

● PSF: Subject File: Administrative Assistants: Currie, Lauchlin 1939 - May 1940

Box 115

PST
Currie

THE WHITE HOUSE
WASHINGTON

July 31, 1939.

MEMORANDUM FOR THE PRESIDENT:

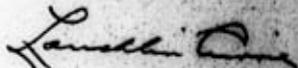
Nathan Straus saw me this morning and made an urgent plea that I acquaint you with the following information:

The Housing amendments contain two dollar amounts; one an authorization to service local housing bonds to the extent of \$73 million, the other an authorization for the USHA to borrow and loan an additional \$800 million. The first authorization is vital; the second can easily be sacrificed, and the program financed through commercial banks. He feels that much of the opposition to the amendments might be satisfied by consenting to a reduction or even elimination of the large loan authorization. He also feels that a further postponement by the House of a consideration of the housing amendments would worsen their chances of adoption. He has made these suggestions to Senator Wagner.

I might add, on my own behalf, that a steady stepping up of the USHA program, throughout 1940, and its extension to many more rural and urban communities, would be highly desirable.

I venture also to suggest that should the lending bill be further emasculated or fail of passage, consideration should be given to a final attempt to continue the PWA program on a grant basis. This could take the form of a rider to the final deficiency appropriation. Expenditures under the existing program will decline sharply in the second quarter of 1940.

Although the business outlook is mildly encouraging for the remainder of this year, we estimate that the net Federal contribution to buying power in the second quarter of 1940 will run nearly \$100 million a month under current law, in the absence of the lending program or additional PWA housing. This will entail a substantial offset to whatever expansion of private capital expenditures may occur at that time.


Lauchlin Currie

PS F.
Currie

August 4, 1939

President sends to Bullitt for his information and return THE COMMENT prepared by the following: Feis, Morgenthau, Lauchlin Currie on memorandum from a French Banker friend of Daladier which Ambassador Bullitt had previously sent to the President.

See: Bullitt folder-Drawer 1-1939

PSF
Currie

COPY

August 29, 1939

MEMORANDUM FOR THE PRESIDENT

I hesitate to offer anything at this time not directly concerned with the crisis but it is my understanding that you will have to make a decision with reference to the Treasury September financing before Saturday. I am, therefore, bringing to your attention certain considerations relating thereto that may have been overlooked. I am also raising certain basic questions relating to the financing of the deficit for the entire fiscal year.

I am having material on food reserves in case of war worked up. You mentioned before you left that you intended to take this matter up with me. I am also interesting myself in the problem of potential bottlenecks in the event of an expansion of productive activity.

Lauchlin Currie

See:-Treasury folder-Drawer 1-1939

PSF Currie

THE WHITE HOUSE
WASHINGTON

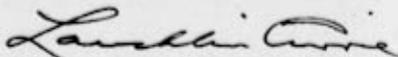
September 7, 1939.

MEMORANDUM FOR THE PRESIDENT

Re: Sugar Prices and Speculation

Wholesale sugar prices have advanced in New York from August 28 to September 6 by 32 percent. Retail prices have been advancing also. Definite information will be available this afternoon. There is widespread consumer stocking up and in many places local dealers' and jobbers' supplies are exhausted.

In these circumstances you may wish to give consideration to the advisability of increasing immediately (or perhaps threatening to increase) the domestic marketing allotment of cane and beet sugar processors who have very heavy stocks on hand which they cannot sell under the present allotments. I understand that the refiners of imported sugar have stocks on hand not subject to marketing quota restrictions.


Lauchlin Currie

PSF: Administrative Assistants; Laughlin Committee

THE WHITE HOUSE
WASHINGTON

September 13, 1939.

MEMORANDUM FOR THE PRESIDENT:

Prices and Inventory Speculation

I. Dangerous Elements in the Situation

Signs are multiplying that the stock market and commodity price advances have resulted in heavy orders for inventory purposes. Should this continue, trouble is ahead. At the middle of the year the value of inventories was about at the mid-1937 level and was near the 1929 level. The supply is so large that an increase of only 10 percent amounts, in dollar terms, to a large absolute increase of over \$2 billion, or more than the total expended on residential construction in any recent year. A substantial element in the upsurge of productive activity in 1936-37 and the decline in 1938 was the inventory boom and liquidation of those years. An inventory boom receives its impetus from expectations of price advances and fears of delayed deliveries of goods. It is not the level so much as the anticipated movement of prices that is disturbing.

II. Possible Ways of Meeting the Danger

A. Psychological

1. Factual. Speech or statement outlining situation with reference to large supplies and great unused productive capacity. - Helpful.
2. Moral Suasion. Patriotic appeal through trade associations, Business Advisory Council, etc. - Relatively ineffective but probably politically advisable.
3. Threats. Speech or statement stressing Government's determination to prevent profiteering and hinting at various methods of control. - Probably fairly effective. The Wall Street Journal of September 12 says, "Question of higher steel prices for the fourth quarter seems to hang in the balance at the moment. On one hand, steel producers are definitely

in a sellers' market and many of them believe that prices are below levels which insure a fair profit under conditions likely to prevail. On the other hand, there is understood to be some fear that price rises at this time might produce a political reaction."

B. Positive Action Under Existing Powers

1. Institute immediate hearings by TNEC in one or two prominent cases where restrictive practices have been an important factor in the advance.- Very effective.
2. Institute proceedings under Anti-Trust Act.
3. Specific measures increasing availability and/or production of agricultural goods.
4. Lower tariffs. - Not very effective.
5. Use of Government plants in isolated cases.
6. Licensing of exports under power to control foreign exchanges. Can be used to prevent sudden bunching of orders for goods the production of which is already near capacity.
7. Excess profits taxation may reduce incentive somewhat to advance prices.
8. Government purchases. Orderly production may be furthered by proper timing of orders.
9. Removal of potential bottlenecks
 - a. Railroads
 - b. Electric power
 - c. Skilled labor shortages
 - d. Specific manufacturing facilities and material shortages

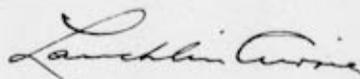
- Further Powers That May Become Necessary

- A. Institute Price Control Board with broad powers to prohibit price advances not justifiable on various grounds and not in public interest.
- B. Give Commodity Exchange Commission power to determine margins and restrict speculation in commodities.

IV - Action That Might Be Taken At This Time

- A. If the current price movement continues for a few days more a statement or speech indicating facts of situation and determination to prevent inventory speculation might be advisable and helpful.
- B. TNEC and Justice.
- C. Action with reference to bottlenecks.
- D. Apprising the steel industry executives within the next twenty-four hours of the Administration's strong disapproval of an advance in steel prices at this time.

I should be glad to go into detail on any or all of these three immediate approaches to the problem.

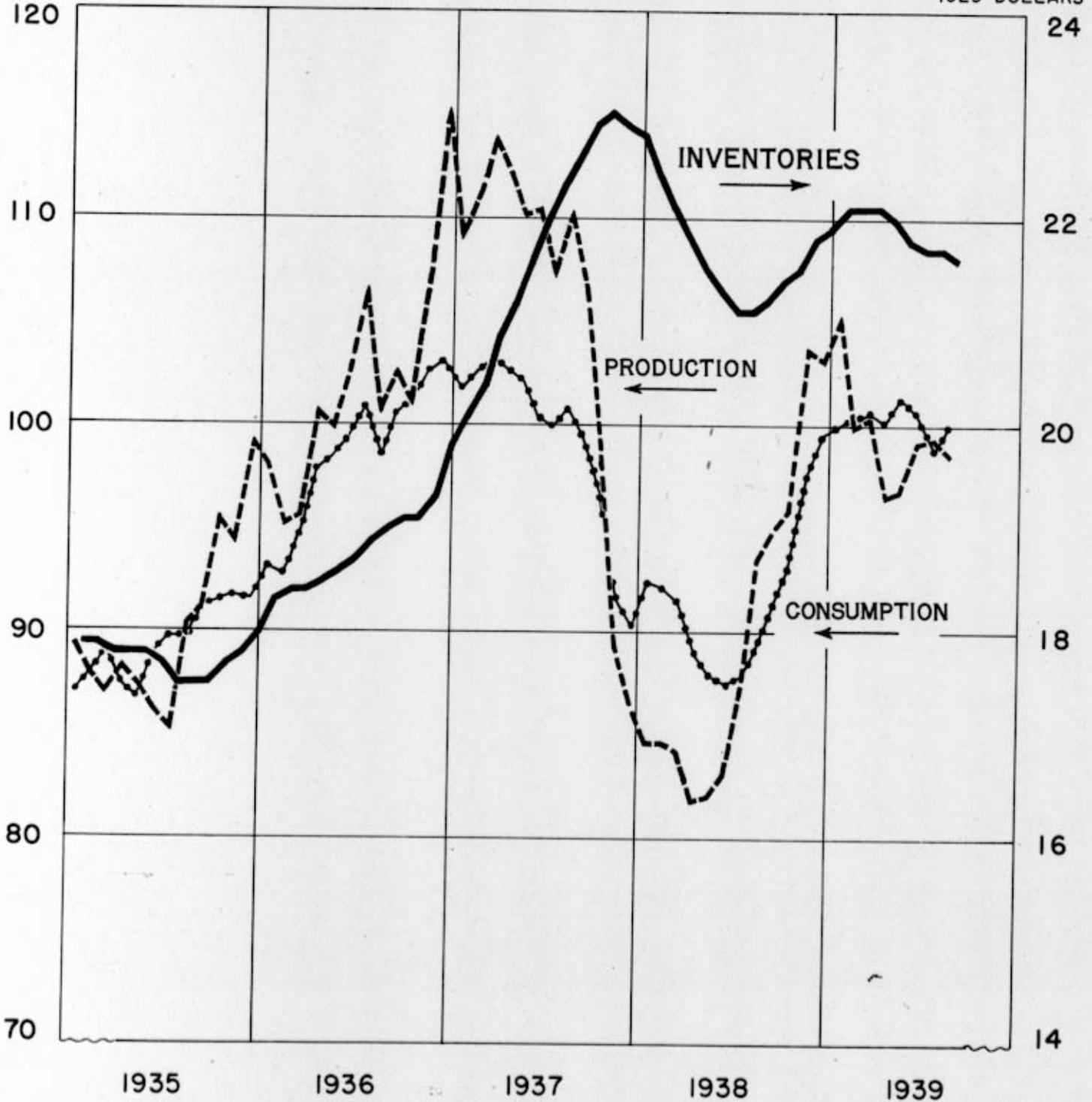


Lauchlin Currie

INDEXES OF PHYSICAL VOLUME OF PRODUCTION, CONSUMPTION, AND INVENTORIES OF CONSUMER GOODS

PER CENT OF
1929 CONSUMPTION

BILLIONS OF
1929 DOLLARS



Plotted H.R.G. + E.H.

