bit, about this item I saw in last evening's paper about Hanes going to quit in October.

HMJr: Where did you see that?

D: Why, it's in the Post this morning, an article by Clara -- by Dixon saying that he -- and that you had expressed the regret of him leaving and it -- it was thought that he is leaving because we hadn't gone on with this tax-exempt -- with legislation with respect to these tax-exempt securities.

HMJr: No.

D: In the Post this morning.

HMJr: No, Mr. Hanes hasn't.....

D: How's that?

HMJr: He hasn't said anything to me about leaving in October.

D: You don't believe a word of it, do you?

HMJr: I don't believe a word of it.

D: I just said -- Hanes said -- you know in reports back yonder you get an article in the paper right on, right on, about him going to quit and going to quit, and I talked to him about it one day and he said those things just kept coming up. He said he'd talk to me before he ever got the notion of quitting.

HMJr: No.

D: And I knew he would to you anyhow.

HMJr: No, he hasn't. He's up at Fisher's Island having a good time and he's coming back here the first of August to be Acting Secretary and then I'm going to go away and have.....

D: I thought the way we were having the tax-exempt was about the only way we could do it and I thought that was satisfactory.

HMJr: No, he's perfectly happy.

D: We haven't got time, you know, now; couldn't do it, and we want to take it up all at the same time with this question of the surtax in the higher brackets, and we.....

HMJr: No, he's perfectly -- he's perfectly happy. North Carolina is safe.

D: THAT's what I thought, and any -- I thought if he was leaving, anything -- and that had anything to do with it, he certainly would have said something to us about it.

HMJr: No.

D: And I hope to God he's not leaving at all.

HMJr: No, Cecil Dixon always writes these.....

D: Yeah.

HMJr:stories.

D: You see that in the Post. Well, I just wanted to find out whether you knew anything about it or not. That relieves my mind because I knew that you'd know more about it than he would.

HMJr: No, I think I know more than Cecil Dixon.

D: Yes, well I -- I thank you. You'll see the article in the paper and you'll look like that he had -- had some set of friends -- his friends on the Hill. He didn't say anything about the Treasury Dept. He said the -- Hanes' friends on the Hill.

HMJr: Well, that's you, isn't it?

D: (Laughs.) Well, I'm one of them.

HMJr: Yeah, well.....

D: But he didn't say anything to me.

HMJr:did he say anything to you about quitting?

D: How's that?

HMJr: Did he say anything to you about quitting?

D: Not a word in this world, except I talked to him last -- about two or three months ago and he said he.....

HMJr: Oh.

D:-- there wasn't a thing about it, all untrue, and he said if he ever did get -- whenever he did think about it, he said he'd talk to me about it.

HMJr: Well, he has just taken a house for another year in Washington.

D: I know he's been talking to you about it.

HMJr: And you North Carolinians don't throw your money away.

D: (Laughs.)^{Yes} Well, I just wanted to see what you -- what the situation -- what you knew about the situation, if anything.

HMJr: Well.....

D: That relieves me very much.

HMJr: No, he's all right.

D: Well, thank you. Good bye.

JR

PLAIN

London

Dated July 14, 1939

Rec'd 2 p.m.

Secretary of State,
Washington.

1000, July 14, 7 p.m.

FOR TREASURY FROM BUTTERNORTH.

1. The Chancellor of the Exchequer made the following statement in the House of Commons regarding the impounded Czech assets: "The intention is to draw up a scheme for dealing with the assets subject to the Czechoslovakia (restriction on banking accounts, etc) Act and for using those assets as a set-off against British claims. This scheme will be submitted to the House for its approval as soon as may be after it reassembles. The scheme will provide for the repayment to the Treasury of the amount of sterling six million advanced to the former Czechoslovak Government and for the use for the benefit of Czech refugees of the unexpended balance of the free gift of sterling four million. It will also provide for dealing with the claims of British holders.

It is clear that there would be practical advantages in the detailed administrative arrangements (more particularly

-2- #1000, July 14, 7 p.m., from London.

particularly as regards handling the refugee problem) being worked out in conjunction with the Central Bank and the Refugee Institute at Prague and this matter will be taken up with the German Government. It is not at present possible to say whether further legislation will be required but in any event the arrangements will as I have stated be subject to confirmation by this House before they are operative.

In order to enable the work for the Czech refugees to be carried on without interrupting a supplementary estimate will be laid before the House but the provision made thereby will in due course be recovered from the unexpended balance of the free gift."

The negotiations with the German Government mentioned in the fourth paragraph of my 896, June 24, 8 p.m., will accordingly take place and the above statement has been astutely drafted to permit this without arousing internal political controversy. However, according to the British Treasury, the difficulty over the de jure recognition of the protectorate remains. The German authorities have taken the position that they will not issue an exequatur

to

-3- #1000, July 14, 7 p.m., from London.

to the British Vice Consul at Prague unless the protectorate is recognized de jure which the British Government is now unwilling to do. The British Treasury states that in these circumstances agreement as regards Czech assets may well be impossible.

2. The British Treasury indicates that the proposals set forth in my 964, July 10, 6 p.m., have been and are still being considered by the Polish Government which is faced with difficulties in the matter of devaluing the zloty because it has been a subject of some political controversy previously. However, the British Treasury appears to be confident that the Anglo-French proposals will be accepted. I gather that both the British and French favor a "substantial devaluation" which will bring the zloty down to a defensible level and at the same time through their gold profit ease the Polish budgetary position.

Two. Silver shipments by MANHATTAN were invoiced today from Mocatta and Goldsmid to Irvington Smelting and Refining totalling 432,037.03 standard ounces value sterling 35,834 6S 4D one being for 216,000.21 ounces, price 19 15/16D value sterling 17,943 15S 4D and one for 216,036.82 ounces, price 19 7/8D, value sterling 17,890 11S 0D.

The

-4- #1000, July 14, 7 p.m., from London.

The price for spot silver at today's fixing was 16 7/8 and for forward 16 3/8. Indian buying continued but turnover was small and forward silver was slightly offered.

Of the 66 bars of gold dealt in at the fixing 6 were married and 57 supplied by the British fund. Buyers were prorated at 33 1/3 per cent. The foreign exchange market was inactive.

KENNEDY

KLP

EDA

PLAIN

LONDON

Dated July 14, 1939

Received 1 p.m.

Secretary of State

Washington

998, July 14, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

During the debate on the third reading of the finance bill the Chancellor of the Exchequer last night made an important announcement on the total effects of the supplementary estimates for the army, air force and Ministry of Supply (issued in the two previous days) on the total budget and on the year's armament expenditure and on the amount to be borrowed therefor.

When the White Paper on defence was issued in February as reported in my 232, February 15, 7 p.m., the total figure for defence in 1939-40 was estimated at sterling 580 million of which sterling 230 million was to be raised from taxes and sterling 380 million from borrowing. By the time the budget was introduced as reported in my 556, April 25, 7 p.m., the military conscription scheme had been announced and Simon stated that expenditure would be increased to sterling 630 million of which sterling 250 million would be raised from taxes and

-2- #998, July 14, 6 p.m., from London.

and sterling 410 million borrowed. But the new supplementary estimates now made, namely, sterling 80 million for the army, sterling 40 million for the air force and sterling 30 million for the Ministry of Supply aggregate sterling 150 million so that the total armament expenditure for the year have been increased from sterling 580 million, not to sterling 630 million, but to sterling 730 million. Simon also stated that there might still be further minor additions for the Ministry of Health and air raid precautions. The borrowing needed for the year will therefore be not the sterling 380 million contemplated in February or the sterling 410 million mentioned in April but almost sterling 500 million. The total budgeted expenditure of sterling 1,320 million is now raised to sterling 1,422 million.

Simon mentioned that owing to the efflux of gold the Treasury bill issue could now be increased to contribute some sterling 150 million of the sum needed from borrowing and that the remaining sterling 350 million would have to be raised by defence loans which he was confident would be subscribed.

Incidentally

-3- #998, July 14, 6 p.m., from London.

Incidentally the total Treasury bill issue on July 8 was sterling 1,052 million of which sterling 563 million represented tap and sterling 489 million tender issues so that an increase of sterling 150 million would bring the total to over sterling 1,200 million. The tradition mentioned in my 239, February 16, 6 p.m., that the Treasury bill issue should not go above sterling 1,000 million is evidently regarded as no longer unbreakable (especially when the tap issue is large) though an issue in peace time much above this level would doubtless still be regarded as undesirable.

The FINANCIAL NEWS, the DAILY HERALD and the NEWS CHRONICLE note that the total borrowing figure of sterling 500 million is in excess of the estimated annual savings and that some measure of inflation can hardly be avoided; and the two latter papers advocate immediate increased taxation. The TIMES city editor on the other hand expresses the hope that advantage will be taken of the present predilection of institutional investors for short dated bonds and that long term loans will not be issued until the increased expenditure has had time to increase the weight of funds seeking investment but asserts that given the right technique "there is no reason to suppose that even sterling 500 million borrowings

-4- #998, July 14, 6 p.m., from London.

borrowings need be beyond the capacity of the markets, short and long, to absorb without undue discomfort". With reference to the above mentioned cables and to the memorandum of March 31 on borrowing for armaments the use of sterling 500 million in 1939-40 of the borrowing powers which were increased from sterling 400 million to sterling 800 million by the Defence Loans Act of 1939 (of which sterling 197 million had been spent before the beginning of the present fiscal year) would leave only sterling 1.3 million for future years so that new legislation for a further increase in borrowing powers may be expected next year.

Gilt-edged prices were down today, war loan for example closing $3/8$ down at $93 \frac{1}{4}$.

I gather that while the British Treasury is gratified that the armament program is progressing sufficiently rapidly to absorb these large sums of money it is aware of the dangers which such an expenditure pace inevitably entails and that the British Treasury as such would like to anticipate the need for measures to restrict consumption. But it is fairly freely talked about among conservative

-5- #998, July 14, 6 p.m., from London.

conservative members of Parliament that if peace is preserved this summer an election should occur either in the fall or early winter. It is therefore impossible to predict what will be done or when it will be done.

KENNEDY

CSB

//

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

by Part Air

DATE: July 14, 1939. Rec'd 7:30 a.m., 17th.

NO.: 652

No. 47. FOR TREASURY FROM HEATH.

Reference, telegram No. 633 of July 13, 10 a.m.:
the information contained therein came from the Vice
President of the Manufacturers Trust Company, Mr. Gomory,
who is now in Berlin for the American Standstill Com-
mittee; this source and the Embassy should be protected
in any utilization of information contained in this
telegram and the one under reference.

The terms of the Standstill Agreement are not ex-
ceeded, it is understood, in the proposed employment
of Standstill lines of credit to finance imports of
American cotton by Spain. Apparently it is Gomory's
belief that he has sufficient authority without contacting
the American Committee for formal consultation. The
Committee is apparently kept informed of developments,
however, by telegrams to Harvey D. Gibson from Gomory.
It is to be noted that, while using Standstill lines
for the financing of exports to third countries would be
a new departure, American credit lines have been used
mainly for the financing of imports by Germany from

countriss

FILE COPY
A. LOCHHEAD 262

FILE COPY
A. LOCHHEAD

- 2 -

countries other than the United States.

So far the proposed Spanish transactions have been small. They involve only a few three-month bills, \$150,000 being the largest. It is Gomory's belief that at the present time the Germans will not propose to do more than one million dollars of business with Spain. The initiative for these proposals, it is learned, was taken by Bremen cotton importing firms. These firms are anxious for new business to take the place of that lost in direct cotton trade with the United States because of the German scarcity of dollar exchange.

The importers in Spain, it is understood, would be the direct creditors of the American banks. The Reichsbank would, however, guarantee the credits of the American banks. As to who the Spanish importers would be, there is no information, but it is assumed that the Spanish Government would guarantee their bills.

My contact justifies his consent in principle to the proposed transaction by the need of increasing exports of cotton from the United States, and the necessity of making profitable use of the remaining total of about 65 million dollars of American standstill credits. Gomory indicated that he favored even greater utilization

of

28

- 3 -

of these credits for cotton imports for Spain than is contemplated in the proposals now being discussed. He added that he had been giving some thought as to whether the Export-Import Bank of Washington might not associate itself with financing cotton exports to Spain through the use of the American standstill credits.

The above in reference to Department's 288, July 13, 7 p.m.

KIRK.

EA:LWW

JR

GRAY

London

Dated July 15, 1939

Rec'd Noon

Secretary of State,
Washington.

1006, July 15, 4 p.m.

FOR TREASURY FROM BUTTERWORTH.

One. The June overseas trade figures published today show a continued tendency for imports to increase while exports though eight per cent up on June 19, 1938 did not maintain the rate of increase shown in May and the visible adverse trade balance for the month of June was pounds 3.3 million greater than in June 1938. Whereas the five months import surplus was 13.8% less than in the corresponding period of 1938 (See my 844, June 16, 7 p.m.) the six months comparison shows 1939 only 9.5% better than a year ago. The increase in imports is largely concentrated into the four categories iron, and steel, machinery, petroleum and timber and reflects armament needs while imports of food continue to increase though price falls somewhat obscure this movement. Coal exports continue to gain as do also textile products and other manufactured goods but as asserted by the city editor of the TIMES "the improvement in exports will have to go much further if the

the

the rising trend now apparent in the adverse balance is to be checked ***. Since invisible exports can hardly have increased this year the problem of the adverse balance is likely to loom large in the minds of the authorities in the coming months".

Thus the overseas trade figures like the unemployment figures mentioned in my No. 950, July 7, 6 p.m., and the implications of the new supplementary estimates reviewed in my 998, July 14, 6 p.m., indicate that measures to restrict consumption may well become urgent in the near future.

Two. In replying to the debate on the second reading of the overseas trade guarantee bill in the House of Commons last night the Secretary of the Department of Overseas Trade stated that between thirty and fifty per cent of the pounds 60,000,000 provided for "political" loans (see my 950, July 7, 6 p.m.) will be required in the first year.

Three. No silver was invoiced today and the price remained unchanged at the fixing on a small turnover with a little trade and Indian buying. The foreign exchange market was inactive and the dollar steady. Gold was fixed at parity and the usual buyer was prorated 25% of requirements, the number of bars dealt in being 43 of which 12 were married and 15 were supplied by the British fund.

KENNEDY

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

by Part Air

DATE: July 15, 1939, 10 a.m. Rec'd 4:55 a.m. 17th.

NO.: 654

The central questions in an inquiry into the present economic situation in Germany appear to be the following:

Is it the determination of the leaders in Germany to maintain or increase the present scale of state armament and expenditures for construction, plus state investment and state ordered investment in four years plan industry? [S. 1] If such is the intention, will Germany be able, without impairing the general standard of living, to find the labor and raw materials necessary for such a program?

Well-informed sources indicate that the party government in its present mood is resolved not only to carry out to the full and even to step up last year's ambitious program for armament, construction and industry, but is determined to override or obviate any official who makes an attempt to slow up such a program. It is reliably stated, in this connection, that up to the present the economic dangers of the present state of affairs have not been convincingly brought to the attention of Hitler. It is stated that Goering has not done this, and that it

is

- 2 -

is probable that he is the only thoroughly informed official in a high position who enjoys Hitler's real confidence in economic affairs.

It is stated that Goering is aware of the present economic strains. However, he is also imbued with the creed of the National Socialist Party, which holds that any economic issues can be removed by will and energy. He has been heard to say that if experts are left to themselves the difficulties are always exaggerated by them. It is also said that the Fuehrer himself disregards the opinions of the higher officials in the Government's economic services. The majority of these officials warned more than two years ago that grave economic difficulties would quickly result from a continuation of present policies. It appears, therefore, that there is no indication that party leaders in Germany are not determined at least to maintain the present ~~sacle~~ ^{scale} of expenditures for heavy industry and state investment. There is, in fact, evidence that an increase in Government expenditure has already begun. For the months of April and May, the total tax revenues were 2,505 million marks, or almost 500 million marks more than for the same period last year. Even so, ^{during} ~~for~~ these two months the borrowing by the Government was apparently not far from the monthly average for last year, 853 million marks.

Issues

- 3 -

Issues of tax certificates, State Secretary Reinhardt admitted, for the two months were around one billion marks. To this figure must be added the regular issue of government bonds to insurance and savings institutions, which presumably amount to 250 million marks a month, plus Treasury bills in an unknown quantity. The DEUTSCHE VOLKSWIRTSCHAFT, a party economic publication, states that during the current fiscal year it is planned to issue around 8 billion marks of tax certificates, in addition to presumably 3 billion marks of long term bonds to insurance and savings institutions, and Reich Treasury bills in an unknown quantity, a part of the proceeds of which, however, will be used to pay 1938 bills which fall due in 1939. Government borrowing, according to this calculation, would exceed that of last year, 10,236 million marks, and in addition it is anticipated there will be an increase of 4 billion marks in tax revenues. Funk has announced that in addition to Government expenditure, private industry will be permitted to float shares and bonds to the amount of one billion marks. Deducting the 395 million marks issue of the state-owned Hermann Goering works, the private issues for last year were shares in the amount of 427 million marks, and industrial bonds in the amount

- 4 -

amount of 107 million marks. It is expected, moreover, that the Reich railways will need replacement and extensions and will be in the money market for six or seven hundred million marks. It would appear that altogether it is contemplated that there will be an increase of five or six billion marks in state and industrial investment expenditures for the current fiscal year.

Taking into consideration the foregoing, therefore, there is the further question as to the unorganized labor and raw materials needed to meet the requirements of the present program.

It appears that the problem of the supply of labor for raw materials is greater than that for the contemplated industrial expansion. It is a fact that in old Germany the normal reserves of unemployed labor have been exhausted, and also in the newly acquired territory. There still remain considerable possibilities for expansion, nevertheless, by bringing more women into the fields of employment, by "combing out" some of the labor at present working in retail and service trades, and the handicrafts, and by bringing foreign workers into Germany. During the month of May, employment increased 374,000. State Secretary/^{Syrup} of the Labor Ministry has estimated that at present there

- 5 -

there are 3 1/2 million women unemployed who in an emergency could be drafted for part or full time labor.

It may be said, with regard to the raw materials question, that although there has been an increase in the production of domestic materials, and such production is increasing, as a result of the expanding industrial program the demand for raw materials has grown still faster. Certainly today the general shortage of domestic materials is more severe than it was a year ago.

The situation and prospects are still graver with regard to imported raw materials. Recently a manufacturer of copper articles was getting only 12 percent of what was required. The German Government has not permitted the rationing of gasoline before this in view of its interest in building up the automobile industry. However, according to an authoritative source, such rationing can now no longer be avoided unless the supply of some other imported material is sacrificed.

It is reported, furthermore, that the Government's economic authorities see no possibility of obtaining more imported materials from abroad through increased exports during the next few months; they apprehend, on the contrary that certainly as compared with last year,

year,

- 6 -

year, and probably as compared with the first few months of this year, during the next months there will be a decline in the exports which are necessary to provide the foreign exchange for imports. Accordingly, they expect that unless some unforeseen change occurs by next autumn, by that time the general shortage of industrial materials will be more acute than at any time in the régime's history. It is estimated by one well-placed observer that by autumn, if there is continuation of the present trend, there will be an average shortage of 20 percent or more of the raw materials needed for full utilization of the present expanded industrial capacity of Germany.

Even though an acute shortage of raw materials is apprehended by Reich economic authorities by next autumn, these authorities do not think that anything approaching an economic collapse will result. It is their belief that they can, through increasing measures of control, keep the economic machine running without breaking down, even though they know that they certainly will not be permitted to dip into military reserves of essential raw materials or the emergency gold and exchange reserves. In this latter regard, there is reliable information that the gold and exchange "windfalls" which Germany acquired with the taking over of Austria and the Sudetenland and protectorate are practically exhausted.

Despite this possibility of eventual shortage in

raw

- 7 -

raw materials, no information is available as to whether the economic authorities have studied or devised any definite program in preparation for the possible shortage. Should developments occur as anticipated, and if, as similar information appears probable the Government persists in carrying on present expenditure programs, there would seem to be no remedy for the situation except for the state to adopt measures to restrict consumption either directly or indirectly.

Suggestions have been made that measures such as the following might be employed alternatively or in combination in order to reduce consumption:

1. The Government might increase taxes.
2. The Government might force or induce large sections of the population to save more than they are saving now.
3. Important articles of consumption might be rationed by the Government.
4. The Government might continue to permit the financially stronger sections of the consumers to bid for available supplies against the weaker sections.

With regard to the first measure, increasing taxes, recently such a course was recommended by the Institute

for

- 8 -

for Business Research, but there is no indication that these recommendations were well-received. It would seem that increased taxes would not be the easiest alternative for the Government to choose, in view of popular objection forcing the Government to abate the additional income tax (reference, telegram No. 298 of April 29 from the Embassy).

As for the second measure, increased saving, theoretically the Government, with its control over public opinion, could force or induce efforts along that line by large sections of the population. However, up to the present not much pressure to this end has been exerted. As far as is known, the Reich's financial authorities are not studying any such campaign.

With regard to the third measure, developing the rationing system, aside from such foodstuffs as butter, eggs, and milk there has been little direct rationing of consumers goods. Such rationing as has taken place has been indirect, in the form of allotting and restricting the supply of materials and products to factories, wholesalers and retailers - and to the latter is left the task of portioning out among their clients their insufficient supplies. It would be a complicated procedure
to

- 9 -

to directly ration consumers' goods other than foods. According to available information, as yet no serious consideration has been given to such a measure.

As for the fourth measure, allowing the financially stronger sections of the consumers to continue to bid against the weaker for available supplies - in view of the foregoing it is not unlikely that, unless as a result of circumstances not now operative the situation develops more rapidly than is anticipated, the authorities would continue for a time to use this method to try to reduce consumption of goods not subject to rationing or other direct restriction.

The fact that the Government has failed either to reduce expenditures or take effective measures of control for increasing savings and depressing consumption to offset the growing disproportion between income and the supply of consumable goods has already resulted in a commodity inflation which has lowered the working classes' buying power to a certain extent but dangerous proportions have not yet been reached because the price and rationing control on many articles is still maintained. There is practically no change in the official index for cost of living. However, it is a matter of common complaint
of

- 10 -

of every class of society that there has been a steady rise in living expenses. Most of the increases have been disguised in the form of maximum prices for minimum quality products, aside from a small increase in the price of certain foodstuffs.

Some observers profess to be of the opinion that the impact of an intensified raw materials shortage and consequent lowering of consumption would be directed ^{mainly} against the higher income classes by State Minister of Finance. However, others believe that action will not come soon enough to prevent some adverse effect on the living standards of the broad masses, although it is thought that during the next few months there will not be a lowering of the standards of living of the working classes to any point of real distress. This latter view includes the prediction of an increase in the working classes' present grumbling and discontent over costs of living, which, however, is still only latent up to the present. It is not thought that during the next few months it will attain proportions which would exert a controlling influence on Government policies, in view of the régime of discipline which operates throughout the country.

You are requested to transmit this telegram to the Treasury as Heath's No. 48.

END MESSAGE.

KIRK.

EA:LWW

July 15, 1939

From the Farm this morning, the Secretary phoned that Lauchlin Currie had telephoned HM, Jr and said that Marriner Eccles will be delighted to testify on that part of the self-liquidating program which has to do with railroad equipment.

MEMORANDUM

July 17, 1939.

Secretary Morgenthau took the attached memorandum, addressed to the President, and discussed it with the President when he was at the White House for lunch today.

Upon the Secretary's return, he reported that the President was still in favor of his original proposal to have the R F C loan the steel companies \$6,000,000 to pay the expense of changes and additions to their plants to enable them to carry out the naval construction program. The President suggested that the companies could organize subsidiary corporations for the purpose of accepting the loan to protect against loss if they were without naval contracts before the loan had been liquidated; the inference being that such corporations could free themselves of the obligation by going through bankruptcy. The Secretary pointed out that reputable companies probably would not be willing to operate in this way. The Secretary expressed the opinion that the most satisfactory method of taking care of the situation would be to authorize the contractors to deduct the cost of such expansion as might be necessary to their plant and equipment and to recharge as expense before computing their profits under the Vinson-Trammell Act. The President stated that he did not believe the Navy could get such a law enacted at this session and adhered to his belief that the most practical way to handle it would be a loan through the R F C. The Secretary promised to examine the problem further with a view to finding a way to aid the Navy through some method other than by legislation.

The Secretary then discussed with Mr. Foley and Mr. McReynolds the problem of providing a program which would commit the Government at the time contracts were let by the Navy to a definite schedule of charges for plant and equipment to be included as cost and prorated annually over the contract term. The Secretary arranged with Acting Secretary Edison for a meeting in his (Secretary Morgenthau's) Office at 4 p.m., today, at which Treasury lawyers would discuss the legal possibilities along this line.

* * *

MEMORANDUM FOR THE PRESIDENT:

Pursuant to your suggestion at Cabinet meeting on Friday, representatives of the Treasury conferred with Assistant Secretary of Navy Edison and representatives of the Navy Department.

Assistant Secretary Edison wants to work out some method to step up the armor production of three steel companies to meet the Navy's battleship building program.

The way Mr. Edison wants to do this is through special legislation. The special legislation proposed is of two kinds: (1) An Act authorizing the steel companies to get, under the Vinson-Trammell Act, a deduction for the cost of new plant, equipment, et cetera, required to execute the contracts for the contemplated battleships; or (2) An amendment to the deficiency appropriation act authorizing the Navy Department to spend \$6,000,000 for the purchase of the new plant and equipment.

Mr. Edison feels that this end can probably only be achieved by such legislation. The Treasury agrees.

The Treasury representatives have given every cooperation in suggesting the kind of special legislation necessary to accomplish the end that Mr. Edison has in mind. A conference was held on Friday afternoon, July 14, with Navy Department representatives, at which the Treasury representatives presented their suggestions. Again on Monday morning, July 17, the Treasury Department representatives participated in a conference with the Navy Department representatives and the Director of the Budget to prepare the kind of special legislation that Assistant Secretary Edison desires. The Director of the Budget thinks that the legislation amending the deficiency appropriation act would be better.

In short, the Treasury is doing everything that it reasonably can to assist the Navy Department in accomplishing its purposes.

copy at House July 17- 8. P.M.

280

Statement of Secretary Morgenthau Before the Senate Committee on Banking and Currency on S. 2759.

I am appearing before you in support of S. 2759, the Self-liquidating Projects Act of 1939.

The bill before your Committee is designed to utilize idle resources. Its purpose is to put to work men and resources not now being employed. It is intended to stimulate further capital investment in private industry, to raise the level of business activity and to yield permanent benefits to the people of this Nation.

This program seems to me to be particularly timely. We must not forget that we are in a period which is most unusual in world history. The world has neither peace nor war. It is a period of international political uncertainty characterized by stupendous expenditures for unproductive military purposes. International economic relationships are disorganized by the lack of free exchange with which to conduct normal world

commerce; our trade suffers from the lack of purchasing power on the part of the people of the world with which to buy the products, the United States could export. Business in this country suffers from the general distortion of the world's economic systems, from the fear and expectancy of a world cataclysm.

It is futile to await passively the restoration of that degree of international peace and security and sanity which is essential to a high level of domestic and foreign trade and economic progress. Under the present circumstances we must seek within the framework of our institutions and within the requirements of sound fiscal policy to utilize to the fullest extent possible the resources of the Government to overcome the difficulties of this epoch.

In a country with enormous potentialities and with the population rapidly marching towards the 150 million mark there is ample possibility for the Federal Government to supplement

- 3 -

private enterprise by promoting investment in self-liquidating projects. In contrast with some other important nations of the world we are still in the fortunate position of having the opportunity of utilizing the Government credit for constructive purposes instead of devoting billions to unproductive military expenditures.

The Self-liquidating Projects Act authorizes the following productive investments:

1. 750 million dollars for self-liquidating highway improvements;
2. 350 million dollars for non-federal public works;
3. 500 million dollars for the release of railroad rolling stock and shop equipment;
4. 460 million dollars (plus 40 million dollars already appropriated) for rural electrification projects;
5. 500 million dollars (plus not more than 100 million dollars already appropriated) for facilities for farm tenants, share croppers and farm laborers;
6. 100 million dollars (plus 100 million dollars already appropriated) for the financing of foreign trade.

The President has estimated that, of the additional sums made available by this Bill, about 770 million dollars, made

up in the following way, would be spent during the current fiscal year:

1. 150 million dollars for highway improvements;
2. 150 million dollars for non-federal public works;
3. 100 million dollars for railroad equipment;
4. 20 million dollars for rural electrification;
5. 250 million dollars for the farm tenant program;
6. 100 million dollars for the financing of foreign trade.

The program of self-liquidating investment authorized in the Bill would be financed through the Reconstruction Finance Corporation. The operating agencies to carry out the purposes of the Act would be the Public Roads Administration, the Public Works Administration, the Rural Electrification Administration, the Department of Agriculture, and the Export-Import Bank, in addition to the Reconstruction Finance Corporation.

Specifically the Bill is designed to achieve four important objectives:

- 5 -

1. To give employment in private industry to at least one-half million persons;
2. To stimulate private enterprise;
3. To increase the real wealth of the nation;
4. To provide additional investment opportunities.

The important thing about this Bill is that it will accomplish its objectives without adding to the tax burden or to the public debt of the Federal Government. At the same time the national income will be increased and the number of persons who need to be supported out of public funds will be reduced.

The principle embodied in the Bill, therefore, constitutes a real advance toward the goal of bringing our governmental expenditures within our receipts.

I do not wish to contend that the program embodied in this Bill constitutes a final or adequate solution of our economic problem but it does constitute a realistic approach to that problem.