PSF Currie

THE WHITE HOUSE
WASHINGTON

September 19, 1939

MEMORANDUM FOR THE PRESIDENT:

I am having a number of studies made on potential bottlenecks (a) in the event of further marked recovery, (b) in the event of war demands superimposed on recovery. I have gone far enough to satisfy myself that the situation may become critical in railroads, the electric power industry, steel and various smaller fields. In assessing, however, the seriousness of the probable shortages and bottlenecks, examination of the material in the War Department bearing on the probable war demands for transportation, power and various types of industrial products would be most helpful. Would you care to authorize me, or an assistant delegated by me and working with me, to examine for you this material? I would then be in a position to relate both the probable war and civilian demands to capacity in various fields.

Lauchlin Currie

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FNR

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personal*

*BF
Currie*

THE WHITE HOUSE
WASHINGTON

September 28, 1939.

MEMORANDUM FOR THE PRESIDENT:

I know that you will be pleased to learn that Secretary Morgenthau and Mr. Eccles have had a long talk and, in the words of Mr. Eccles, have a "complete and thorough understanding, that they shall cooperate closely, that they have mutual respect for each other's disinterestedness, and acknowledge the perfect right of each to differ as to methods".

Lauchlin Currie

Lauchlin Currie

PSF

October 10, 1939.

Letter to the President

From Doc O'Connor

Subject: U.S. BRANCHES OF BRITISH INSURANCE COMPANIES

Thinks it would be a good time for the Committee on Banking and Insurance of the Senate to withdraw its embargo on the U.S. Branches of British Insurance Companies so far as F.H.A. and H.O.L.C. insurance is concerned. Suggests a word to Senator Wagner might be helpful etc etc.

The President asks Lauchlin Currie to speak to him about the above--memo of Oct 12th attached; also Currie's memorandum of reply of Nov 20, 1939.

For the above correspondence--See: Basil O'Connor folder-Drawer 2-1939

file
document

THE WHITE HOUSE
WASHINGTON

BF
Currie

October 12, 1939.

MEMORANDUM FOR THE PRESIDENT:

Re: Steel and Scrap Prices

Attached is a report on my conversation with Mr. Stettinius. Mr. Taylor will discuss the matter further with you on Monday. I am having the WPA scrap iron suggestion looked into. I think this is a case where unofficial publicity, attributed to New Deal circles, indicating concern over steel prices and that studies relating to the scrap situation were going forward, would serve a highly useful purpose in strengthening Stettinius' and Taylor's hands, assuming they can be won over.

Lauch Currie

Lauchlin Currie

THE WHITE HOUSE
WASHINGTON

October 12, 1939.

MEMORANDUM FOR THE PRESIDENT:

Re. Conversation with Edward Stettinius

I stated that you had seen many reports of an imminent advance in finished steel prices, that you were concerned about it and that you were anxious to cooperate in keeping down costs, particularly of scrap. Mr. Stettinius indicated that (a) although no decision had been reached they would like to get finished steel prices back to the level prevailing before June 1938, (b) it was doubtful whether the rest of the industry would follow the Corporation in retaining present prices, and (c) in any case, the industry was "entitled" to a decent profit after so many lean years.

I replied that it was my understanding that you were not so much concerned with the "justice" of a given level of profits as you were with the economic health of the nation; that you were being advised by the business research experts throughout the Government that a recession was likely after the current inventory boom and that an advance in the prices of the hundreds of finished industrial goods containing steel would seriously intensify a recession; that because of the strategic position of the industry its actions were necessarily invested with the public interest.

I also pointed out that should a recession after the turn of the year happen to coincide with an advance in steel prices, it was inevitable that many people both within and outside the Administration would read a cause and effect relationship into this, and that, finally, it would serve the broader interests of both the industry and the economy to lengthen deliveries on current orders to the first quarter at current prices, thereby permitting a more sustained rate of production at an economic rate and greater stability in employment.

He appeared considerably impressed by these arguments, stated that he thought an embargo should be placed on scrap exports, and asked if he might report the conversation to Myron Taylor. I said, "Yes". He then said that Mr. Taylor would take the matter up with you when he saw you on Monday.

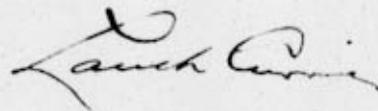
Mr. Stettinius then turned to the matter of the War Resources Board and the War Department. He said that the present situation in the Department was appalling, that the morale of the Department was

Memorandum for the President

-2-

Re: Conversation with Edward Stettinius

suffering, mentioned the remarks in Time's issue of October 9th, and stated that he thought the situation should be cleared up by either one or both men resigning. He continued that while he was satisfied your action in dismissing the Board was no reflection in any way on the members of the Board, nevertheless there was much misunderstanding and he, personally, would be very gratified if you received his Report graciously and expressed yourself as appreciative of the disinterestedness of the members of the Board and the sacrifices they had made in carrying out their duties, and that you hoped they would be available for advice to the War Department from time to time as need arose.



Lauchlin Currie

PSF

Currie
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October 13, 1939.

Memo to the Secretary of the Treasury from the President asking him to speak to him about the enclosed memorandum from Lauchlin Currie to the President regarding purchases of tungsten. Also memo from Ray Spear of the Bureau of Supplies and Accounts in the Navy Department---RE-bids on tungsten ore.

For memo-See Henry Morgenthau folder-Drawer 1-1939
Memo of Dec 14-1939

THE WHITE HOUSE
WASHINGTON

PSF
Currie

October 26, 1939.

MEMORANDUM FOR THE PRESIDENT:

Edward Noble consulted Ben, Leon and me last evening on an ingenious proposal of Hook of American Rolling Mills to the effect that the Department of Commerce should go over with industry groups the basis for a proposed price advance. I gave as my personal opinion, which was concurred in by Ben and Leon, that the Department of Commerce could not speak for the Administration, and that it would be most unfortunate if it let itself be manouvered into the position of allowing industry groups to say that they had the approval of the Department, or even that they had "presented their case to Commerce." I suggested that through the Business Advisory Council he might arrange informal dinners or luncheons which would enable steel men, for example, to gain some idea of the personal attitudes of different advisers to the Administration on price policies. Noble said he thought that this was a good way out and that he would take the matter up with you. We've had such meetings before which, while helpful all around, were never regarded as official.

Lauchlin Currie

Lauchlin Currie

You are right
fdr

✓
Lauchlin Currie
Will you speak to me
about this

PSF
Currie

THE WHITE HOUSE
WASHINGTON

November 3, 1939.

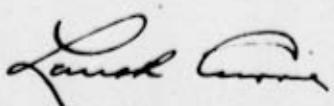
MEMORANDUM FOR THE PRESIDENT:

Re: Farm Security and the Budget.

I recall that last July you had it in mind to revive the lending bill. Doubtless the war has brought about some change in your plans. However, the Import-Export Bank will need additional lending power and the RFC should have additional lending power for railroad loans.

A case might also be made out for a revival of the Farm Security part of the program in a separate bill. This called for \$600 million loaning power, half of which was ear-marked for tenant purchases of farms. The money was to be secured from the RFC at the approximate cost to the RFC, and would be outside the budget. Some of the arguments that might be urged for the revival of this proposal are as follows:

1. In a separate bill it would be purely a farm measure and hence would secure a lot of support, particularly next year.
2. In particular, it should secure the support of those urging special measures for drought and flood victims.
3. It would permit cancellation of the unexpended portion of the Farm Security appropriation and hence would improve the deficit picture both for the current and next fiscal year.
4. Passage of this and the other two parts of the program mentioned above would constitute a vindication of the lending bill.


Lauchlin Currie

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Currie*

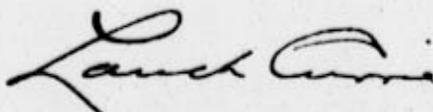
THE WHITE HOUSE
WASHINGTON

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November 9, 1939

MEMORANDUM FOR THE PRESIDENT:

You are receiving a memorandum from Chairman Eccles on Treasury financing. Although it is a bit irregular, I wrote it for him at his urgent request. I hope you don't mind. I had, in any case, meant to submit the proposal myself, as I am heartily in accord with what I have written!



Lauchlin Currie

P.F. Currie
file
Journal

THE WHITE HOUSE
WASHINGTON

November 13, 1939.

MEMORANDUM FOR THE PRESIDENT:

Re. Railroad Equipment.

The recent burst of equipment buying is subsiding and will leave the railroads with little net addition to cars by the end of the year as compared with the beginning. I am still exploring possibilities of stimulating orders for the winter months.

In this connection I went to New York last Thursday and had mutual friends arrange for "social" meetings successively with Harry Sturgis, of the First National, who, I am told, is the "Morgan man" in railroads, Hertz of Lehman Brothers, Feiwell, a man close to Selig of General American Transportation (the most independent and aggressive railroad equipment concern I've come across), and Floyd Odlum of Atlas.

I picked up some interesting ideas and reactions. Sturgis, for example, thinks the time is ripe for a program of regional consolidations -- thinks that the security holders and the managements "could be brought into line", and that labor "could be bought off". Is most fearful of opposition of states and cities. Hertz was mainly interested in a program whereby the RFC would guarantee equipment trust certificates at a very low premium. Odlum, and Selig's friend, thought that a private equipment financing (hire-purchase) company with RFC backing was practicable and that the same thing could be done with machine shop equipment. He said he had financed the sale of generators on a hire-purchase basis.

I was told that Whitney and Stanley were approached and turned thumbs down on the railroad equipment section of the lending bill. Otherwise there would have been a lot of support for it. As it was, Selig came out for it, and subsequently a lot of railroad men and equipment companies have regretted it did not pass.

Lauchlin Currie
Lauchlin Currie

THE WHITE HOUSE
WASHINGTON

PST
Currie

November 14, 1939.

MEMORANDUM FOR LAUCHLIN CURRIE:

For your information.

F.D.R.



DEPARTMENT OF AGRICULTURE
WASHINGTON

THE WHITE HOUSE
NOV 13 8 55 AM '39
RECEIVED

November 10, 1939.

The President,

The White House.

Dear Mr. President:

Attached hereto is a tabulation you requested recently showing in round numbers the monthly actual expenditures by the AAA, FSCC, and FSA, for January to September 1939 and estimated expenditures for the balance of this fiscal year.

The total for November 1939 for these three agencies is expected to be a little over 80 million dollars. By March 1940 we expect a peak figure of over 160 million dollars; and by next June we expect it to be down to 60 million dollars. The peak figure in March will be about 40 million dollars greater and a month earlier than the peak in the last half of the 1939 fiscal year.

During the second quarter of 1940 expenditures will total approximately 260 million dollars compared with a total of nearly 460 million dollars during the first quarter of 1940. There is thus relatively little possibility of shifting expenditures scheduled for the second quarter into the first quarter. Should business developments make it desirable, we could try to shift perhaps about 20 percent of the FSCC expenditures estimated for the second quarter into the first and about 15 percent of the AAA expenditures. In all, this shift might amount to about 40 million dollars and would have the effect of shifting the distribution for the ~~six~~ months of 1940 so that the peak would come in February instead of in March.

Sincerely,

H. Wallace

Enclosure

Secretary

Monthly Expenditures by AAA, FSCC and FSA, January to September 1939,
and Estimated Expenditures through June 1940.

(million dollars)

	<u>AAA</u>	<u>FSCC</u>	<u>FSA</u>	<u>Total</u>
<u>1939</u>				
January	33	15	14	62
February	43	6	21	70
March	75	6	35	116
April	85	11	27	123
May	89	10	25	124
June	61	14	16	91
July	42	2	13	57
August	37	16	11	64
September	54	19	9	82
October	97	18	9	124
November	45	24	13	82
December	67	25	16	108
<u>1940</u>				
January	91	31	21	143
February	102	26	25	153
March	115	14	33	162
April	74	19	26	119
May	40	21	19	80
June	26	23	15	64

THE WHITE HOUSE
WASHINGTON

November 16, 1939.

MEMORANDUM FOR THE PRESIDENT:

Re: Business Developments

Having previously stressed my fears of an intermediate setback it gives me pleasure to point out a few favorable developments:

1. The prolonged Chrysler strike will operate to level off the peak of automobile production and permit a higher level of production in the winter months than would otherwise have been the case.
2. It looks more and more as though we have headed off an advance in steel and allied products prices.
3. The level of stock prices has remained low in relation to current earnings and the possibilities of a bad break are thereby minimized.
4. New orders, while probably running below current production, have held up better than was expected a month back, and the backlog may sustain the present volume of production into February. The longer the present level is sustained the more time there is for heavier capital expenditures to get underway.
5. The new Army, WPA, and agricultural estimates of monthly expenditures indicate that the total Government cash expenditures will be higher in the winter than currently, and this should help to sustain consumption. I now estimate average monthly cash expenditures in the first quarter at \$870 million, as contrasted with \$767 million in the current quarter. An even better comparison may result when the Navy and Maritime Commission are heard from.
6. I still think we probably can't escape some setback but it now looks as though it might not be so soon or so severe as anticipated earlier.

Lauchlin Currie
Lauchlin Currie

THE WHITE HOUSE
WASHINGTON

November 16, 1939.

Estimated Federal Net Contribution to Buying Power
Fiscal Year 1940
(Monthly averages - in millions of dollars)

	Adjusted <u>cash outlays</u>	Adjusted <u>cash receipts</u>	Net contri- <u>bution</u>
First quarter (actual)	791	499	292
Second quarter	767	499	268
Third quarter	870	550	320
Fourth quarter	<u>810</u>	<u>571</u>	<u>239</u>
Year	810	530	280

Comparison of Expenditures of Agricultural Adjustment
Program (November 1939-June 1940)
(In millions of dollars)

	Estimates September <u>1939</u>	Estimates November <u>1939</u>
<u>1939</u>		
November	125	69
December	92	92
<u>1940</u>		
January	93	122
February	97	128
March	114	129
April	92	93
May	63	61
June	<u>55</u>	<u>49</u>
Total	731	743

file personal

*BF
Currie*

THE WHITE HOUSE
WASHINGTON

November 22, 1939.

MEMORANDUM FOR THE PRESIDENT:

Re: Financing.

I assume that you are in touch with the Treasury and that the announcement of \$500 million of new financing was made with your approval. In view, however, of your communication with Mr. Eccles I just wanted to take the precaution of making sure that you know that the details of the new financing are expected to be determined on Monday and that the guessing is a 10-11 year bond issue.

Lauchlin Currie

Lauchlin Currie

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Currie*

THE WHITE HOUSE
WASHINGTON

December 1, 1939.

MEMORANDUM FOR THE PRESIDENT:

Re: Paul's Tax Memorenda

There appears to be some danger of personal misunderstandings arising in connection with these memos. Mr. Hanes is afraid that Secretary Morgenthau will think that he arranged all this because of the fact that Paul is his tax attorney, which has its amusing aspects. Paul told him he had been brought into the picture by Jerome Frank. Now Jerome is concerned lest Secretary Morgenthau resent his interference and said he would be very grateful if you would let Secretary Morgenthau know that the matter arose out of discussions of profiteering in connection with price advances and that he suggested Paul as a good man on this matter and that Paul was then brought in at your request. I understand that the Secretary will submit preliminary estimates to you on Monday on the changes in revenues that might result from the various proposals but will probably refrain from making any recommendations.

Lauch Currie

Lauchlin Currie

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memorandum*

THE WHITE HOUSE
WASHINGTON

*PST
Currie*

December 7, 1939.

MEMORANDUM FOR THE PRESIDENT:

Re: Forecasts of Business.

You may be interested in certain recent forecasts of business activity for 1940.

The Treasury, in seeking to establish a base for the estimates of revenue for the fiscal year 1941, called in six leading private business analysts. Their views diverged widely but a simple average came out at 110 in the index of production for the year 1940 as a whole. I suggested that the Treasury also consult with business analysts within the Government, which was done. Their guesses ranged from 110 to 116, with the average at 113. Their guesses on national income were closely grouped around \$75 billion as contrasted with between \$68 and \$69 billion this year. They all looked for a downturn in the first half from the current 128 to somewhere in the range of 100 to 110.

I do not think that averaging means much in a matter of this sort, but it is important in connection with the revenue estimates.

Lauchlin Currie

Lauchlin Currie

PSF.
Currie

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THE WHITE HOUSE
WASHINGTON

December 11, 1939.

MEMORANDUM FOR THE PRESIDENT:

Re: Budget.

Some time ago I called to your attention the possibility of securing a substantial amount of miscellaneous receipts through the repayment to the Treasury of part of the RFC's unnecessarily large capital funds. I have been exploring other possibilities of a similar nature that would not require Congressional action. The results of this preliminary survey are presented in the following table:

(In millions of dollars)

	Total Capital Funds
Reduction of Government-owned stock by RFC . . .250	760
Sale of stock in Federal Savings and Loan Associations by Treasury to HOLC. 40	
Reduction of Government-owned stock in Home Loan Banks. 75	175
Reduction of paid-in surplus and capital stock of Federal Land Banks 200	513
Reduction of Government-owned stock in banks for cooperatives. 85	165
Reduction of surplus and capital stock of Federal Intermediate Credit Banks 50	119
	<u>700</u>

If this program were carried out in its entirety it would affect the national accounts in the following ways:

1. It would reduce the need for further increase in the public debt by \$700 million.
2. It would reduce the budgetary deficit by \$700 million.
3. It would increase budgetary receipts by \$290 million.
4. It would decrease budgetary expenditures by \$410 million.