- 6 -

The fiscal aspects of the program do not represent a new departure. Continuously in the last six years we have employed the device of guaranteed loans to protect the credit structure and to promote productive enterprise. The results have been highly beneficial and highly encouraging. Through this method we have saved farms and homes from foreclosure and lowered interest rates enough to make the great difference between solvency and insolvency. Through it we have given assistance to railroads, banks and a wide range of private industry. We have given assistance to States, to localities and to other public corporations through which they have been able to proceed with beneficial and essential projects for the welfare of citizens at interest costs which have made the projects sound and feasible. The record is a good one. It is a record of sound investment which would not have been undertaken if the Federal Government had not sponsored it.

What is proposed now is an extension of this proved

method to a somewhat broader field. The extension, however, is important. It may well turn out to mark a transition point in the public finances. If we can substitute self-liquidating investments in place of outright Government expenditures we shall have made a great step toward bridging the gap between revenue and expenditures.

This distinction between self-liquidating investments and non-recoverable expenditures is not merely a bookkeeping one, but is very soundly based. In the case of non-recoverable expenditures the servicing of the debts created to finance them must be met out of general tax revenues. However, in the case of self-liquidating loans such as are proposed in this Bill, the interest and amortization payments are met out of the earnings on the investment. Only if the revenues yielded by the investments are insufficient to meet loan costs is the Government called upon to make good any deficiency out of

- 8 -

general revenues. The Bill imposes upon the Reconstruction Finance Corporation as well as upon each operating agency the duty to undertake only such projects and to make only such loans as will reasonably be expected to repay the full amount invested plus interest sufficient to reimburse the Government for the cost of borrowing.

I do not wish to predict that the Government will suffer no loss on any of the various features of this program but I know that these projects have been selected with the intention of choosing sound investments which have a high probability of repayment. Projects totalling billions of dollars were eliminated in preliminary studies because they were not self-liquidating.

To insure that Congress be kept fully informed on the financial status of this program, the Bill provides that the Secretary of the Treasury and the Federal Loan Administrator shall make an annual appraisal of the assets acquired by the various operating agencies and that they shall request from

- 9 -

Congress an appropriation sufficient to make up for any losses which may have been incurred.

This Bill embodies another distinctive principle. It provides that the maximum interest rate which might be charged by any operating agency on loans under this program should be limited to the yield on the longest term direct or indirect obligations of the United States then outstanding.

The interest rate on long-term loans and investments plays a very important role in modern economic life. (When business activity is high and when funds are scarce, interest rates tend to put brakes on investment and to restrict employment to only the most necessary uses. When, on the other hand, business activity and the volume of investments are low and when there are large pools of idle savings, then lower interest rates tend to expand the field of profitable investment opportunities.)

There are factors in the present situation, however, which

- 10 -

make it impossible for changes in the interest rate to operate automatically and with complete effect. The disturbed world situation increases economic uncertainty to the point where investors are reluctant to place a large amount of their funds in long term investments at the low rates of interest justified by the fundamental economic forces of supply and demand.

In times like the present it therefore becomes the Government's function to act as a catalytic agent to bring together investors who are willing to lend their savings at rates of interest low enough and borrowers who are able and willing to employ funds for productive purposes.

This Administration has made great progress in bringing the market rates of interest down to reasonable levels. The most important successes have been in connection with loans to farmers and to home owners and for purposes of residential and business construction and non-federal public works. This

- 11 -

progress, however, has not been enough and it is my opinion that the time has now come to take the next step forward, that of selecting specific investments which should be given the advantage of the low interest rates which the Government can obtain. A low rate of interest if effectively utilized constitutes one of the most potent weapons our economic system has developed for stimulating business activity. It seems to me that it is high time for the Government to make full use of that instrument rather than continuing to depend upon grants and subsidies as heretofore.

It is this principle of low interest rates which is utilized in the Bill before you. The Government is bringing together idle funds and borrowers who are unable to borrow under existing circumstances. It does more than that. It creates the additional incentive for the lenders to lend and for the borrowers to borrow by giving the stamp of approval

- 12 -

and administrative assistance to useful and paying enterprises which otherwise would not be undertaken at this time. Thus men and capital now unemployed are put to work.

It is an economic loss to permit investment funds to lie unused when they could be used in productive effort. But that loss is trivial in comparison with the permanent and irreparable economic loss of allowing men of many skills to be idle when there is useful work that they could be doing.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

7-17-39

TO Secretary Morgenthau
FROM Mr. Foley

Judge Leibell's decision in the Spanish silver litigation related specifically to the first three shipments of silver of a value of about \$6,500,000. However, it is understood between counsel in the cases that the decision in the present cases will dispose of the suits brought with respect to the last two shipments of silver of a value of approximately \$8,500,000.

E. H. F. H.

July 17, 1939

FOR THE SECRETARY:

I am told that you asked for a list of newspapers which commented editorially pro and con on your tax statement before the Ways and Means Committee. Frank King has prepared the attached list.

ESD

ANALYSIS OF EDITORIAL COMMENT ON
SECRETARY MORGENTHAU'S TAX STATEMENT BEFORE
THE HOUSE WAYS AND MEANS COMMITTEE, MAY 27,
1939.

294

Editorialists the nation over expressed unanimous approval of almost all of Secretary Morgenthau's proposals for a tax revision program. The first reaction was somewhat apprehensive as to the President's stand on these suggestions but the Secretary was commended on all sides for the firm stand he took. Real assurance to business was generally forecast and Congress was urged to act promptly on the Morgenthau proposals.

The Administration was frequently chided for not having admitted the necessity for such reform heretofore and many regarded this program as an admission of the folly of past tax policies.

The following newspapers carried editorials which approved of the Secretary's suggestions:

Buffalo Times - May 27, 1939	Scranton Tribune - May 29, 1939
Washington Star - May 28, 1939	New York Times - May 29, 1939
Montgomery Advertiser - May 28, 1939	New York Herald Tribune - May 29, 1939
Providence Journal - May 28, 1939	Journal of Commerce - May 29, 1939
Durham Herald-Sun - May 28, 1939	Baltimore Sun - May 29, 1939
Greenville News - May 28, 1939	Washington News - May 29, 1939
Marion Telegraph - May 29, 1939	New York Post - May 29, 1939
Richmond Times-Dispatch - May 29, 1939	New York World Telegram - May 29, 1939
Wilmington News - May 29, 1939	New Haven Daily Morning - May 29, 1939
Mankato Free Press - May 29, 1939	The Hartford Times - May 29, 1939
Chattanooga News - May 29, 1939	The Hartford Courant - May 29, 1939
El Paso Times - May 29, 1939	Philadelphia Record - May 29, 1939
San Francisco News - May 29, 1939	Wilmington News - May 29, 1939
Salt Lake City Tribune - May 29, 1939	Wilmington Journal Every Evening - May 29, 1939
Tacoma Times - May 29, 1939	Boston Post - May 29, 1939
Seattle Time - May 29, 1939	Boston Herald - May 29, 1939
Utica Press - May 29, 1939	Rutland Herald - May 29, 1939
Springfield Republican - May 29, 1939	Indianapolis Star - May 29, 1939
New Bedford Standard-Times - May 29, 1939	Detroit News - May 29, 1939
Camden Courier - May 29, 1939	Detroit Free Press May 29, 1939
Columbus Dispatch - May 29, 1939	Minneapolis Tribune - May 29, 1939
Canton Repository - May 29, 1939	Norfolk Virginian-Pilot - May 29, 1939
Hartford Times - May 29, 1939	Missoulian - May 29, 1939
Acron Beacon-Journal - May 29, 1939	San Francisco Chronicle - May 29, 1939
Miami Herald - May 29, 1939	St. Paul Pioneer Press - May 29, 1939
Evanville Press - May 29, 1939	Muncie Star - May 30, 1939
St. Paul Pioneer Press - May 29, 1939	

- 2 -

Lynchburg News - May 30, 1939
 Troy Record - May 30, 1939
 Wilmington News - May 30, 1939
 Easton Express - May 30, 1939
 Wichita Beacon - May 30, 1939
 Butte Standard - May 30, 1939
 Los Angeles Times - May 30, 1939
 Spokane Spokesman-Review - May 30, 1939
 Casper Tribune-Herald - May 30, 1939
 San Jose Mercury Herald - May 30, 1939
 Manchester Union - May 31, 1939
 Boston Transcript - May 31, 1939
 Milwaukee Journal - May 31, 1939
 Gadsden Times - May 31, 1939
 New Orleans Times-Picayune - May 31, 1939
 Columbus Dispatch - May 31, 1939
 Erie Dispatch-Herald - May 31, 1939
 Jackson News - May 31, 1939
 Syracuse Herald - May 31, 1939
 Niagara Fall Gazette - May 31, 1939
 Wall Street Journal - May 31, 1939
 Fort Worth Star-Telegram - May 31, 1939
 Kansas City Times - May 31, 1939
 Citizen Patriot (Jackson) - May 31, 1939
 San Francisco Chronicle - May 31, 1939
 Minneapolis Star - May 31, 1939
 Sacramento Union - May 31, 1939
 Fargo Forum - June 1, 1939
 Danville Commercial News - June 1, 1939
 Kalamazoo Gazette - June 1, 1939
 Nashville Banner - June 1, 1939
 Newark Star-Eagle - June 1, 1939
 Columbia The State - June 2, 1939
 St. Paul Pioneer Press - June 2, 1939
 Columbia State - June 2, 1939
 Times-Star - Bridgeport - June 2, 1939
 St. Louis Globe-Democrat - June 3, 1939
 Savannah News - June 3, 1939
 Danville Register - June 4, 1939
 Erie Dispatch-Herald - June 4, 1939
 San Antonio Express - June 4, 1939
 Trenton Times - Advertiser - June 4, 1939
 Wilmington Journal Every Evening - June 5, 1939
 Mason City Globe-Gazette - June 5, 1939
 Lincoln Journal - June 5, 1939
 Fort Smith American - June 5, 1939
 Danville Commercial News - June 5, 1939
 Reno Nev. State Journal - June 6, 1939
 Spokane Spokesman-Review - June 6, 1939
 La Cross Tribune - June 6, 1939
 Kenosha News - June 12, 1939
 Baltimore Sun - June 14, 1939
 Albemarle Mirror - June 14, 1939
 Norfolk Virginia-Pilot - June 14, 1939
 Dubuque Tele.-Herald - June 15, 1939
 Danville Commercial News - June 17, 1939
 Nashville Tennessean - June 17, 1939
 Baltimore Sun - June 21, 1939

These newspapers generally received the Secretary's program with skepticism and urged tax relief and economy as more urgent policies. Frequent warnings against continued high governmental expenditures were expressed:

Philadelphia Inquirer - May 28, 1939	Cleveland News - May 30, 1939
Pittsburgh Post Gazette - May 29, 1939	Charleston Post - May 30, 1939
Newark Star-Eagle - May 29, 1939	Houston Post - May 30, 1939
Little Rock Gazette - May 30, 1939	Tacoma Times - May 31, 1939
Omaha World Herald - May 30, 1939	Lynchburg News - May 31, 1939
Wichita Eagle - May 30, 1939	E. St. Louis Journal - June 5, 1939
Toledo Blade - May 30, 1939	Colorado Springs Gazette - June 6, 1939

The following newspapers see good in the Secretary's recommendations but believe they do not go far enough. Some specific suggestions are made for further reform:

San Antonio Express - June 7, 1939	Wilmington News - June 14, 1939
Washington Post - May 29, 1939	

The following newspapers believed that the inclusion of the tax-exemption proposal in the Secretary's tax revision program was either unwisely overburdening the program or was an entirely untenable proposal. Some saw more harm than benefit resulting from the adoption of the tax-exemption proposal:

The Daily Morning (New Haven) - May 29, 1939	Durham Herald - May 30, 1939
Macon Telegraph - May 29, 1939	Minneapolis Journal - June 14, 1939
Philadelphia Inquirer - May 30, 1939	Kalamazoo Gazette - June 10, 1939
Wilmington News - May 30, 1939	New Haven Register - May 29, 1939
New Haven Journal-Courier - May 30, 1939	Philadelphia Inquirer - May 28, 1939

King

RE NAVY ARMORED PLATE PROBLEM

July 17, 1939.
4:00 P. M.

Present: Mr. Foley
Mr. McReynolds
Mr. Cox
Mr. John Burrus
Mr. James F. Ryan
Mr. Ryling
Mr. Charles Edison
Mr. W. R. Furlong
Mr. McLaine
Mr. Riggs
Major Park Holland (Navy)
Captain A. A. Koessler (U.S.A.)

H.M.Jr: Have you (Foley) had a chance to look at this?

Foley: Yes, we've been spending the last 40 minutes on it, Mr. Secretary.

H.M.Jr: Well now, you tell Mr. Edison how we're going to do it.

Foley: I haven't had a great deal of time to go into this, Mr. Edison. Mr. Cox went over to your office on Friday after the Cabinet meeting to go into it, and the proposal that came back was that you wanted legislation, which was not what I understood the purpose of the conference was to accomplish; I thought that we were trying to work it out some way without legislation.

Now, after talking to these gentlemen, it seemed to us that if you would certify to us that three million dollars of this six million dollars of new equipment would become obsolete at the end of, say, a three-year period, we could, on such a certification from you, enter into a closing agreement whereby we would permit them to write off a million dollars a year over a period of three years, the balance to be subject to negotiation at the end of the contract period. But I didn't see how we could agree now to write off the entire cost of the obsolescence of this new machinery, because it seems to me at the end of the three-year period, after these contracts have been concluded, the same machinery might be used by these same steel companies to fabricate additional armament or additional plate or some other orders, in which case the entire cost of the capital outlay would

- 2 -

have been written off. And I think that the Secretary of the Treasury would be subject to a great deal of criticism if he permitted the entire thing to be written off.

But it stands to reason that part of the cost, at least, could be written off. I think that we could agree now on some kind of an arbitrary figure. Maybe 50 percent isn't the correct figure, but we might be able to arrive at some figure.

(Captain Koessler comes in)

H.M.Jr: How do you do. Do you know Mr. Edison?

Koessler: Captain Koessler, of the Air Corps.

H.M.Jr: Just sit down and pick up what we're trying to get.

Foley: Now, I don't know whether that would satisfy these steel companies or not.

Edison: Well, of course, it's a step in the direction of satisfying them. If the figure was high enough, they might be willing to take a chance on the rest of it.

One thing that I want to make clear is this. There seems to be some discussion about it. We have a contract at a fixed price per ton for this armor. That includes the cost of these facilities. In other words, the steel company, in making their bid, said, "We'll have so much cost, and then we'll have to add certain facilities," and that's all put into this fixed price. Let's assume that it's a hundred dollars a ton, just for easy figuring. Now, they're allowed to make ten dollars on that. Now, if they make a loss, they've got to absorb it. The Navy pays no more than a hundred dollars.

Now, on the other hand, if they make a profit of, say, ten dollars, then we come along and say, "You can't write off any of this equipment." That might throw them into a much larger profit, and they'd have to pay some back, see, and that's the bone of contention. They say, "It's a legitimate cost, it's

- 3 -

a figure that we based our bids on, but we just want to be sure that we're going to be allowed this cost."