Would you like me to make a detailed and separate study of each of the above possibilities? If so, I should like to obtain from the Treasury the appraisal of the assets of Government corporations which was prepared in response to Senator Byrd's resolution and which is, I believe, almost completed.

Lauchlin Currie

Lauchlin Currie

PST.
Currie

See:
Budget Message
folder - drawer 2
1940

December 14, 1939.

3 Memorandums from Lauchlin Currie to the President

1. Re-Revenue Estimates for Fiscal Year 1941

2. Re-Tax Proposals

PSF *L Currie*
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December 18, 1939.

Memorandum for the President from Lauchlin Currie

Re-Repayment of Surplus Capital Funds in Government Corporations

See: Budget Message folder-Drawer 2-1940

Copy

BF
f Currie
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December 26, 1939.

Memorandum for Lauchlin Currie

To read and return for our files.

F.D.R.

Enclosure

Enc letter from Henry Morgenthau
Re-possibility of issuing additional bonds against the Panama Canal
under tht Act authorizing the issuance of Panama Canal bonds to re-
imburse the Treasury for costs of the Canal etc etc
See:H. Morgenthau folder-Dec 22, 1939 letter-Drawer 1-1939

THE WHITE HOUSE
WASHINGTON

PSF
Currie

December 29, 1939.

MEMORANDUM FOR THE PRESIDENT:

Re: San Francisco Dock Strike.

I was told yesterday

(1) that the threatened tie-up on the East Coast has been averted by the signing of a contract that provides for the continuation of hiring halls.

(2) that Philip Murray has been "sounded out" by certain West Coast employers on the possibility of negotiating, after the settlement of the San Francisco situation, a nationwide agreement providing for arbitration. The steamship lines continue, however, to refuse to submit to arbitration in San Francisco.

The CIO people continue to feel that work would be resumed immediately if you would have pressure brought to bear on the Government-owned American President Lines to submit to arbitration.

Lauch Currie

Lauchlin Currie

2 L
Please talk
with
Currie

*file
Perkins*

*PSF
Currie*

THE WHITE HOUSE
WASHINGTON

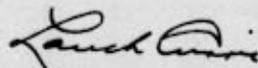
January 2, 1940.

MEMORANDUM FOR THE PRESIDENT:

Re: San Francisco Dock Strike.

I did not try to see Miss Perkins as I was told today that negotiations had just been initiated and there are good hopes of a settlement. I was told two factors played a part in this: the recent signing of a two-year East Coast agreement, and the Landis Report.

I will keep in touch with the situation and will see Miss Perkins if it appears that negotiations are in danger of breaking down.



Lauchlin Currie

THE WHITE HOUSE
WASHINGTON

January 2, 1940.

MEMORANDUM FOR THE PRESIDENT:

Re: Effect of Tax Revisions.

At the meeting last Friday, the statement that tax revisions had impaired the productivity of the tax base seemed to be questioned. However, in reading through the Budget Analysis of Revenue Estimates, prepared by the Treasury, I came across the following:

"The decrease in the estimated income-tax receipts in fiscal year 1940 is explained not only by the virtual repeal of the undistributed-profits tax which decreased dividend distributions, * * "- page A14.

"These decreases are attributable not only to the higher level of incomes in calendar year 1937 as contrasted with the estimated incomes in calendar year 1939 but also to legislative changes. Receipts in fiscal year 1939 partly reflect collections in respect of calendar year 1937 liabilities when the undistributed-profits tax of the Revenue Act of 1936 was in force and partly reflect the legislative changes made by the Revenue Act of 1938 wherein the undistributed-profits tax was practically eliminated and the more liberal treatment of capital gains and losses was enacted. The changes made by the Revenue Act of 1938 are fully reflected in the fiscal year 1940 estimates".- page A14.

Lauchlin Currie
Lauchlin Currie

PST
Currie

THE WHITE HOUSE
WASHINGTON

January 5, 1940.

MEMORANDUM FOR THE PRESIDENT:

Personal

I was very distressed at the use of my name in Lindley's column today. I called him immediately and he said he was just going on "internal evidence". He promised that he would not mention me in any connection in the future.

Lauchlin Currie

Lauchlin Currie

BF
Currie-1

Confidential Memorandum for the President-Jan 22, 1940

From Lauchlin Currie

Re-National Resources Planning Board

Message from Tom Corcoran, saying that Sam Reyburn told him that the source of the real opposition to the Planning Bd is the Army Engineers who have been actively lobbying against the Bd.

Attached to above memo is one which the President sent to the Sec of War-Jan 23, 1940 on the same subject.

See:Interior-Drawer 1-1940

THE WHITE HOUSE
WASHINGTON

PSP
Currie

January 24, 1940.

MEMORANDUM FOR THE PRESIDENT:

I am attaching some comments on Secretary Wallace's letter of December 29, on the Commodity Credit Corporation, about which you asked me to speak to you.

I am not sure what you had in mind so that my comments may not bear on the point that particularly interested you.

Lauchlin Currie

Lauchlin Currie

January 24, 1940.

Summary of, and Reflections on, Secretary Wallace's Letter of December 29,
on the Commodity Credit Corporation.

1. The CCC as of December 31 owned 6,267,000 bales of cotton (exclusive of 600,000 bales to be delivered to British Government) and had loans on 3,323,000 bales of the 1938 crop. Total of approximately 10 million bales.
2. It is expected that a portion of the 3.8 million bales will be withdrawn. Loans were made at 9.5¢ per lb. Middling 7/8". Farmers withdrew 760,000 bales up to December 31 and trade estimates as much again withdrawn in January.
3. Of the 6.3 million bales of owned cotton, CCC can sell 4.6 million bales of the 1937 crop at prices ranging from 11.75¢ (Middling 7/8") to 3.75¢ (Low Middling 13/16"). This could be made the effective upper price limit. Department experts do not expect that any will be sold.
4. The remainder of owned cotton (1.6 million bales of the 1934 crop) can be sold at approximately 15.5¢ per lb. and this minimum is being raised monthly by carrying charges.
5. It is believed that the domestic carryover will be around 11 million bales by June 30 as contrasted with 13 million bales last June. It is doubtful whether we can hope for much further reduction of the carryover in the next fiscal year. The Department is estimating around 12 million bales production. Domestic consumption this year has been running at 7.7 million bale rate, a record. Export declarations at 6 million bales may be contrasted with 3.5 million bales last fiscal year.
6. No significant new uses for cotton have been found and experts are gloomy on the future of the cotton export market. The use of cotton in road building was not successful. A comprehensive cotton stamp plan is an excellent way of stimulating private employment and providing relief but its possibilities in removing surplus cotton are negligible (only 10 percent of the price of cotton goods goes for raw cotton).
7. In the interests of ensuring an orderly market a good case can be made out for removing the restrictions on the sale of owned cotton. However, apart from occasional abnormal years, I am afraid that we shall have to continue to hold off the market the bulk of the owned cotton. The real problem will probably be to avoid a steady increase in the Government's stocks.
8. The conclusion is the oft-repeated one: fewer people should be engaged in cotton growing and the Government can only ease, in various ways, the painfulness of the necessary transition.

RC.

THIS DOCUMENT IS THE BEST
AVAILABLE. EVERY TECHNICAL
EFFORT HAS BEEN TAKEN TO
INSURE LEGIBILITY.

BF
Curri

THE WHITE HOUSE
WASHINGTON

January 29, 1940.

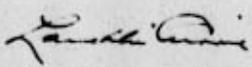
MEMORANDUM FOR THE PRESIDENT:

Re: Low-cost Housing.

Following our recent discussion I have interested myself in current developments in this field.

I think you will be interested to learn that prefabrication has actually arrived. American Houses, Inc., with good financial backing, sold over 200 houses in the first two weeks of January and expects to build 5,000 this year. According to President Taylor, "The house is prefabricated except for the finish such as the finished roof, finished exterior, finished floors, finished interior trim. Local labor is used and most of our houses are constructed closed shop. Materials are purchased in quantity and at wholesale. There is at present being built comfortable four-room homes, well heated, with good bath rooms, plumbing jobs, electric lights, hardwood floors, etc., with fireproof exterior and roof, which are being sold at less than \$2300.00 with land. I mention this to prove that a low cost home can be built, and is being built, quicker, cheaper and better. It is our opinion that this country will have a housing program proportionate to its needs when the question of construction funds is settled." They are building houses in Baltimore, which I hope to see this week, at a cost of \$1,900.

Mr. Taylor tells me that one of the greatest obstacles in the way of low-cost housing is the difficulty of getting a first construction loan at a reasonable price. That is, I believe, a great opportunity for public service to be rendered by a public financial company here and I would like your authorization to run up to New York and ask I don't know just Floyd Oulum in it.


Franklin D. Roosevelt

THE WHITE HOUSE
WASHINGTON

January 30, 1940.

MEMORANDUM FOR THE PRESIDENT:

Re: Business Conditions.

I am attaching what I consider to be the most basic chart in interpreting business conditions. The series of physical production and consumption of consumers goods have not as yet been published. They were worked up under my general direction by one of my former assistants who is now in Commerce, and are the most comprehensive and, I believe, reliable indices of changes in production, consumption and inventories.

Should consumption flatten out in the current quarter and production fall to the level of consumption, this would mean, in terms of the FRB index of production, a decline from 128 in December to somewhere in the neighborhood of 110.

I shall send you in a few days some material bearing on this lagging of consumption behind production.

Lauchlin Currie

Lauchlin Currie



INDEXES OF PHYSICAL VOLUME OF PRODUCTION, CONSUMPTION, AND INVENTORIES OF CONSUMERS' GOODS FOR THE YEAR 1939

Percent of
Average 1929
Consumption
120

115

110

105

100

95

Consumption

Production

Billions of
1929 Dollars

24

23

22

21

Inventories

Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

PSF

Memo to the President from L. Currie-Feb 1, 1940

Re:Housing project at Hyde Pk.

See:Hall Roosevelt-Drawer 3-1940

1

BSF
Currie

THE WHITE HOUSE
WASHINGTON

February 1, 1940

MEMORANDUM FOR THE PRESIDENT:

Re: Economic Comparisons, 1932 - 1939

The figures given you by Labor appear to be all right except for cash farm income and W.P.A., etc., employment which I have corrected. I have changed the basis of comparison from March, 1933, either to December, 1932, or to the calendar year 1932. The comparisons are so good anyway ~~we can~~ afford to be generous. I have also added a few additional comparisons you might care to use. On interest and dividends you might want to make the point that the burden of debt has declined while the income from ownership of property and equities has greatly increased. The employment figures greatly understate the degree of recovery since they take no account of the transition from part time to full time work. Unless this can be brought out, I don't think I would use the figures.

Lauchlin Currie

Lauchlin Currie

February 1, 1940.

COMPARISONS

	Calendar year 1932	Calendar year 1939	Percentage Change
National Income <u>1/</u>	\$40,089,000,000	\$68,500,000,000	+71
Wages and Salaries <u>2/</u>	Dec., 1932 \$ 2,403,000,000	Dec., 1939 \$ 3,888,000,000	+62
Weekly Payrolls of Factory Workers <u>3/</u>	Dec., 1932 \$ 80,384,000	Dec., 1939 \$ 197,089,000	+145
Cash Farm Income <u>4/</u>	Calendar year 1932	Calendar year 1939	
From sale of products.	\$ 4,682,000,000	\$ 7,712,000,000	
From benefit payments.	—	807,000,000	
		\$ 8,519,000,000	+82
Interest Received by Individuals <u>5/</u> . .	Calendar year 1932 \$ 5,277,000,000	Calendar year 1939 \$ 4,828,000,000	-9
Dividends Received by Individuals <u>6/</u> .	\$ 2,745,000,000	\$ 4,253,000,000	+55
Total Non-Agricultural Employment <u>7/</u> . .	Dec., 1932 27,245,000	Dec., 1939 34,940,000 <u>10/</u>	+28
Exports <u>8/</u>	Calendar year 1932 \$ 1,611,000,000	Calendar year 1939 \$ 3,179,000,000	+97
FRB Index of Production <u>9/</u>	Calendar year 1932 64	Calendar year 1939 105	+64

Sources:

- 1/ 2/ 5/ 6/ 8/ Dept. of Commerce.
- 3/ 7/ Dept. of Labor.
- 4/ Dept. of Agriculture.
- 9/ Board of Governors, Federal Reserve System.
- 10/ This figure does not include the 2,727,000 persons who had work on WPA, NYA and CCC projects.

February 1, 1940.

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3/ 7/ Dept. of Labor.

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9/ Board of Governors, Federal Reserve System.

10/ This figure does not include the 2,727,000 persons who had work on WPA, NYA and CCC projects.

THE WHITE HOUSE
WASHINGTON

BF
Currie

February 5, 1940.

MEMORANDUM FOR THE PRESIDENT:

Re: Harrison-Thomas-Larrabee Education Bill.

Mrs. Roosevelt asked me to bring to your attention the fact that Dr. Larrabee is telling the educational people that he is holding no hearings on this bill at your behest. Mrs. Roosevelt feels that, inasmuch as there were hearings in the Senate last session and the bill was reported favorably out of committee, the House should at least hold hearings.

I shall be glad to proceed in this matter if you wish.

Lauchlin Currie

Lauchlin Currie

4/10
7/11

*file
earnings*

*PSF
Currie*

THE WHITE HOUSE
WASHINGTON

February 6, 1940

MEMORANDUM FOR THE PRESIDENT:

Re: du Pont Earnings

You may not have noticed that du Pont earnings in the 4th quarter, both with and without dividends from General Motors, made an all time high. The comparison with the highest quarter of 1929 is as follows:

	Best quarter <u>1929</u>	4th quarter <u>1939</u>
Profits incl. G.M. dividends	\$25,240,000	\$30,420,420
Profits excl. G.M. dividends	9,524,509	17,920,420

Lauchlin Currie

Lauchlin Currie

THE WHITE HOUSE
WASHINGTON

February 3, 1940.

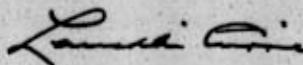
MEMORANDUM FOR THE PRESIDENT:

Re: Maritime Unemployment Compensation.

I am informed that the Social Security Board does not want to administer the proposed national system of maritime unemployment compensation. It has also been extraordinarily reluctant to make definite recommendations although it has had the problem under study for the past two years.

I should like to suggest the Railroad Retirement Board as the proper agency to prepare and administer the program. It is the only agency in the Government that is now administering a national unemployment compensation program and hence has the proper facilities and experience, it already ties into the maritime industry through the shipping facilities and docks owned by railroads, and the railroad brotherhoods have no objection to the Board's taking on this additional function. Finally, I believe that Murray Latimer has a sound approach to problems of social insurance and is one of the ablest administrators in the Government. I understand that Chairman Bruere of the Maritime Labor Board favors assigning the job to the Railroad Retirement Board and may make a recommendation to you to this effect in a few days.

Early action appears desirable as the Maritime Union, irked at the delays, is, I am told, considering sending pickets to Washington. If you approve of the suggestion above, I should be glad to communicate with Latimer and have a definite plan for your consideration in a week or two.


Lauchlin Currie

BF
THE WHITE HOUSE
WASHINGTON

February 9, 1940.

MEMORANDUM FOR THE PRESIDENT:

Re: Employment and Payrolls in January.

In the absence of the Secretary of Labor, Dr. Lubin suggested I communicate the following preliminary figures to you:

Employment declined 2.8 percent against a calculated seasonal decline of 2 percent.

Payrolls declined 5.6 percent against a calculated seasonal decline of 4.9 percent.

I might add that the Federal Reserve Board index for January declined eight points to 120 and is expected to fall to 110 in February.

Lauchlin Currie
Lauchlin Currie

157
Currie

THE WHITE HOUSE
WASHINGTON

February 10, 1940.

MEMORANDUM FOR THE PRESIDENT:

Re: Education.

Subsequent to your authorization that I proceed in the matter of suggesting the desirability of initiating House hearings on the Harrison-Thomas-Larrabee bill, Floyd Reeves suggested to me that if you did not feel the time was propitious for pushing ahead on the general education bill you might care to consider, in line with your action on health,

(a) providing simple schools in very poor sections that have no schools at all,

(b) providing, say, \$20 million for education of youth. This would greatly assist NYA program and yet would be an education matter.

(c) provide smaller initial grant in general bill (say \$10-\$20 million in place of \$70 million), together with \$250,000 for Office of Education to prepare for program.

I shall delay seeing Larrabee until I get your reaction to these suggestions.


Lauchlin Currie

THE WHITE HOUSE
WASHINGTON

PSF
Currie

February 12, 1940

MEMORANDUM FOR THE PRESIDENT:

Re: Some Ohio Statistics

I think you will be interested in learning that while between June 30, 1933, and December 31, 1939, the Federal Government was expending over \$1 billion in Ohio on relief, public works and highways, the local governments of Ohio were reducing their debts and increasing their cash by \$300 million. The State Government has no debt.

Would you like to have similar tables prepared for other states?

Lauchlin Currie
Lauchlin Currie

Yes - very good
idea

7/2/40

February 12, 1940.

Federal Aid to State and Local Governments of Ohio (Exclusive of Loans)
June 30, 1933 to December 31, 1939
(In millions of dollars)

Highways	55.0
Social Security	71.2
Relief and work relief:	
FERA	193.5
CWA	57.9
WPA & NYA	568.0
Farm Security	<u>20.5</u>
Total relief	839.9
Public Works Grants	61.4
Civ. Cons. Corps	<u>50.6</u>
Total	1,078.1

Source of data: Annual Reports of the Secretary of the Treasury.

Indebtedness of Local Governments in Ohio
(In millions of dollars)

December 31, 1932. . . . 899
December 31, 1938. . . . 716

-183

Source of data: Reports of the Ohio State Auditor.

Cash Holdings of State and Local Governments of Ohio in Banks
(In millions of dollars)

June 30, 1933. 87
June 30, 1939. 197

•III

Source of data: Annual Reports of Comptroller of Currency.

THE WHITE HOUSE
WASHINGTON

BF
Currie

February 13, 1940.

MEMORANDUM FOR THE PRESIDENT:

Re: Farm Security.

Some time ago you asked me to speak to you about a suggestion I made that another attempt might be made to set Farm Security up on a self-financing basis. An opportunity did not present itself and I am venturing to raise the question again.

The Lee bill provides for self-financing of the Tenant Purchase portion of the program. It passed the Senate last year and Jones thinks he can get it by the House. The Farm Security people would like to push ahead on a plan to put the financing of about 75 percent of the rural rehabilitation loans portion of the program outside the Budget, if they had some assurance that this would not be contrary to your wishes.