H.M.Jr: Do I understand - let me ask you two questions. How long is this contract over? How many years will these contracts run?

Furlong: Two to three years.

H.M.Jr: And do these companies want to write off the whole six million in the two to three years, is that the proposal?

Edison: Yes, I think that's about it.

Furlong: Roughly.

Edison: Because they say, Mr. Secretary, this - they say, "We have more than sufficient equipment right now for any possible commercial work that we have. We have sufficient for any reasonable production for the Navy. But you're asking us to take a terrific peak load here, because you're piling eight battle-ships on us and you want certain deliveries. Now, in order to meet that delivery thing, we're going to have to put in a lot of equipment."

H.M.Jr: I know. Don't do it again. You make me cry every time you tell that story, you tell it so dramatically. I can't take it.

Now, what I - but I think what Foley's come through with in the last 40 minutes - he's suggesting that you let him over the life of this contract write off half, which seems like a pretty good proposition.

Edison: Well, I don't - then what are they going to do with the other half?

Foley: That's subject to negotiation. We'll make an appraisal and we'll determine what the obsolescence figure is at that time, and then we'll give them credit for it. I mean if they can't use the machinery again and....

Furlong: They can, though. Machinery is good for ten to twenty years.

- 4 -

- H.M.Jr: That's what the President said. I mean as a matter of fact, this is better than what I thought they could do, you know, and the President - when the question came up of letting them write it off entirely - you know, he was opposed to that Friday, you know.
- Foley: Well, I think....
- H.M.Jr: I mean the President didn't like the idea of writing it all off, you know, at Cabinet. I think this is pretty fair.
- Do you mind if I just stop a minute and ask what the War Department - how did you do it with the Allison Motors?
- Koessler: That account hasn't been audited yet, Mr. Secretary, and his bid....
- H.M.Jr: Do you want to pull up a chair, so he can hear you? Bring up a chair closer, come all the way up with the chair.
- Koessler: Well, Mr. Secretary,
- H.M.Jr: Address yourself to Mr. Edison.
- Koessler: Sir?
- H.M.Jr: Address yourself to Mr. Edison.
- Koessler: The prices quoted in this contract were set prices that he bid. We understood he didn't have a factory. We don't know how much of this he will absorb, how much of the cost of rebuilding the factory or building the factory is included in this. The only cost reduction we have is a reduction for increased quantities, with options.
- H.M.Jr: But, now, Mr. Woodring said that you - as I got it over the telephone - I may not have gotten it right - that they had to spend two million dollars to increase their plant, and you were going to permit them to add the two million dollars to the cost of the motors.
- Koessler: Well, that would show up, sir, when the Treasury Department makes its audit.

- 5 -

H.M.Jr: Well, are you in the same boat now? Have you got a clearing from us on this?

Koessler: No, sir. He just bid on this.

H.M.Jr: But I mean have you got a clearing from the Treasury that they will allow them to write off that two million on this contract?

Koessler: No, sir.

H.M.Jr: Are you the one that has to act under this particular case?

Koessler: Yes, sir. It's just recently we've been affected by the Vinson-Trammel Act.

Edison: I wondered whether this contract came under that.

Koessler: It does, sir.

McR: In the same situation of indefiniteness, of course.

H.M.Jr: Then you're interested in this discussion also. You'll have to clear through this Board over here.

Koessler: Yes, sir, I believe we will, sir.

Edison: Mr. Secretary, may I put the problem in a rather homely way. I ask you to do a job, and in order to do that job you've got to have an automobile. You haven't got an automobile, you don't want an automobile, you have no use for an automobile. But I say, "I want you to do that job. Now, you use your own money and buy that automobile."

Well then, you naturally say, "Well, what will I do with it after I've finished the job?"

"Well, after you've finished the job, we'll tell you."

And you say, "I don't want the automobile. I don't want to have to garage it and take care of it. It's just surplus stuff."

"Well," we say, "we can't tell you until after the contract is all over and you have performed this

- 6 -

job whether we'll give you anything for the automobile."

- H.M.Jr: Yes, but when I heard what the men said, I didn't think that made horse sense; I think that what they are saying now does, and that is, let the people add 50 percent of the cost of the addition to their cost. In other words, let them write off half during the life of the contract. Now, that sounds - if I had the sole right to decide, I'd say that sounds fair.
- Furlong: When would you take up the next, Mr. Secretary? On the next contract, I suppose. The other fifty.
- H.M.Jr: Yes, that sounds fair.
- Furlong: Is that right?
- Foley: At the end of the contract period you'd make an adjustment as to the balance of the cost of the machinery, and you could determine how much of it had become obsolete at that time. We certainly can't do it now.
- Furlong: Well, it doesn't - I know under the law and under your regulations that's absolutely correct. That's why we were trying to divorce you from it so you wouldn't have to say that, and that we could - we wanted to get legislation by which we could say or certify to you that up to a certain amount was necessary for the cost in order to produce this on time. And it was to make it so you and the Secretary of the Treasury wouldn't be open to any criticism of handling this thing. And the only reason that we wanted to put it in a law saying that we could certify to you up to that amount was just to free you from that, and also in order that we would get it on time.
- H.M.Jr: Now, may I - listen, I've heard - I mean I know how the President feels on this thing. I think you'd have no trouble getting by him - I mean my getting it by him, up to half the cost - write-off for the life of the contract. But to write off the whole cost - because, what's this Point - something - Point - he's got that in his mind. What's this - some Point - big plant.

- 7 -

Furlong: Kraus, in West Virginia, plant?

Edison: Erie Forge.

H.M.Jr: Erie Forge.

McR: That's right.

H.M.Jr: He's got that in his mind. He doesn't like this way anyway. What he suggested both Friday and he said again today - that this plant - they should borrow the money from the RFC and then write it off over the period during the contract. I said, "Well, what would happen at the end of the contract?" He said, "Either they or the RFC would have to stand the loss." Now, he repeated that again today.

But if the Navy felt - the President doesn't think that you have time to get this legislation through - not what you're suggesting, to write off the whole cost, but for the Navy to do this work - he wouldn't object to that, if you think you can get it through, to authorize the Navy to spend six million dollars for this and keep title to the plant.

Foley: I think this other scheme is better than that, Mr. Secretary.

H.M.Jr: I don't know - I want them to know - you know President Roosevelt, and he's got very fixed ideas on this thing.

Edison: I don't think he understands the one point that we've got a fixed price contract. Now, this whole thing only comes in if they make a very excessive profit, see? If they make only a reasonable profit, say less than ten percent, the amount that they invested doesn't enter into it. And it's only when they make a very excessive profit that it enters in.

H.M.Jr: Well, would you do this, in order to save your time, because I understand time is of the essence - so if you want to get it in, would you put this up to the company, the thing that Foley suggested?

Edison: Yes, sure.

H.W.Jr: And get a reaction from them. And then if any - when you're ready, I'll be more than pleased to meet with you again.

Edwards: Let me understand now. You would write - somebody over here would write, preferably you - to me or the Secretary of the Navy a letter, in which they said, "If you will certify to us right along that these are proper expenditures, we'll allow half of this amount; we'll tell you now we'll allow half and we'll leave the other half to negotiate later."

Foley: Well, I should think this would be the way the matter would be handled. You would write a letter to the Secretary of the Treasury and you would state the reasons and the necessity for speeding up the fabrication of this armament plate. You would state what the cost of this new machinery is and you would state that over the three-year period it would become obsolete up to 50 percent of its capital cost. And you would ask us to give the manufacturers credit for that obsolescence - a million dollars a year over the three-year period, the balance of the cost of the machinery to be subject to negotiation, in so far as obsolescence is concerned, at the end of that period.

Then we would enter into a closing agreement with the steel companies and give effect to that suggestion of yours. That's the way it would work out, isn't it, Johnny?

Edwards: Yes.

McLaine: There is one point that I don't clearly understand. You speak of treating this obsolescence over each year of the contract, but the determination of the cost of the contract is upon completion, so that you take the total cost of performing that contract at the end and apply that against the contract price, and from the difference you arrive at the profit, and you take away anything in excess of the ten percent of the contract price. So it isn't an obsolescence annually but obsolescence on the equipment as a whole at the end of the period, for the life of the contract.

Foley: That's right, but I think we could agree that it would become obsolete....

- 9 -

McLaine: At the end of the contract.

Foley:so much at the end of the contract.

H.M.Jr: Fifty percent.

Foley: Fifty percent. And then we could give them credit each year during the life of the contract for a portion of that fifty percent.

McLaine: Well, you wouldn't give - maybe I'm a little confused on it, but you wouldn't give credit at the end of each year, because you don't determine the cost of this contract until the contract is completed.

Furlong: That's right. Mr. Burrus, is that right?

Burrus: I'll ask Mr. Ryling.

Ryling: That's right, for purposes of auditing.

McLaine: What about this annual depreciation?

(Major Park Holland comes in)

H.M.Jr: How do you do.

Holland: How do you do. Major Park Holland, Assistant Secretary of the Navy's office.

H.M.Jr: This is Mr. Edison.

Holland: Yes, I know Mr. Edison.

Furlong: Mr. Secretary, when I said two or three years is the duration of the contract, that's true for any one contract, but we're having contracts that will run much longer than that, because we're considering eight battleships.

H.M.Jr: Well, that's why I should think that this proposition would be a good gamble from the standpoint of the steel people.

Furlong: It is, but after those eight battleships, then we're not asking them for - except for two and then finally one a year, and they have no use for this stuff they're putting in.

- 10 -

- H.M.Jr: But, look, if I'm correct, this contract which you say runs two or three years would be for how many battleships?
- Furlong: Well, we're doing two at a time. We're running two or three for two years, two or three for the next two. It started in '37. And we just let a contract in '38, or '39, and that will run for two or three years, so it will run up around the forties and '41 before it's finished.
- H.M.Jr: But if this proposal that they're going to invest six million dollars - and we say, "You can write off - the combined companies - a million dollars a year for three years; at the end of three years, if your contract has expired and you've completed your work, we'll take up the proposal again." But I take it - I haven't had any dress rehearsal - that if it should run four years you'd let them write off another million dollars; in other words, as long as they're working on it I take it you'd let them write off a million dollars a year, and if it runs six years they can write off the whole thing.
- Foley: I don't think we ought to go that far, Mr. Secretary.
- Furlong: That's the part the steel people want, but that's the part the Treasury feels they can't do under the rules.
- Foley: If this machinery has a life of ten, twelve, fifteen, or twenty years, in some instances, I don't think we ought to....
- H.M.Jr: Well, state the proposal again. And I tell you what you could do. Why don't - I take it some of these men are sea-going lawyers, and if they could stop now and go back with Mr. Foley, maybe they could prepare an exchange of letters between your office and mine. I don't think it will be any more difficult than it was for you to guarantee that the blimp would be safe.
- Edison: It won't be any harder than that.
- H.M.Jr: If they could go back there now and see if they could work this out - I think Foley's got an idea; at least, we've traveled 50 percent of the depreciation in forty minutes.

- 11 -

Edison: I might gyp him for another ten percent.

H.M.Jr: You might gyp him for another ten percent. You're good at it.

If there is a similar thing coming up for the Army, I suppose you'd like to sit in as we go along. I take it you'll have something like this to clear also.

Holland: We probably will, yes, sir.

H.M.Jr: Would you like to sit in on this?

Koeffler: Yes, very much, sir.

H.M.Jr: I don't think we can go any further. Why don't - I mean let them do it.

Edison: We can feel out....

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

McLaine: I understand, then, that this would be a minimum that you would allow, you might allow an additional amount upon completion of the contract; you would guarantee them that you would allow at least 50 percent.

Foley: That's right.

McLaine: But you might allow them an additional amount.

Foley: The balance would be subject to adjustment at the end of the contract period.

McLaine: So it's merely a question of the percentage....

H.M.Jr: Sounds fair to me. Don't you think it sounds fair?

McLaine: I do.

H.M.Jr: That I'd be willing to defend. I'd be willing to defend that, Mr. Edison.

Furlong: On our certification. We can't certify if it's obsolete....

- 12 -

- H.M.Jr: I say on your certification, on the certification of the Navy. And that isn't going to be any more difficult than that letter you wrote on the blimp.
- Edison: Well, let me explain how we're doing this. Now....
- Furlong: We can't certify that it's obsolete.
- H.M.Jr: No, but you want us to.
- Furlong: No, we want to free you and have it all in legislation.
- H.M.Jr: Yes, but I don't think the President will go along with you on that. I don't think the President - I'm quite sure the President wouldn't go along on having the Navy certify that this would be obsolete at the end of the life of the contract.
- Furlong: Well, of course, we wouldn't certify that it was obsolete at the end of the life of the contract. We wouldn't. But we'd certify that over eight, ten years....
- H.M.Jr: No, but you can't - I've heard the President on this thing twice, and I know what he has on his mind.
- Furlong: You know his feelings, yes.
- H.M.Jr: He has a fixed idea, and I don't think you can get it by him.
- Foley: It's so late in the session, I don't think you could get the legislation.
- Furlong: We could get the legislation if you could get it by him.
- H.M.Jr: I don't think you can get it by him. That doesn't mean Mr. Edison can't try. I don't think you can get it by the President - that over the life of the contract they should write off the whole six million.
- Furlong: We don't want it over the life of the contract. That's the point. We don't want it over the life of the contract. We just want it on the contract

- 13 -

for eight battleships - to let them write off six million.

H.M.Jr: I don't think you can do that, because he's got more pride in that Charleston plant down there, which he's got left.

Edison: (Handing paper to Secretary) This is what you want.

I think we can work out something on that.

McLaine: What we would want, Mr. Secretary, would be to have the Internal Revenue engineers or whoever might assist us in ascertaining that percentage - we wouldn't want to take the sole responsibility for determining that percentage.

H.M.Jr: I....

Edison: Well, I assume....

H.M.Jr: I don't think you can get that by the President.

Edison: Well, let's work on this other scheme for a while.

H.M.Jr: All right, and then when you're ready, I'm ready.

Edison: We can ask for the assistance of some....

H.M.Jr: These men are all at your service.

GROUP MEETING

July 17, 1939.
10:30 A. M.

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

H.M.Jr: George, if you and Harry have nothing on tonight, I wish you'd save it, because I may want both of you to come to the house for the purpose - the three of you (pointing to Foley) - will be to do the way we used to do, have you sort of cross-examine me, see?

White: We're preparing some questions - we've got about fifty questions; we may be able to boil them down to twenty-five, I guess, without much trouble - as to what you are very likely to be asked.

H.M.Jr: Well, if I get a chance during the day we'll do it, but we'll certainly do it tonight.

White: Well, we have the questions ready any time. They're being typed now.

H.M.Jr: Let's say - what did I say, 8:30? Let's say 8:00 o'clock. Is that all right? What? Eight. What?

White: Any time.

H.M.Jr: 8:00 o'clock.

Now, what about White's suggestion of trying to get Lubin to get the A. F. of L. interested?