Lauchlin Currie

Lauchlin Currie

OK don't talk with
Trans. of J. Jones Folder

THE WHITE HOUSE
WASHINGTON

PSF
Curie

February 13, 1940.

MEMORANDUM FOR MR. CURRIE:

Re: The Capitalization of a Yielding
Project.

You have made this suggestion twice. A bill has been drafted and comments on it received from all interested Government agencies. Would you like me to analyze and digest this material with the idea of having a bill introduced this session or would you rather let the whole thing ride? Hearings might at least give some publicity to certain aspects of the matter as far as the gross net.

Louis Currie
Louis Currie

Yes - go ahead

BT
Currie

THE WHITE HOUSE
WASHINGTON

February 14, 1940.

MEMORANDUM FOR THE PRESIDENT:

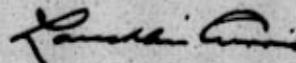
Re: Education.

I learned of a development this morning of which I think you should be informed. The Executive Committee of Legislative Commission of the National Education Association, in secret session, has drawn up a tentative statement extremely critical of certain statements in your recent speech to the Conference on Children in a Democracy and placing "the responsibility for the failure of the Federal Government to assume its fair share of financial support for public education.....squarely on the shoulders of the President." A final draft is to be prepared in the next three or four days and then, on February 26, is to be presented to the Association of School Administrators' meeting at St. Louis, the most powerful group in the National Educational Association, which represents one million members.

The same tentative draft contains the following statement:

"If the President and leaders in the Congress should desire to amend that bill to make the authorization of the appropriation apply to the fiscal year ending in 1942 rather than an earlier year, or to revise the amounts of the authorization, the Executive Committee of the Legislative Commission will agree and believes that friends of the bill throughout the Nation will agree."

quite a point is made of the fact that the House Committee on Education has not been convened during the 76th Congress.


Lauchlin Currie

PSF

Memorandum from Lauchlin Currie & Marriner Eccles-March 4-1940
Re: REFUNDING DEBT--attached letter to Eccles from the President
of March 4, 1940 telling him of his decision to refund
\$738 million of notes and explaining why; also attached is
memo from Currie of March 5, 1940 re President's decision.

See: Eccles-Gen corres-Drawer 2-1940 and D.W. Bell's memo to
Morgenthau-Feb 29, 1940----Morgenthau folder-Drawer 1-1940

For L. Currie's memo to the President of March 2, 1940

Re: Use of Portion of Stabilization Fund to Retire Debt

See: ^Marriner Eccles--Gen corres-Drawer 2-1940

file

THE WHITE HOUSE
WASHINGTON

BF
Currie

March 5, 1940.

MEMORANDUM FOR THE PRESIDENT:

Re: Business Prospects and General Policy Indicated.

The excess of production over consumption, which amounted to goods worth some \$380 million in December, is in rapid process of correction. The Federal Reserve Board index of production is expected to be in the neighborhood of 110 for February. Hence, inventory accumulation has about ceased. New orders, however, are running below current production so that a further decline is indicated. I attach a few charts illustrating the movement in some of the basic series.

The crucial question now is, of course, will inventory liquidation occur? This would drive the production index down relative to consumption, and this, in turn, would have a tendency to pull down consumption, capital expenditures and housing. The prospect of holding the decline to a production figure of 105 depends largely on the avoidance of inventory liquidation. The prospects for a resumption of the upturn depend largely on the renewal of inventory accumulation or on an increase in the net foreign balance of sufficient magnitude to more than counteract the threatened decline in business capital expenditures and net government spending.

Generally speaking, periods of rapidly increasing inventories have been followed by periods of inventory decreases. An exception was in 1933, but this may in part be attributable to the extraordinarily low level of inventories before the 1933 inventory boomlet got under way, and in part to the assurance against price declines afforded by the N.R.A., and the gold buying policy. At the present time inventories in physical terms are back to the 1929 levels and industrial raw material prices have been falling since December. There is, of course, the possibility that some developments, such as intensified warfare, may change the attitude toward prices and toward inventories. In the absence of a spurt of new orders, however, the present level of new orders in relation to production points to inventory liquidation and a further decline in production.

If the Allied war orders come though in the expected volume, it is estimated that the net stimulus to domestic business arising from all our foreign transactions except capital movements will amount to nearly \$2 billion in 1940 as contrasted with \$800 million in 1939. Hence, if inventory liquidation can be checked, and if

Memorandum for the
President.

-2-

March 5, 1940.

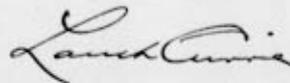
Re: Business Prospects and
General Policy Indicated.

housing and business capital expenditures can be maintained at the mid-1939 levels, and if the net government expenditures do not fall too much, we may hope for a renewed upward movement of business activity.

You will note from the accompanying chart that the net contribution, on present indications, will fall sharply in the late spring and summer months, due mainly to the anticipated sharp curtailment in W.P.A. and agricultural benefits, two items which are believed to be particularly closely related to consumption.

In the realm of policy, this appraisal of the business outlook suggests the desirability of:

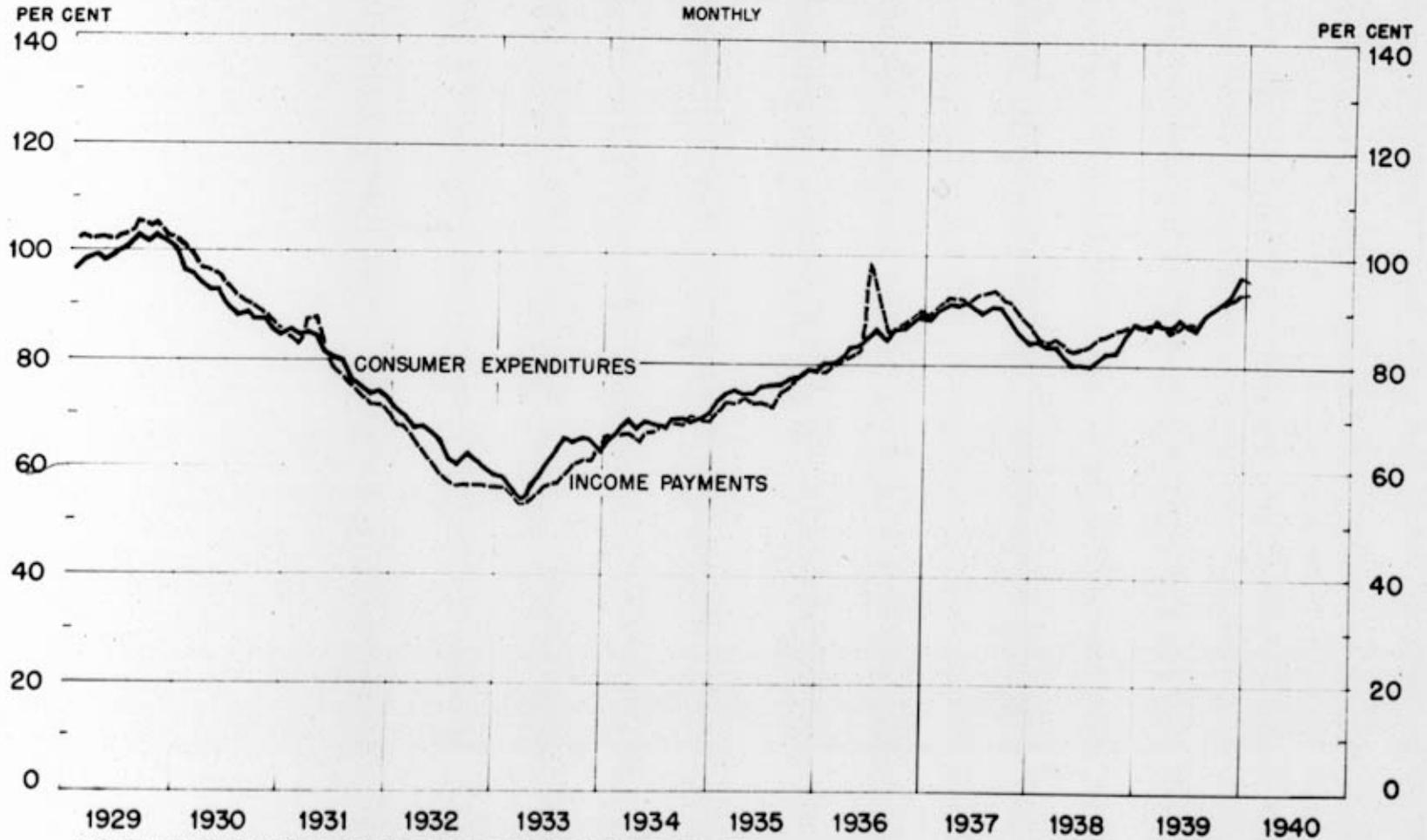
- (a) an effort to maintain and increase private housing expenditures. I am working on several possibilities in this field.
- (b) stimulating exports in every way possible.
- (c) resisting budgetary cuts and securing larger appropriations for certain types of expenditures, both inside and outside the budget. I will have certain suggestions to offer here.
- (d) the use of a portion of the Stabilization Fund to retire debt, which would be interpreted as a bullish factor vis-a-vis commodity prices. This action would also greatly facilitate (c).
- (e) getting out a good portion of agricultural benefit payments for fiscal 1941 in the summer and fall. A renewed attempt might be made to accelerate the placing of Army and Navy orders of certain materials this spring.



Lauchlin Currie

CONSUMER EXPENDITURES AND TOTAL INCOME PAYMENTS, EXCLUDING DIVIDENDS AND INTEREST

AVERAGE 1929 EXPENDITURES

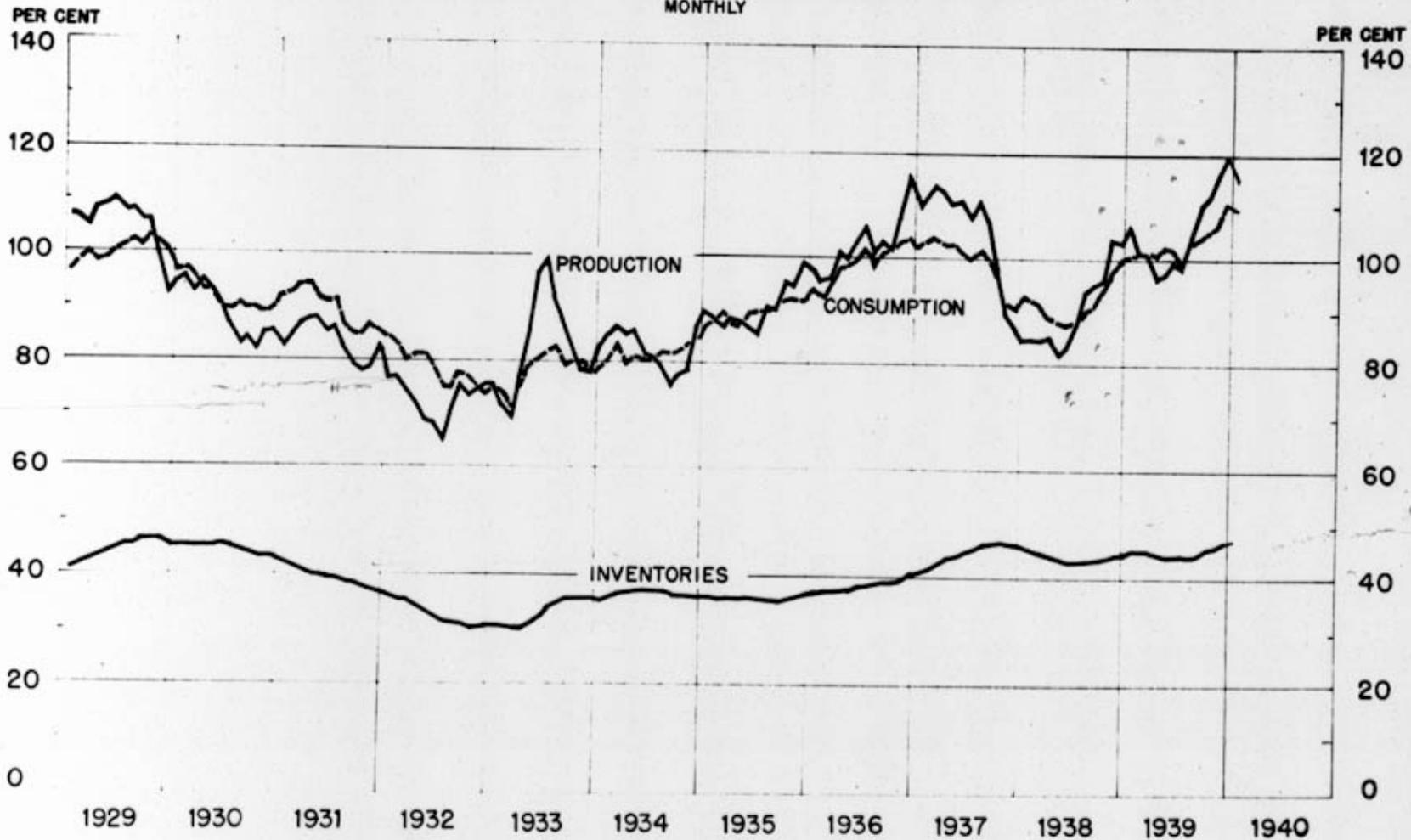


INCOME PAYMENTS ADJUSTED SO THAT THE TOTAL FOR THE ENTIRE PERIOD, 1929 - 1939,
IS EQUAL TO TOTAL CONSUMER EXPENDITURES DURING THE SAME PERIOD.

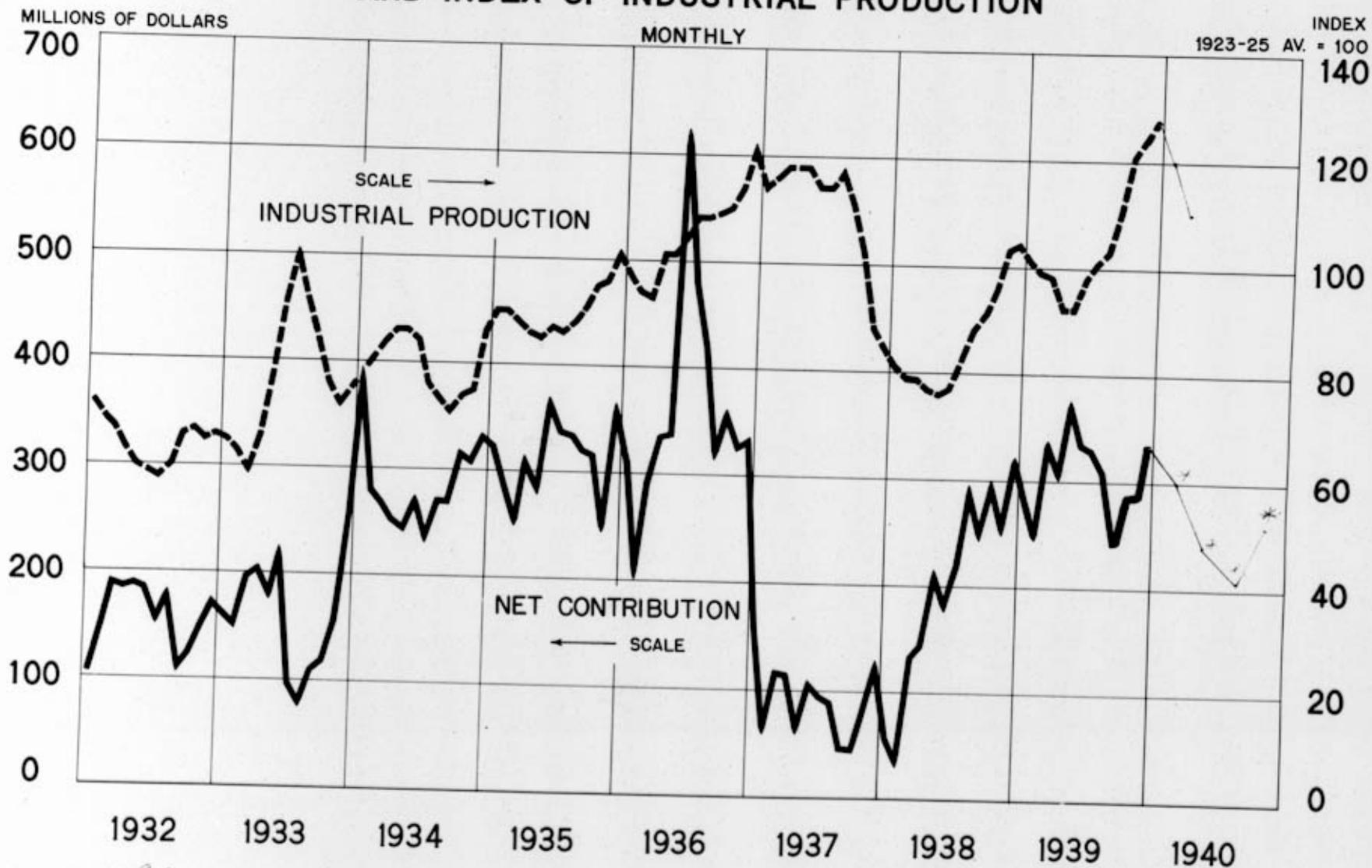
INDEXES OF PHYSICAL VOLUME OF PRODUCTION, CONSUMPTION, AND INVENTORIES OF CONSUMER GOODS

AVERAGE 1929 CONSUMPTION—ADJUSTED FOR SEASONAL VARIATION

MONTHLY



FEDERAL NET CONTRIBUTION TO BUYING POWER AND INDEX OF INDUSTRIAL PRODUCTION



x Estimated month 7/40

BF
Mme

THE WHITE HOUSE
WASHINGTON

March 6, 1940.

MEMORANDUM FOR THE PRESIDENT:

Re: Stimulation of Rental Housing Construction.

1. Present Situation. For various reasons, which appear to arise partly from legislative changes but are mainly administrative in nature, rental housing operations (like Colonial Village) of the Federal Housing Administration have virtually ceased. The great bulk of private building today is for owner-occupancy. It does not meet the needs of a large portion of the potential market. More than one-half of the urban population lives in rented dwellings. Owner-occupancy construction levelled off last summer and has recently run below last year. There appears to be an opportunity to expand total construction by providing additional facilities for rental housing construction.
2. Theory Underlying Existing Legislation. Section 207 of the National Housing Act assumes that there are plenty of people with capital eager to build and manage housing projects provided they can secure mortgage money. Through the insurance of mortgages adequate capital has become available in this form. The real deficiency now, however, is in borrowers. Conservative moneyed people do not relish operating properties particularly on a thin margin. Speculative builders either have little equity capital or are not attracted by the modest long-term returns from rental operations.
3. A Desirable Development. It would be an eminently desirable development if the large coupon-clipping passive controllers of huge aggregations of savings, such as insurance companies and savings banks, could be induced to assume a more active investment and management role. They could secure all the economies of large-scale building and planning, and could provide the necessary incentive for building to be transformed from a handicraft stage to a more typically American type of business. They would be content with a modest return if it could be made safe. All life insurance companies domiciled in New York may now invest 10 percent of their assets in the ownership of rental housing developments anywhere in the country. The Metropolitan Life has taken advantage of this in New York City and is giving a brilliant demonstration of the possibilities of the economies inherent in large-scale planning and development.
4. How the Metropolitan Experience May be Generalized. In order to induce other insurance companies to follow the Metropolitan's lead and to provide an incentive for the enactment of enabling legislation for savings banks and insurance companies domiciled elsewhere than in New York, the following amendment to the National Housing Act is suggested:

Memorandum for the President.
Re: Stimulation of Rental
Housing Construction.