White: I spoke to him this morning, tried to get in touch with him over the week-end and couldn't; he said he'll be glad to, and he thinks he'll be able to do it. He says he can take care of the railway workers without much trouble, although I understand that - Currie tells me that there will be some difficulty there, because the fellow who is at the

- 2 -

head of that is sore at the President for being snubbed on this matter.

H.M.Jr: George Harrison?

White: Railway....

H.M.Jr: He's the head of the railway union.

White: That wasn't the name that I got.

H.M.Jr: You're thinking of Pelley. That's the....

White: No, I was thinking - maybe it was the shopworkers, maintenance or shopworkers. But in any case, Lubin claims he can take care of it.

H.M.Jr: Well, Harrison knows us here in the Treasury. We stand very well with Harrison - I do personally - and he represents the railway union.

White: I see. Well, he thought they would get behind it, and he also said the A. F. of L. - he'll get hold of Green. And Foster said he'd take care of the electrical workers, who are very eager to have this thing passed. But none of them are going to do anything until I let them know. I wanted to speak to you first.

H.M.Jr: Well, yes.

White: O. K.

Now, the C.I.O. - we have what we think are other channels or other connections.

H.M.Jr: Well, we have excellent channels here, too, through Gardner Jackson.

White: Maybe we'll use yours, then.

H.M.Jr: Herbert, do you want to tackle Gardner Jackson?

Gaston: Sure.

H.M.Jr: What?

Gaston: Yes, yes.

- 3 -

H.M.Jr: Will you do it right away?

White: We'll get it from both ends, or better just have one?

H.M.Jr: Gardner Jackson, you see, handles public relations for John Lewis.

White: All right.

H.M.Jr: What?

White: All right.

H.M.Jr: And he's very much interested in sharecroppers - I mean all this stuff - this is one thing that takes care of - Gardner Jackson on this question, just on the thing alone of the Farm Security, ought to be for the Bill. What, Herbert?

Gaston: Yes, yes.

H.M.Jr: He's devoted so much of his time to that.

White: Then we'll have something ready sometime late this afternoon; I called them all up on Saturday morning and they've been working on it, presumably, over the week-end. What it will look like I don't know. But I thought if we could get a statement as to what the over-all program looks like in terms of skilled labor, unskilled labor and the important materials, it might look very effective. And I'm getting it from the various agencies; they're all working on it and they promised they'd have it to me today. If it looks good, I thought we might include it in the statement either as a table or an appendix, or we could have it in somehow. Can't tell until I get it, but it might look quite effective, getting it down to such specific terms.

H.M.Jr: Well, this thing - this Bill becomes more and more important in view of this strike situation, and this 130-hour week thing. I mean if they'll only get back to this - I mean this ought to take care of a lot of these people.

White: And then, it does so at prevailing union rates and what not.

- 4 -

H.M.Jr: Entirely.

White: It has that appeal, which a WPA program would not have at the moment.

And what about this reclamation amendment? Have you gone into that?

H.M.Jr: Will you be here tonight, Herbert?

Gaston: Yes, I've got that down.

H.M.Jr: Are you (Duffield) working on that?

Duffield: Not particularly, I guess.

H.M.Jr: Well, if Herbert will come....

What?

White: Is somebody here taking up the reclamation amendment that they're working on?

H.M.Jr: Well, somebody - Bell seems to be unkindly disposed to that.

White: Is or isn't?

H.M.Jr: Well, he's - he doesn't like it.

White: They claim it's over 90 percent self-liquidating. I don't know much about it either, except it sounds pretty good. If they're going through with an amendment on it, instead of fighting it, if it's good, we ought to support it.

H.M.Jr: Why don't you get hold of the fellow....

Foley: Page.

H.M.Jr:and let those working on it, plus Bell, get the fellow in and give him the works, see what kind of a story he can tell you fellows, during the day?

Foley: All right.

H.M.Jr: See?

- 5 -

- Foley: There isn't much trouble about putting the amendment in the Bill. I mean it will fit right into the Bill.
- H.M.Jr: Ed, if you can do it before 1:00 o'clock, I could have a chance to take it up with the President.
- White: I wasn't thinking of that so much as I was thinking of having everybody get behind it if it was good, rather than sniping at it.
- Foley: Sure, I'll call him and get Danny and we'll talk to him before 1:00 o'clock.
- White: We also have some questions which we thought we might give Barkley to ask you.
- H.M.Jr: Well, are they ready?
- White: They'll be ready at 11:00 o'clock, and we can take them up at 8:00 o'clock tonight.
- H.M.Jr: I have nothing - I'll have from eight to ten undisturbed tonight.
- What have you got, Herbert?
- Gaston: Tennessee Bankers Association would like somebody to speak to them on August 15th on the monetary policies of the Administration. Harry could go. I don't see any objection to Harry going, do you?
- H.M.Jr: Well, Harry's going to be on vacation.
- Gaston: He'll run down from New York.
- H.M.Jr: Harry who?
- Gaston: Harry White.
- H.M.Jr: He's going to be on vacation.
- White: Yes, I hadn't - Herbert spoke to me about it - I hadn't thought at that time that I would be anywhere but around. If I'm around, I can; if not, we can send somebody else, if you want somebody to go.

- 6 -

H.M.Jr: Well, we can't service those people. We haven't got enough people. We can't service them. Why not let the Board members of the Federal Reserve do it?

White: Or, if you like, we could send Cole. He's a professor of monetary.... He'll give a very academic discussion. In lieu of anybody else....

H.M.Jr: All right.

White: Be quite academic. It wouldn't probably be what they'd like, but....

H.M.Jr: I'm sure it would be just as clear as B. Ruml's talk to the Dry Goods Association.

White: Well, it would be on even a higher level than that, I think.

H.M.Jr: For them to understand it, it will have to be lower.

White: Unless you want....

H.M.Jr: Is B. Ruml around these days? I don't hear him or smell him or anything.

White: He was around last week, and I don't know - oh, he came down - he had something he wanted to take up with the Internal Revenue, some change in the.... I spoke to Harold about him and he called on Harold and he said that he took care of them very, very efficiently. And they - Merriam and he were there, and they were talking about - that nobody knows how to get in touch with the Government. And they were surprised at the efficiency there is if you get in touch with the right people. I commented that there is efficiency if they get in touch with anybody - if they know how. There was some discussion. I said I'd prove it to them. I called up one of the departments on a crazy kind of question, and in sight of three minutes, telephoning, just being relayed twice, we got to the man who knew all about it.

H.M.Jr: Where?

White: I'm just repeating that as a matter of interest, amusement.

- 7 -

H.M.Jr: What?

White: To show that the Government really is much more efficient than the business men think, if they approach it with any reason....

H.M.Jr: Well, whatever happened - for a while Frank Walker was down here and he ran an Information Bureau, and it really was a good idea. Whatever happened to that?

White: I don't know. They said that whenever a business man comes to Washington to get anything done, they think only in terms of either getting their Senator or Congressman or a lobbyist, they never think of going to the department and getting results, as they easily can.

H.M.Jr: Seriously - I mean there was something that....
Would you (Mrs. Klotz) look through here - there is this memorandum on Section 102 from Graves.

White: Well, I think they're still....

Gaston: I think they're still running the United States Information Service, they're still referring letters to the Treasury Department for reply.

H.M.Jr: Of course, it's a natural for Harry Hopkins. That's what he should do.

Foley: Well, Lowell Mellett took it over, didn't he, and they still have the National Emergency Council heads in each State.

White: I think so.

H.M.Jr: Well, it's a natural for Hopkins. I mean that's the sort of thing he ought to do.

Gaston: I haven't anything else.

Duffield: Have you completed revising your remarks? I'd like to get the final copy so we can go to work on it.

H.M.Jr: I think there will have to be a little....

- 8 -

Duffield: I understand you asked for that.

H.M.Jr: I think you're going to have to be a little patient. You'll have to keep after us. Let's just see - I mean whether we want to clear it tonight or whether we want to clear it before. I mean if White is going to have suggestions to put things in - I've only got a couple suggestions. It's not very long. How long does it take if you start stenciling, from beginning to end?

Duffield: We can do it fairly rapidly, Mr. Secretary. The more rapidly we do it, the more chance of letting something slip.

H.M.Jr: Actually the time - how long does it take to do a job like that?

Duffield: If we get it at 8:00 o'clock in the morning we can have it at ten.

H.M.Jr: Let's count on it that way.

Duffield: Yes. I just don't like to rush it through, because there's always a chance that in the hurry something will get by.

H.M.Jr: You used to work for a daily newspaper, didn't you?

Duffield: They make mistakes, too.

H.M.Jr: Well, you've established your alibi. We'll take 8:00 o'clock tomorrow morning. How's that?

Duffield: All right.

H.M.Jr: We won't be fussy with the girls, having them stay and then no work for them.

Anything else?

Duffield: No.

Foley: Here's a copy of Judge Weibel's opinion in that silver case.

H.M.Jr: Anything else?

- 9 -

Foley: That's all I have.

Haas: I'm getting the information for one of them, and that....

H.M.Jr: What else?

Haas: Nothing.that information is being assembled; Dan is probably now on it.

H.M.Jr: On the States?

Haas: Uh-huh.

H.M.Jr: Good.

Haas: And Harry is working on that other along with Dan.

H.M.Jr: Good.
Harry?

White: I'd like to take up the matter of dumping cases. This year we've got forty-five, and three since the day before yesterday - that's forty-eight new dumping cases which we have to handle. We have one man working full time, and at least two or three of us spending a substantial amount of time, and we're falling behind. Some of the cases - take a case like this wood pulp case - they're very complicated cases, in which the Tariff Commission or Trade Commission might spend six months or a year. They're not all so complicated, obviously, but many of them are. And if we're not going to continue to fall behind, continue to pile up, we'll have to put another man on it.

H.M.Jr: Who pays for these men?

White: So far the stabilization fund has been paying for them. That's one thing we wanted to take up this week.

H.M.Jr: Well, it's a Customs matter.

White: It's exclusively Customs.

- 10 -

H.M.Jr: I mean they ought to handle it. I tell you....

White: I was going to take that up with you this week.

H.M.Jr: I tell you what I'd like to do. I wish you'd talk it over with McReynolds and Gibbons, find out where to go, and just as soon as they make up their minds, I'm available.

Gibbons: I think it would take a good dozen expert accountants to start right away. They do all this by correspondence. My opinion is they ought to go out like income tax examiners - go out and get these facts. Some of these cases are two years old.

H.M.Jr: Well, if you'll talk it over, as soon as you fellows are ready, I'm ready. We'll set a dead-line for Wednesday.

White: Capital is continuing to come in - 11 million last week.

Here's a letter - I don't know whether you've seen it - from Rowe, of the White House, with respect to a letter on the Sunshine Silver Mining Company activities, which has been referred to you by F.D.R. I think that this relates to the Walsh-Healy Bill - the application of the Walsh-Healy Bill to silver and gold which we buy.

H.M.Jr: Don't you think as a matter of efficiency that that ought to go over to the coordinator of the White House and have it cleared through Mr. McReynolds?

White: Well, it would if he were there - I mean that's the way it would have been handled, I think.

H.M.Jr: I see.

White: But since it's been all through the mill and Rowe has gotten it, he's sending it to you and Miss Perkins; this is a notice that Miss Perkins is apparently going to contact you. I think it should go through the legal division.

H.M.Jr: Well....

- 11 -

White: I think the legal division ought to handle it.

H.M.Jr: You think so, rather than the White House coordinator?

White: It's already passed through the coordination stage. On its way back, it might....

H.M.Jr: The four-minute egg has cooked about thirty seconds.

White: No, it's more than that. It's half done as far as the coordinating is concerned.

H.M.Jr: How are you going to get rid of it?

White: Give it to Ed Foley.

Haas: Here, Harry. (Passes letter from White to Foley)

White: Here's something that the coordinator may want.

H.M.Jr: If we hadn't learned something in Washington in six and a half years about how to pass the buck, I'd be disappointed.

White: Afraid that that's going to come back to roost.

Apparently we have to make this report: "I have the honor to report the work of the Division for the quarter ending June 30, 1939, as current."

H.M.Jr: Who signed that?

White: I'm going to. I'd be glad to initial it if I knew what it meant.

H.M.Jr: Who wrote it to you?

White: I don't know; it comes from the Administrative Assistant, Mr. Bell.

McR: It's a quarterly report.

H.M.Jr: Ask Bell what he means.

White: Charlie Bell doesn't know. Not Danny Bell. This is Charlie Bell.

McR: By statute you are required - each department is required to report to the White House whether their

- 12 -

work is current or whether it's behind. We do that all the time. Now, if you fellows in Monetary - after all, you are head of Monetary Research, and if you sign a report saying it's current when you're not, that's your responsibility.

- White: It isn't a question of knowing whether to sign. It's a question of knowing what it means.
- H.M.Jr: Well, don't thrash it out here, will you?
- Klotz: This is the only place they can get it thrashed out.
- White: No, I haven't asked - I didn't know whether that was your order or whether it was something....
- McH: No, it's a statute that requires each department to make a report to the White House quarterly.
- White: There is a cable from Italy, which you may not have seen, in partial answer to your question about the possible devaluation of the lira, in which he merely states that those rumors are cropping up all the time. There is a group who would like it, but he doesn't think....
- H.M.Jr: Who's "he"?
- White: "He" is Livergood.
- H.M.Jr: Who?
- White: Livergood - Charles Livergood. He's the Commercial Attache in Rome.
- Then there are some other things I'll take up with Archie.
- Lochhead: Nothing.
- Gibbons: You got Matt Woll's letter?
- H.M.Jr: No.
- Gibbons: Nobody's seen it. Did you see in this morning's Times a little piece saying he had written you regarding the accounting....

- 13 -

H.M.Jr: Be interesting to find out whether he put it in the newspapers before I got it. (To Mrs. Klotz) Find out - Matthew Woll.

Gibbons: This Coast Guard accident sort of got me down - terrible thing.

H.M.Jr: Anything else?

Gibbons: That's all.

H.M.Jr: Will you stay behind, Harold? I want to talk to you a minute.

(Bell comes in)

H.M.Jr: Good morning, Dan.

Bell: Good morning. The Senate passed the Byrd resolution, as you know, calling upon the Treasury for a lot of information concerning the various corporations, and one section requests you to transmit to the Senate the latest annual report of these corporations. So this complies with that and tells them the rest of them will be up in January.

H.M.Jr: Will you be up at my house, unless you have a social engagement, at 8:00 o'clock? I'm working on my testimony for tomorrow. Will you be prepared - I mean just as though we were on the Hill tomorrow. You know, they always go into everything - debt limit and the rest of the stuff. Do you know what I mean? So bring your books with you.

Bell: All right. That's all I have.

H.M.Jr: Where is my debt bill, anyway?

Foley: Passed.

H.M.Jr: Did it?

Bell: Should be on the President's desk by now.

Foley: Yes.

H.M.Jr: Fine.

- 14 -

Mac?

McR: (Nods nothing).

H.M.Jr: I'd like both Harold and Foley to stay, please.

MEMORANDUM OF CONFERENCE

SECRETARY'S OFFICE

MONDAY MORNING, July 17, 1959

The Secretary detained Mr. Foley and Mr. Graves after the 9:30 meeting (which occurred at 10:30) for a discussion of a memorandum which Mr. Graves had previously supplied him with regard to section 102 cases.

The Secretary read and approved this memorandum in principle.

He inquired whether the instructions referred to had been sent to field offices. Mr. Graves informed him that they were being withheld until he, the Secretary, had indicated his approval of the memorandum.

The Secretary indicated that he desired such instructions to be sent immediately and inquired whether they would be made public. Mr. Graves advised him that they would not ordinarily be made public, and suggested that if publicity is desired, the instructions be issued in the form of a Treasury Decision. The Secretary requested that unless there was some objection, the instructions be issued in the form of a Treasury Decision.

After Mr. Foley left the conference, the Secretary requested Mr. Graves to see to it that, unless this is already done, in every important field office of the Revenue service, including collectors, internal revenue agents, the Technical Staff and District Supervisors, an information clerk should be stationed at a convenient location with a sign, "Information", prominently displayed. He requested that the persons chosen for information clerks should be thoroughly conversant with the organization, personnel and activities of the offices in which they serve, and that they should be persons of the proper personality to deal with the taxpaying public. He asked Mr. Graves also to follow this up later and submit to him a special report of what has been done.

NOTE

July 18, 1959.

The Secretary telephoned to Mr. Graves this morning with regard to the issuance of the Treasury Decision above referred to.

He asked that the proposed Decision be cleared through Mr. Blough and Dr. Magill and that it be ready for his signature Thursday morning, July 20th.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

325

DATE July 17, 1939

TO Secretary Morgenthau

FROM W. H. Hadley

Review of the Government Market

Week ending July 15, 1939

The government security market showed mixed tendencies during the past week. Switching operations seemed to predominate trading activity and consisted of moving by some banks and investors from long term bonds into intermediate and short term bonds. These operations appeared to be the result of a feeling that long term bonds had moved up too high in the previous week's recovery. Trading, however, was light.

The Treasury security market continues so thin that any buying or selling orders have effects on the market out of proportion to the size of the orders. As a result, fluctuations within a range of 1/4 point carry no real significance at the moment.

Treasury bond prices were unchanged on average although selected short issues were up as much as 5/32nds while some of the longer issues were off the same amount. Treasury notes showed gains of 2 and 3/32nds in the longer issues and losses of 1/32nd in the short ones. Guaranteed issues were unchanged to 5/32nds lower.

Dealers' Portfolios

Dealers' total portfolios were practically unchanged. However, Treasury note holdings declined about \$9 million while HOLC position went up about \$6 million. This increase in HOLC bonds reflects issues other than the new 1-1/2% issue which we have been selling in the market. Other

changes were of little significance.

Dealers' Portfolios

(in millions)

	<u>Week ended</u> <u>July 8</u>	<u>Week ended</u> <u>July 15</u>	<u>Net Change</u>
Treasury bonds	14.4	14.0	- 0.4
Treasury notes (1 year)	22.6	16.3	- 6.3
Treasury notes (1-5 yrs.)	20.4	17.5	- 2.9
Treasury bills	0.5	3.7	+ 3.2
H.O.L.C. bonds	19.9	25.9	+ 6.0
F.F.M.C. bonds	<u>2.4</u>	<u>0.5</u>	<u>- 1.9</u>
	80.2	77.9	- 2.3

Dealer trading activity averaged about \$115 million daily, of which about \$75 million daily was in Treasury bonds.

New Security Issues

There were no large new security offerings during the past week. However, three railroad equipment trust offerings totaling about \$11 million were issued and two small public utility offerings totaling \$9.7 million. Several large new corporate offerings are expected either this week or in the very near future. However, most of these will be for refunding.

Corporate Bond Market

In sympathy with a firmer stock market, corporate bonds moved slightly higher during the past week. Second grade issues reached levels above the recent high point attained around the first part of June. The average of this group is now only about 1/2 point below the March high point. High grade issues held about unchanged at levels slightly under the all-time high.

Treasury Investment Accounts

There were no market transactions for Treasury investment account. However, \$15 million Special 2 1/2% Treasury notes were purchased for Postal Savings, bringing the total in this account to \$143 million Special 2's.

HOLC Bonds

During the week \$9,250,000 new 1-1/2% bonds were sold for HOLC Capital Account, bringing the total thus far sold for cash to \$57,400,000 and leaving a balance to go of \$42,600,000.

Federal Reserve System Account

The only transaction by the Federal Reserve System Account was the partial replacement of \$35,500,000 maturing Treasury bills with \$20,000,000 new bills, thus allowing \$15,500,000 reduction in the System's portfolio.

TREASURY DEPARTMENT

228

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE July 17, 1939

TO Secretary Mergenthau
FROM Mr. Haas *HA*
Subject: The Business Situation,
Week ending July 15, 1939

Conclusions

(1) A more optimistic business psychology has become apparent during the past week as the result of an upturn in prices on the New York Stock Exchange, which apparently reflects the cumulative influence of favorable domestic business news.

(2) On the other hand, commodity prices abroad continue weak, as shown by a further decline in Reuter's index, and stock prices in London and Paris have shown but little tendency to follow the advance here. Foreign selling of American securities has increased. These suggest serious apprehension abroad over the international political outlook.

(3) Business indices now appearing are affected by holiday influences, and provide no dependable guide to the current business trend. The New York Times index for the week ended July 8 was down 5.0 points from the pre-holiday week. While the closing of automobile plants for an early change-over may affect various business indices over the next several weeks, the basic trend of business continues to improve.

The present business picture

The outstanding event of the past week, in its potential effect on the business trend, was an upturn in stock prices on Wall Street to the highest levels since early June. (See Chart 1.) An expansion in trading volume on the rise, and a more bullish attitude of financial writers, have contributed toward a changed psychology in Wall Street.

If the rise in the stock market is sustained, it will be accepted in many quarters as indicating that the bearish factors in the current situation have become fully discounted,

Secretary Morgenthau - 2

and that favorable influences are now in the ascendancy. This would provide an important stimulus to new orders for various industrial materials.

An important factor in the market upturn has doubtless been the cumulative array of favorable business news in recent weeks. An impressive presentation of the improving business situation was made by the Wall Street Journal in a front page article published on the morning of July 12, the day on which the strong upturn began. Among other facts, the article pointed out:

- (1) The high level of retail sales, with some leading mail order houses and chain stores setting new sales records.
- (2) A sharp spurt in automobile sales at the end of June, suggesting a good sales volume in July.
- (3) New high records for gasoline consumption, and a six-year peak for replacement tire sales in June.
- (4) Sales of building materials running at the best pace in recent years; domestic orders for machine tools on a steady upgrade; expanding orders for electrical equipment; sales of chemicals in June and early July at a higher level than in May.
- (5) Improved activity in cotton textiles, with wool and rayon production at high levels.
- (6) Steel operations and sales holding well above the previous year's level.

Foreign situation disturbing

A contributing factor to the market rise has apparently been a growing feeling -- which has proved deceptive on several previous occasions -- that "Hitler has been stopped". With a realization of what this would mean in terms of world business revival, it apparently takes but little peace news to put stock prices higher.

Whatever the feeling in Wall Street, however, foreign buyers of stocks and commodities are not optimistic. As shown in Chart 1, prices on the London and Paris stock exchanges have scarcely responded to the Wall Street upturn, whereas they are

Secretary Morgenthau - 3

usually rather sensitive to upturns in prices here. Foreign selling of American securities has increased sharply during the past week, as it did on a larger scale during the war scares of last January and March.

Of greater significance, sensitive commodity prices in Great Britain have continued to decline, and some weakness has been shown by prices in this country. (See Chart 2.) These indications of serious apprehension abroad over the political outlook must be taken into account in appraising domestic business prospects.

With a business rise in the United States getting under way on a sound basis, it seems likely that even a severe crisis abroad, stopping short of war, would not be sufficient to reverse our business trend, and that in the event of war the shock would be temporary.

Domestic factors continue favorable

An important sustaining business factor is the well-maintained level of national income. (See Chart 3.) Tentative estimates of the Department of Commerce indicate an upturn in June to an annual rate of about \$65.6 billions, which compares with the strike-depressed level of \$64.6 billions in May. This improvement in national income has doubtless been a leading factor in the recent improvement in retail sales of merchandise, automobiles, and other products. The seasonally-adjusted FRB index of department store sales rose to 87 in June from 85 the previous month. It had averaged 88 during the first 4 months of the year.

The steel industry presents a picture of gradually improving activity, at a time when operations are usually seasonally slack. Blast furnaces are being started up, in place of the usual summer shutdowns. The volume of steel orders recently has been better than some companies had expected, and will expand further as new-model automobile production gets under way. The magazine Steel reports that steel demand has improved materially in the past 10 days, especially for miscellaneous products.

Steel operations last week continued to be influenced by the extensive holiday shutdowns, and the rise of 11.2 points to 49.7 per cent of capacity did not bring the rate quite back to the pre-holiday level. This week, however, steel operations were raised to 56.4 per cent of capacity, a new high for the year.

Secretary Morgenthau - 4

The automobile industry has already started production on 1940 models, the Packard Company having returned more than 9,500 employes to its payrolls recently following the change-over. This company reports that its field stocks have been reduced to 3,000 units, which is by far the lowest since the company entered the lower-price field nearly five years ago.

The continuation through June of a high level of automobile activity has brought an upward revision in production estimates to approximately 321,000 units for the month, representing an advance of about 70 per cent over the 1938 figure, the highest percentage gain this year. July production is expected to be reduced to about 185,000 units, or 23 per cent over the previous year's figure, as a result of an unusually early change-over. These early shutdowns will tend to reduce various business indices temporarily, which will be made up by contra-seasonal advances when new model production gets fully under way.

A heavier demand for lumber recently for residential and agricultural construction has found moderate inventories in mills and retail lumber yards, according to trade reports, and brought a perceptible firming of lumber prices. New orders for lumber again increased to a higher level than production during the latter part of June (See Chart 4) after exceeding production for a long period earlier in the year.

Industrial prices firm

While sensitive commodity prices on the whole have noticeably weakened, it is observable that the decline has been confined largely to certain agricultural and food products. Prices of industrial materials such as copper, steel scrap, rubber, hides, cotton, silk and tin have held firm or even improved, reflecting a strengthening industrial demand. A rise in steel scrap prices seems particularly significant, coinciding as it does with an improving trend of steel operations. Sizable scrap purchases in the Cleveland district have raised prices there 50 cents a ton, and a 25-cent rise has occurred at Pittsburgh. The Iron Age composite scrap price has been raised to \$14.79 a ton, or within 50 cents of the year's peak reached in March.

A buying boom which has developed in copper suggests possible developments that may occur in other commodities where consumer inventories are low, if buyers should become concerned

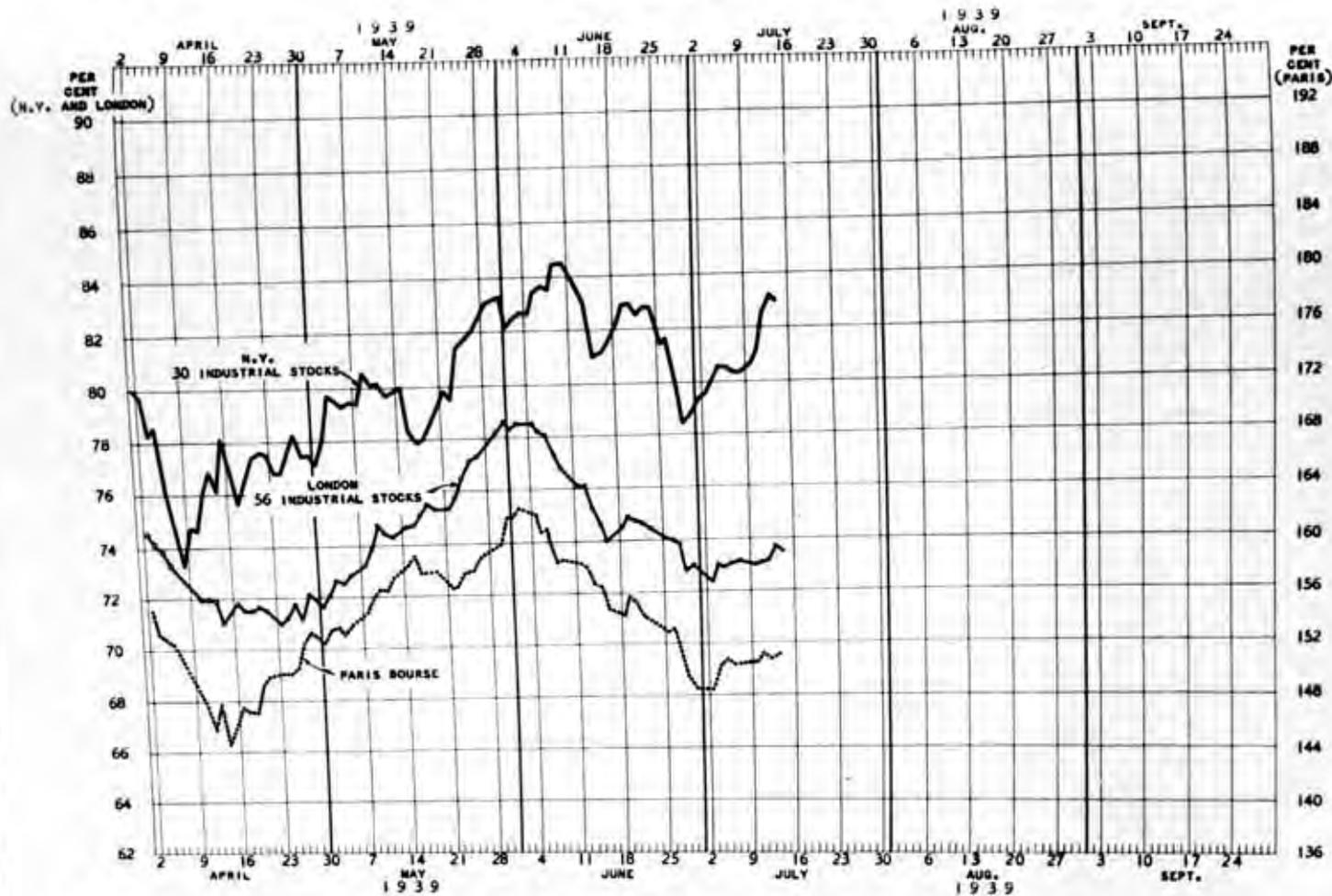
Secretary Morgenthau - 5

over supplies. Stocks of fabricated copper products had been reduced to "bare shelf proportions", according to the American Metal Market, owing to hand-to-mouth buying over a considerable period. When the industry was startled into action last week by heavy foreign buying orders, a wave of domestic buying got under way which promises to roll up a new high record in total sales. Sales in the first 10 days of the month, 170,558 tons, nearly equalled the record monthly total of 178,801 tons made in October 1936. The Annalist looks upon this buying movement as the most important statistical development of the week, suggesting that copper consumers are optimistic over the prospects in their own industries.

The New York Times business index for the holiday week (ending July 8) showed a decline of 5.0 points, largely because of a lack of adjustment to take account of shutdowns on the day preceding the holiday.

STOCK PRICES IN U.S., U.K. AND FRANCE.

AUGUST 1936 = 100



Office of the Secretary of the Treasury
Division of Research and Statistics

Chart 1

FD - 128

Regraded Unclassified

COMMODITY PRICE INDEXES IN U.S. AND U.K.
Daily

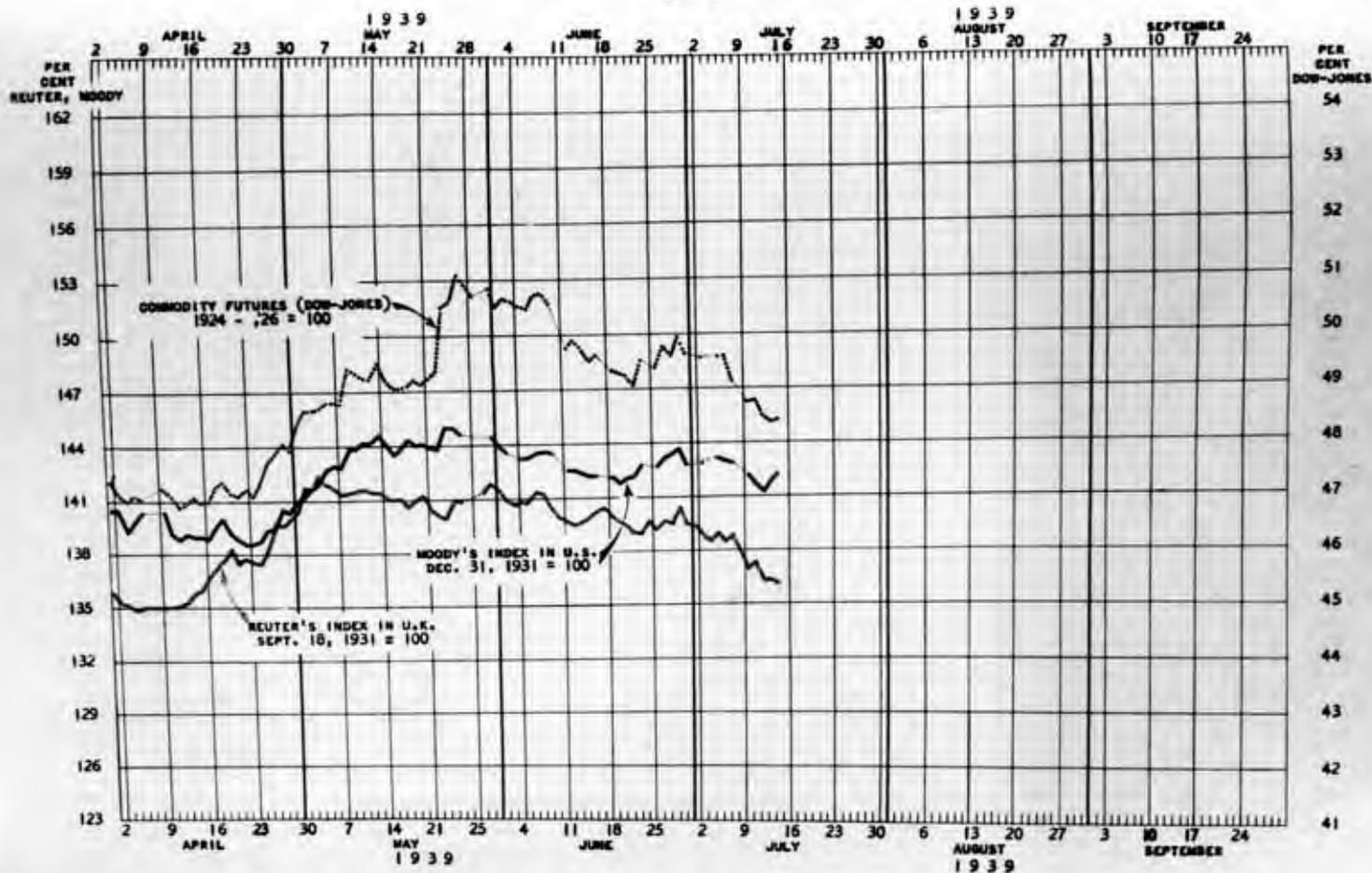


Chart 2

NATIONAL INCOME PAYMENTS

Monthly Figures on Annual Basis*



*Seasonally Adjusted Monthly Figures Multiplied by Twelve

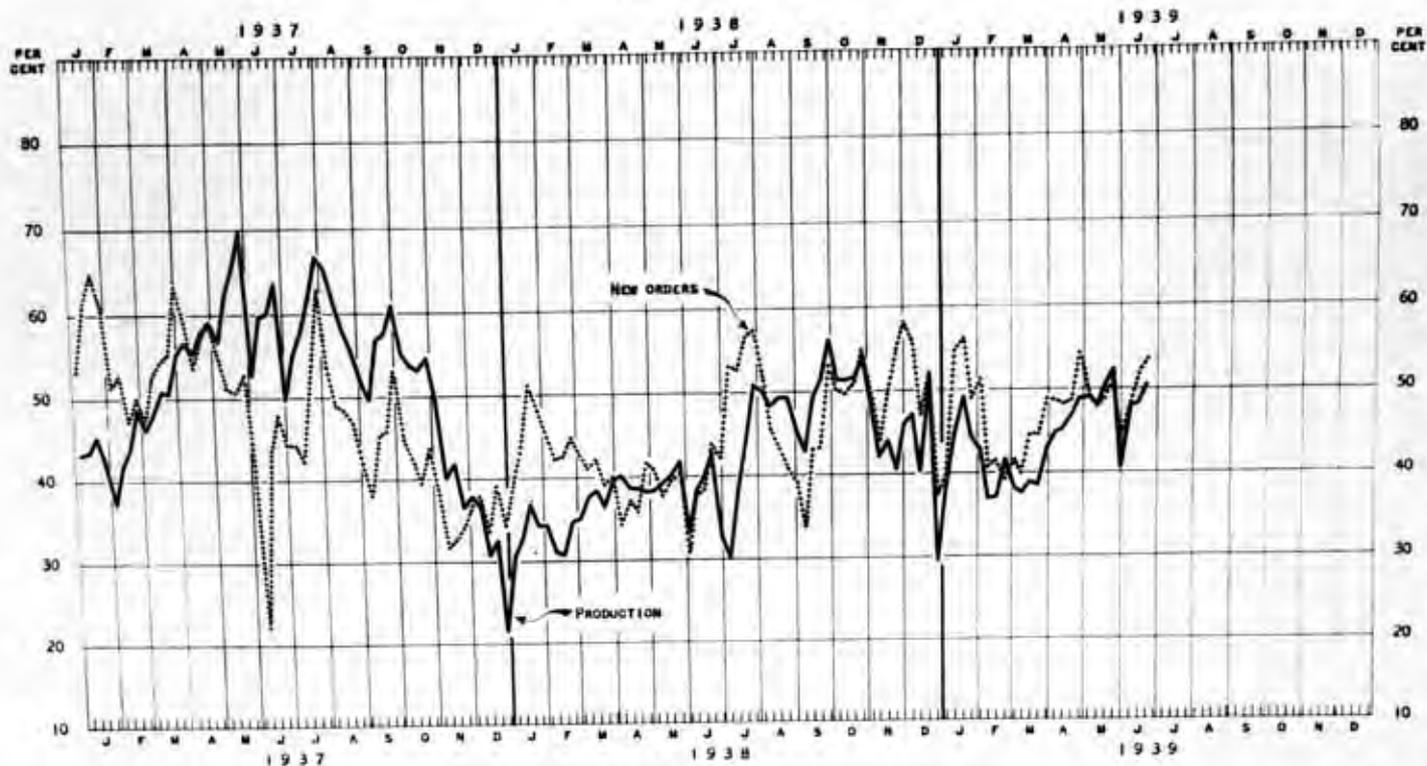
Office of the Secretary of the Treasury
Bureau of Economic Warfare

C-255-A

Chart 3

33

PRODUCTION AND NEW ORDERS OF LUMBER *
1923 - '25 = 100



*BASED ON FIGURES FROM NATIONAL LUMBER MANUFACTURERS ASSOCIATION

Office of the Secretary of the Treasury
Division of Research and Statistics

C - 205 - A

Chart 4

236

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 17, 1939

TO Secretary Morgenthau

FROM Mr. Haas *JK*

Subject: Wheat export sales and other market data.

June 26-28. No data on export sales.

June 29. A big demand developed for Canadian wheat, and sales estimated at 1,500,000 bushels. An English mill was reported to have bought 1,000,000 bushels of wheat futures in that market.

June 30. Export demand slow and Canadian sales estimated at only 150,000 bushels.

July 1-4. No data on export sales.

Grain men estimate that a much larger amount of wheat may go under Government loan this year than last, since there are more eligible producers, loan rates are higher, and the market is lower.

July 5. Sales of wheat for export over the 4th estimated at about 1,000,000 bushels, about equally divided between Manitobas and American hard winters.

July 6. Export sales of Canadian wheat estimated at 250,000 bushels.

July 7. Foreign demand very slow, only about 100,000 bushels sold, which was Manitoba wheat to the Continent.

Canadian official report said to indicate possibility of a crop 100,000,000 bushels larger than last year, when 326,000,000 bushels were harvested.

July 8. Export business estimated close to 500,000 bushels, mostly Manitobas but some American hard winters.

Secretary Morgenthau - 2

July 10. Export sales of North American wheat over the week end not more than 100,000 bushels.

Canadian export shipments in June totalled 14,637,016 bushels, or more than double a year ago, with average export price of 61.7 cents, 43.6 cents down from last year.

July 11. Better export demand, and sales of 1,500,000 bushels Canadian wheat to Great Britain and Continent reported.

July 12-13. No export sales data.

Liverpool price declined on July 13 to 347-year low. Market observers think selling by Canada and Argentina cause of extreme weakness, since these countries have large surpluses to dispose of to make room for the new crop, which in the case of Canada is of near-record size.

July 17, 1939
11:42 a.m.

HMJr: Henry, I've got Danny Bell sitting here with me and we've been talking about Commodity Credit financing, and Bell has been in touch, during the past month or so, with them, and we've looked after this for them in the past. And the decision has to be made within the next day or two just what is going to be done in -- to take care of the supplying them with the money over the first of August.

Henry Wallace: Yeah.

HMJr: And, seeing -- I don't know whether you want the Treasury to continue to advise you and -- and to merchandise those things for you, but we have in the past.

W: Well, of course, we're delighted, Henry. I'm.....

HMJr: And.....

W:do it at all times --.....

HMJr: We take the.....

W:we're eager to have.....

HMJr: We'll take the.....

W:-- eager to have Treasury in on these matters.

HMJr: Well, we've taken full responsibility as to their financing, and -- I mean, we've priced them and gone out and arranged everything and done -- taken -- done the entire thing. R.F.C. had nothing to do with it.

W: Yeah.

HMJr: But I think we ought to have a meeting, and -- at least so that you'd get the idea and then there's a -- there's a bank picture in this thing, and whether you want to continue those same arrangements, and then we could fix up directors and do it all at once.

W: On the.....

HMJr: I mean the -- I mean, I don't know whether -- what I'm suggesting is calling a meeting, or your calling a meeting.

W: I do want to have a talk with the President on that other matter, of course, I think, before that meeting is held.

HMJr: Well, this.....

W: And I'm hoping to have that tomorrow.

HMJr: Well, this financing thing ought to be settled between now and Wednesday.

W: Now.....

HMJr: And if you wanted to designate somebody to talk to Bell.....

W: Could I -- I think I'll designate Carl Robbins to talk to Bell about that matter.

HMJr: All right. Will you have him get in touch with him?

W: Yes, I'll do that right away.

HMJr: Now, Bell knows all about it and is fully -- I mean, he's got some authority and he can make decisions. You see what I mean?

W: Yeah.

HMJr: So if Robbins -- it would save your time, and then if after you've heard it you want us to continue to handle it for you, we'll be delighted to.

W: Well, that's fine.

HMJr: But the R.F.C. never had anything to do with this.

W: Yeah.

HMJr: So if you could have Robbins -- let him know.

W: Yes, I want to talk with that aspect of it with the President -- about that aspect with the President.

HMJr: You mean the financing?

W: No, I mean the.....

HMJr:the other? Well, this would be -- no matter who is the Board of Directors.....

W: Yeah.

HMJr:on the first of August we've got to raise you some money.

W: Yeah.

HMJr: And the normal thing would be to do it next Monday.

W: Yeah.

HMJr: And we need a little time to canvass the market and get you the lowest rates.

W: That's right.

HMJr: See?

W: Well, we're delighted to work with you on that, I'm sure, Henry.

HMJr: Now the other thing is, my boys say you did a swell job on the Hill on this self-liquidating program.

W: Oh, that's awfully nice of you to say so.

HMJr: They were very enthusiastic.

W: I think I could have done a better job, but it was rather short notice.

HMJr: Very short notice. I thought you -- from what they tell me, you must have done awfully well. Ah.....

W: In the -- in the Senate -- in the House side there was a fellow by the name of Walcott that wanted to ask, -- that wanted to conjur up the bogy of the Export-Import Bank being used to finance imports of agricultural products.

HMJr: I see.

W: A totally fantastic thing, and all the time was wasted. All the cross-questioning was wasted on that which is completely beside the point.

HMJr: Ridiculous! Well, then the next move on the director thing is for me to hear from you. Is that right? And on the financing thing, you'll have Robbins get in touch with Bell.

W: Yes, well I think I'll get clear on that tomorrow if --
if I'm able to see the President.

HMJr: But you -- you will put Robbins in touch with Bell?

W: At once.

HMJr: Thank you.

W: Goodbye.

HMJr: Goodbye.

July 17, 1939
2:43 p.m.

343

HMJr: Hello.

Operator: Mr. Edison.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

Charles
Edison: Hello.

HMJr: Edison.....

E: Oh, yes.

HMJr: Morgenthau.

E: Yes, sir.

HMJr: Can you hear me all right?

E: You bet I can.

HMJr: I've talked to the President about this program of yours of the six million dollars for enlarging armor-plate plants.

E: Yeah.

HMJr: And told him it was a combined recommendation of the Treasury that we couldn't do anything for you legally, but -- I mean, under the present law, but we were in favor of seeing that the Navy got an appropriation to spend six million dollars to construct these plants. And the Budget is in hearty accord with that. See? Hello?

E: Yes.

HMJr: Now, the President came back and made the same suggestion that he did Friday, that these companies should borrow the money from the R.F.C. and pay it off on a pro rata basis. So I said, "Well, Mr. President, they won't do that, because at the end of four years where does it leave them if they have no more orders?" So he said, "Well, try it, but," he said, "I don't think that Edison has time to get

this bill through." So I said, "Well, if he is willing to take the chances, are you willing to let him go ahead?" And I got the feeling that he was.

E: Yeah, I see. Well now look, there's a little different slant on it though than that. They don't need any money. You see, we have contracts -- are about to have contracts with some for two more battleships, but we have contracts that we have let for a fixed price of so much a ton, see? And they've got to furnish that material at so much a ton. But we're crowding them for delivery and they say -- well, they've already put in a million dollars apiece and all they're afraid of is that the Treasury Department won't allow them to include that in their cost when figuring their ten per cent, see?

HMJr: Well, that's just the point. Now, we've had the best people of the Treasury on that and the answer is we cannot. We -- we -- we can't do anything.....

E: Yeah.

HMJr:without breaking the law, and I -- I can't even do that for you.

E: (Laughs) Well, we don't want you to do that.

HMJr: Oh, yes you would if you thought you could get away with it.

E: (Laughs)

HMJr: No, we've spent a lot of time on this thing and so has the Budget. I'd be glad to send you over by special messenger a copy of the memorandum I gave the President.

E: Yeah. All right, I -- I'd like to get it.

HMJr: I'll send it over at once.

E: All right.

HMJr: And that's -- it's on one page -- it's only on three-quarters of a page, and that states the position of the Treasury and the Budget. And from now on I can't help you any more, because I can't rule in advance on that ten per cent business.

E: Well now, you understand, Mr. Secretary, that -- that three years from now when these contracts are over you're going to send auditors up there and then you will tell them then whether you will allow it or not, see? And in most cases you will allow it. All they're saying is, "Well, why can't you tell us now?"

HMJr: Well, let me just -- well -- now just a minute. McReynolds is here and let me ask him that. He's been on this.

(Brief pause)

They -- our General Counsel has passed on that specific question and he says he cannot rule in advance.

E: Yeah. I see.

HMJr: Therefore, the Director of the Budget has recommended that you put this thing through on the -- the last deficiency bill, getting the Navy six million dollars with which to build this stuff. See?

E: Yeah. Well then, that's going to cost the Navy six million dollars.

HMJr: Well, it's going to cost.....

E: Whereas, the other way it doesn't cost the Navy anything.

HMJr: Oh yes, it would be added to your cost.

E: No, they don't.

HMJr: Oh, sure they do.

E: They do not! We've got a fixed price for these -- for this stuff.

HMJr: Yeah.

E: They can't add it to their cost.

HMJr: Well, look.....

E: But, as I say.....

HMJr:, old man, I -- I don't know whether you've seen our people, but we've had the very best people on -- in the Treasury on it with the will to do it, see?

E: Yeah.

HMJr: And Ed Foley is in -- I told him that this is something I want to do, if possible, -- any way at all.

E: Yeah.

HMJr: And he tells me I can't do it without going to jail.

E: Well now, your people were -- four of them came right over. You arranged that, you know, after the meeting. I thought we were all in agreement on that.

HMJr: Well, let me -- let me send this memorandum over. See?

E: All right. Fine.

HMJr: And if you want another shot at them, I'll let you have them, but they've tied in the Director of the Budget on this too.

E: Yeah.

HMJr: And -- ah.....

E: Well, I want to be sure they understand thoroughly what the question is.

HMJr: Well, let me send this memo over and if you're not satisfied, call me, personally, and I'll send the gang back again.

E: (Laughingly) All right.

HMJr: I'll do anything I can to help.

E: All right. Thanks a lot. I appreciate it a lot.

HMJr: But if you're not satisfied, call me up and I'll send the gang back again.

E: Yeah. All right. Fine.

HMJr: O. K.

E: Thank you.

HMJr: Right.

July 17, 1939
2:49 p.m.

HMJr: Ah -- with the President's knowledge but not -- I've got passage on August 2nd.....

Cordell Hull: Yeah.

HMJr:to go to Denmark, Norway and Sweden.

H: Yes.

HMJr: I don't know whether I mentioned it to you before.

H: You -- you spoke about it once, yes.

HMJr: Yeah. And unless things get worse, why we thought we'd go.

H: Yes.

HMJr: And if you would tell your people that we were coming, I'd appreciate it.

H: All right. Denmark, Norway and Sweden.

HMJr: And England.

H: Oh, and England. Yeah.

HMJr: On the way back.

H: Yeah. All right, I'll be delighted.

HMJr: Or we might even take a stop at Finland, I'm not sure.

H: You'll leave about August 2nd?

HMJr: Yeah. Finland also.

H: Yes.

HMJr: Now,-if you wouldn't mind.

H: I'll be delighted.

HMJr: And before next week.....

H: I'll write them letters.

HMJr: That would be very.....

H: You won't have to bother.

HMJr: That's Denmark, Norway, Sweden, and Finland and England.

H: Yeah.

HMJr: And the other thing -- Friday, a week ago, if you remember, I called on you in regard to Merle Cochran.

H: Yeah.

HMJr: And I took the liberty of making a suggestion about his.....

H: Yes, I've been pressing the matter of bringing it up and emphasizing it to my personnel people.

HMJr: Yes.

H: I don't know just what -- how it's going to work out.

HMJr: Well, he -- his wife is better now and he wants to go back and pack up his goods. You see?

H: Yes, I see.

HMJr: And -- and.....

H: They've got it under -- I've talked to the men and laid it before them.

HMJr: Yeah. Well, I hope you don't mind my bringing it to your attention again.

H: No, no. No, they've got it, and I'll keep them -- I'll keep emphasizing it to them.

HMJr: Right. And the third and last thing, the world silver seems to have sort of found its level temporarily at around 35 cents.

H: I see.

HMJr: And I thought you'd like to know that.

H: Now, - you have no other plans on that?

HMJr: (Laughs) Gosh, no! All I'd like is the -- I hope that the Hill leaves me alone.

H: You -- in other words, I'm not asking you to say anything for repetition.....

HMJr: Yes.

H:but I just wanted to have, without telling the Mexicans a word, I just wanted to have back in my mind the possibilities.

HMJr: Well, my own feeling, unless the President should overrule me, which, of course, is his privilege, is that we'd just about -- we'd stay where we are.

H: I see.

HMJr: And I -- I -- I don't think we'd go any lower.

H: Yes, I see.

HMJr: Now, whether the market went up, whether we'd follow, I don't know, but my guess is -- for the time being is that we'd stay about where we are.

H: Yes, I see. Well that's -- I'm glad to get that.

HMJr: And -- thank you.

H: All right, Henry.

HMJr: Thank you.

July 17, 1939
2:59 p.m.

350

HMJr: Hello.

Operator: Mr. Edison. Go ahead.

HMJr: Hello.

Charles
Edison: Hello, Mr. Secretary.

HMJr: Edison.....

E: Yes, sir.

HMJr:if you would come to my office at 4 o'clock I'll have everybody here that has said, "No", and we'll listen and we'll have a - we'll see whether we can't do your job.

E: (Laughingly) All right. 4 o'clock.

HMJr: Yeah. We'll have everybody here that's been saying, "No", and we'll see if we can't get somebody to say, "Yes".

E: Yeah. All right. 4 o'clock at your office.

HMJr: Well, will you do that?

E: Yes, and I'll bring along a couple of men myself.

HMJr: Yeah, I'll have a couple of dozen lawyers here, so you and I'll have a tough time.

E: (Laughs)

HMJr: But we'll do the best we can.

E: All right.

HMJr: O. K.?

E: All right. The only question I have is why -- maybe we wouldn't have to pay this six million.....

HMJr: Right.

E:We'll -- we'll thrash it out then.

HMJr: No, what I'm trying to get them -- I've told them to see whether we can't give them a determination as to what the write-off should be before they start. Just what you've been asking for.

E: Yeah. All right.

HMJr: Now that's.....

E: See you at four o'clock.

HMJr: Now, I've told the boys to take a fresh look at it.

E: All right, thanks a lot and I'll be over there.

HMJr: Thank you.

E: Good bye.

July 17, 1939
3:18 p.m.

HMJr: Hello.

Operator: Secretary Woodring.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

Harry
Woodring: Henry.....

HMJr: Yes, Harry.

W: Say on that Allison engine thing.

HMJr: Yes.

W: I find that we did buy quite a number of them and in the -- in the dealings we had to include in the cost of the engines, I don't know, four or five hundred, a two million dollar plant increase.....

HMJr: I see.

W:to put them out, with the provision in the contract that if the French or -- or any foreign people buy planes or anyone here in domestic -- in this country, that they sell any of these engines, if and when they are sold that they -- we get a certain percentage of them back -- of the money back of the sales until we've paid our two million dollars back.

HMJr: Well now, I tell you what I'd like -- I'm having a terrible time getting my lawyers to let us.....

W: Yes.

HMJr:do what Edison wants.

W: Um-hm.

HMJr: And he's coming over here at four.

W: Um-hm.

HMJr: You don't suppose I could have just that part of the contract that has to do with that two million dollars -- that clause?

W: Yeah.

HMJr: So I could show it to our attorneys and see whether that.....

W: Yeah. Why can't I send our man over with it, the legal man, and let him come to your office at four o'clock.

HMJr: You -- don't you operate under that ten per cent thing?

W: Yes. Yes.

HMJr: You do?

W: Yes.

HMJr: Well then, let him sit in and maybe he can help, because I'm trying my best to do it for Edison and our lawyers haven't found a way yet.

W: Well, all right, I'll tell you what I'll do. I'll -- do you want him to come to your office at four o'clock?

HMJr: Yeah.

W: Is there any necessity of me calling you up and telling you what his name is?

HMJr: No, if he just would announce himself, that's all.

W: All right. I'll -- I'll have him over there with the contract at -- at your office at four o'clock.

HMJr: Yeah, because that may be able to help Edison.

W: That may help, yeah. All right.

HMJr: Thank you so much.

W: Goodbye.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: July 17, 1939, 5 p.m.

NO.: 1315

FOR THE TREASURY DEPARTMENT.

For the week ended July 6, the Bank of France statement shows a decrease of 854 million francs in commercial advances, with an increase of 867 millions in note circulation. There was a decrease of 1,718 millions in current and deposit accounts. The gold cover ratio was 64.14 percent versus 63.76 percent.

There was a limited amount of transactions in exchange today, with no important changes in rates with the exception of the florin which strengthened because of reports from Amsterdam that it is likely Colijn will be successful in forming a new Government in which he will still be Premier and will retain the post of Finance Minister.

There was an unsettled and depressed security market, with a downward trend in quiet trading.

In FIGARO the Berlin correspondent reports that in about two weeks Germany will send a trade delegation to Russia to begin negotiations which have already been discussed between the German Ambassador and the Soviet authorities.

- 2 -

authorities. It is the understanding of this correspondent that trade credits in the amount of about 135 million francs, covering a period of two years, will be offered the Soviets by Germany.

The financial press continues to report that the Belgian Government is negotiating a loan with an Amsterdam bank in the amount of two billion Belgian francs, the loan to run for one year, with renewal option. The Belgian Government's borrowing requirements for the current year, it is estimated, will amount to between two and two and a half billion Belgian francs.

END MESSAGE.

BULLITT.

EA:LWW

TELEGRAM SENT

CJ

GRAY

July 17, 1939

6 p.m.

AMEMBASSY

PARIS (FRANCE)

539.

Your 1314, July 17, noon.

Treasury supplies the following information:

Suits brought in 1938 in name of Bank of Spain to recover 15,000,000 ounces silver acquired in 1938 by Treasury from Spanish Republican Government or value thereof - \$6,450,000. Plaintiff claimed silver wrongfully taken from it by Spanish Republican Government and that Treasury acquired no title thereto. Defendants were Superintendent of the United States Assay Office at New York, Federal Reserve Bank of New York which acted for Treasury, and United States Lines Company which carried silver from France to United States.

Federal District Court in an extended opinion reviewing all the facts and legal authorities (copy of which opinion is being mailed to you) concluded that there was no genuine issue of material fact and granted summary judgment against the plaintiff and in favor of

the

-2- #539, July 17, 6 p.m., to Paris

the Federal Reserve Bank and the Shipping Line and also dismissed the action brought against the Assay Office official. Court held that Spanish Republican Government validly acquired title to silver from Bank of Spain and that Treasury acquired valid legal title from Government of Spain. Court also held that suit against Assay Office Superintendent was a suit against the United States and the court had no jurisdiction to entertain such a suit. Court sharply rejected inferences in argument for plaintiff of existence of wrongdoing by officials of Spanish Republican Government and connivance therein by Treasury officials.

Decision will also govern additional 20,000,000 ounces silver of value of \$8,600,000 purchased under similar arrangement and which are subject of other suits brought by same plaintiff on same theory.

HULL
(FL)

EA:FL:LWW

JR

PLAIN

London

Dated July 17, 1939

Rec'd 2:48 p.m.

Secretary of State,
Washington.

1013, July 17, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

1. No silver was invoiced today. The price eased a little to 16 3/4 for spot and 16 3/16 for forward. There was some bear covering and both buying and selling from India but the turnover was not large, and there was practically no business after the fixing.

2. The British fund took 16 of the 31 bars of gold dealt in at the fixing today; 11 were married. The spot and forward dollar were both steady on an inactive market. A feature of the foreign exchange market was a rise in the rate for coin. The gold dollar moving from 7S 2 3/8D to 7S 2 5/8D, and the gold sovereign from 35S - 3/4D to 35S 1 3/8D.

3. With reference to the final paragraph of my No. 998 of July 14, 6 p.m., the TIMES City Editor this morning devotes over a column to comment on the reaction in the gilt-edged market and industrial stock market to the Chancellor of the Exchequer's announcement that

borrowings

-2- #1013, July 17, 7 p.m., from London.

borrowings would total nearly pounds 500 million. He observes that the fall of 1/2 a point in gilt-edged stocks at the maximum coupled with a whole series of small declines in industrial shares can hardly be described as the sort of response that most observers would have been inclined to anticipate while sterling was completely unaffected and the Treasury bill rate actually declined slightly. But he points out that the new estimates only make a difference in degree as between astronomical figures in which pounds 100 million either way is not of any particular moment but that beyond a certain point the degree "makes a world of difference". This point is a condition of full employment but "there is no reason to suppose that the expenditure of pounds 500 million on loan account must necessarily carry us to that point. The immediate prospect at least is not for any general shortage of labor and industrial capacity but for specific and individual deficiencies in the armament and allied trades. But it is naturally much more likely to do so than the expenditure of pounds 380 million unless special action is taken to make available for armament work such reserves of men and plant as there still are in various areas and industries". He concludes by observing that
perhaps

-3- #1013, July 17, 7 p.m., from London.

perhaps the neutral attitude of the markets towards the economic implications of the loan program may be the only rational attitude possible at the moment. "The traditional attractions of equities under near-inflationary conditions would clearly be much diminished if in fact the authorities elected to follow in the steps of the totalitarian states; at the same time the prospects for gilt-edged securities would be considerably improved if the Treasury let it be known that it had definitely set its hand against a rise of interest rates. The danger is that we may fall between two stools."

KENNEDY

HPD