-2-

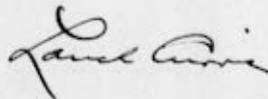
March 6, 1940.

Under proper safeguards, provide for the insurance of a guaranteed return on the total cost less depreciation. This might take the form of a guaranteed return of, say, $3\frac{1}{2}$ percent (including $\frac{1}{2}$ percent insurance premium) on 80 percent of the investment. This would amount to 2.8 percent on the entire investment, or, deducting $\frac{1}{2}$ percent insurance premium, to a net figure of 2.3 percent to the investors. Conservative investors then might make 6 percent or better on their investment, and could not make less than 2.3 percent, which is the average yield on long-term government bonds.

Under feasible safeguards relating to prudent investment and management, the Government should run little risk of loss. A cushion would be provided by the economies of large-scale construction and by the insurance fund. It would require a terrific decline in rents or occupancy to reduce the total net yield below 2.3 percent on the investment.

Hence, with no charge on the budget and with little risk of eventual loss, the Government could activate a large volume of construction of a type that would facilitate the highly desirable transition of the industry to a mass production basis.

5. General. This suggestion originated in the Federal Housing Administration and has the enthusiastic support of some of the best technicians there. It has also received the enthusiastic support of Andrew Eakin, who is constructing the big Metropolitan development. Mr. MacDonald is acquainted with the suggestion but it has not been brought to his attention recently. If the general idea meets with your approval I should like to offer certain suggestions for your consideration relating to drafting and sponsorship.



Lauchlin Currie

THE WHITE HOUSE
WASHINGTON

BSF
Currie

March 9, 1940.

MEMORANDUM FOR THE PRESIDENT:

Personnel.

Some Canadian friends of mine have been after me for some time to give an off-the-record talk to the Montreal branch of the Canadian Institute of International Affairs. They would pay all expenses and assure me that no speaker has ever been quoted. If you have no objection, I should like to fly up some weekend. I have quite a few friends in the higher Civil Service at Ottawa and I should be glad to attempt to secure at the same time any background information of an economic nature you might care to have.

Lauchlin Currie

Lauchlin Currie

OK
HWR

Mead Bill

THE WHITE HOUSE
WASHINGTON

*B.F.
Currie*

March 12, 1940.

MEMORANDUM FOR THE PRESIDENT:

Re: Small Business Loan Legislation.

Jim Mead has accepted all the Federal Reserve suggestions, so that the proposed legislation now takes the form of amending Section 13b of the Federal Reserve Act to remove certain restrictions now in the Act and place the Federal Reserve on a comparable "competitive" basis with the RFC in the making of industrial advances. It also contains a provision eliminating the payment of 2 percent interest on the sums advanced to the Federal Reserve by the Treasury for industrial loans out of an ear-marked gold profit. This should probably be cleared with the Treasury.

I don't think this bill would encounter much opposition and, through enlisting the cooperation of the Federal Reserve Board, might accomplish some real good.

Lauchlin Currie

Lauchlin Currie

S. 3343

IN THE SENATE OF THE UNITED STATES

AMENDMENT

Intended to be proposed by Mr. _____ to the bill (S.3343) to amend section 13b of the Federal Reserve Act, as amended, viz:

On page 4, line 7, beginning with the words "upon request" strike out through the word "agreement" in line 8 and insert in lieu thereof the following: "upon request by the Board of Governors of the Federal Reserve System, in such amounts and at such times as the Board of Governors deems necessary to enable the Federal Reserve banks to make the loans, discounts, advances, commitments and purchases authorized by this section, and upon execution by each Federal Reserve bank of an agreement".

BILL S. 3343
PROPOSED AMENDMENTS TO SECTION 13b OF THE FEDERAL RESERVE ACT

Section 13b of the Federal Reserve Act now authorizes Federal Reserve banks to make loans direct to established commercial and industrial enterprises for working capital purposes for periods up to five years. It also authorizes the Federal Reserve banks to grant commitments to or participate with financing institutions with respect to any such loans. The limitations now contained in the Act with respect to working capital, established businesses, and maturities make it impossible for the Federal Reserve banks to grant credit to many worthy enterprises, particularly where additional funds are needed for expansion or improvement.

The proposed amendment would eliminate these limiting provisions and permit Federal Reserve banks to extend credit to any business enterprise, without restriction as to purpose, for such periods as the circumstances in each case would warrant.

Under present law the Secretary of the Treasury is authorized to pay to the Federal Reserve banks up to \$139,299,557, out of the increment resulting from the reduction of the weight of the gold dollar, for the purpose of enabling the Federal Reserve banks to make industrial advances. This is the amount paid by the Federal Reserve banks for stock in the Federal Deposit Insurance Corporation. The Secretary of the Treasury has paid to the Federal Reserve banks approximately \$27,000,000 for this purpose. The law now requires the Federal Reserve banks to pay the Government 2 per cent, if earned, on the amount received from the Secretary of the Treasury. The proposed amendment

would direct the Secretary of the Treasury to pay to the Federal Reserve banks when requested by the Board of Governors of the Federal Reserve System, such portions of the sum of \$139,299,557, not already paid to the Federal Reserve banks, as the Board of Governors may deem necessary to enable the Federal Reserve banks to make the loans, discounts, advances, purchases and commitments therein authorized, would eliminate the provision for the payment by the Reserve banks of 2 per cent, and would authorize the Board of Governors to make such reallocation among the Federal Reserve banks of funds received from the Secretary of the Treasury as it may find necessary to meet existing needs.

The amendment also provides that whenever the Board of Governors of the Federal Reserve System shall conclude that the amounts paid to the Federal Reserve banks by the Secretary of the Treasury are no longer needed for operations under Section 13b, the amount received from the Secretary of the Treasury, plus income and less expenses and losses, shall be paid to and become the property of the United States.

The amendment eliminates the requirement of the present law that each Federal Reserve bank shall have an Industrial Advisory Committee to pass on all loan applications.

Under the present Section 13b each financing institution obtaining a commitment from or participating with a Federal Reserve bank on any loan must bear at least 20 per centum of any loss that may be sustained. The proposed amendment would modify this to provide that the financing institution must bear at least 10 per centum of any loss that may be sustained on such a loan.

MARCH 8, 1940

file
BF
posts

THE WHITE HOUSE
WASHINGTON

March 13, 1940.

MEMORANDUM FOR THE PRESIDENT:

Re: National Labor Relations Board.

I suggested to Mr. Fahy the other day that I would appreciate a short memorandum on the NLRB. He sent me the attached, which contains a brief summary of the record and a concise defense of the Board and of the Act as they now stand. It is perhaps all familiar to you but as I have observed that no Board member has been to see you recently I thought I had better pass it along.

Fahy, of course, feels that certain of the amendments proposed by Smith would be fatal to the purposes and administration of the Act; that action can be avoided in this session; and that every day so gained will be accompanied by an ever-growing acceptance of the Act and its administration.

Lauchlin Currie

Lauchlin Currie

6.7.

NATIONAL LABOR RELATIONS BOARD

Status of Work

In representation cases, that is, the cases in which the Board determines the appropriate bargaining unit and either holds elections or, on the basis of the record, certifies the representatives that have been selected by the employees, the work of the Board is practically current. This is one of the two important branches of the work.

In unfair labor practice cases, that is, cases in which after hearings, etc., the Board issues orders against employers to prevent and remedy violations of the statute, the great backlog of cases which accumulated during the period following the validation of the Act by the Supreme Court is constantly being cut down and it is estimated that within six months at the outside, this second branch of the work will also be current.

The tremendous volume of cases which came to the Board following the validation of the statute April 12, 1937, when the Board's organization was small, presented an almost unprecedented problem. With the expansion of the staff of the Board undertaken to meet this problem, with the diligent application of the whole staff, and with the leveling off of the rate of inflow of cases, the status of the work of the Board is now good and is continuing to improve.

Methods by which Cases Have Been Disposed of.

There have been brought to the Board 25,000 charges of unfair labor practices and petitions for certification of representatives. The former

involve adversary proceedings against employers. More than three-fourths of the cases in this category have been disposed of. Of those disposed of, 91% were disposed of amicably or by dismissal or by withdrawal of the charge by the party filing it with the Board, without the necessity of the Board issuing a formal complaint against the employer. Of the 9% of the cases, that is, those in which complaints were issued, 4% were disposed of after issuance of complaint but without the necessity of Board decision. So that in only about 5% of all the thousands of cases disposed of have Board decisions against employers been rendered; and in a substantial number of these also the complaints were dismissed in whole or in part by the Board in its decision.

Litigation of the Board

Perhaps the most objective test of the caliber and correctness of the Board's work is found in the court review of its decisions, based on the records made at the hearings on which the Board bases its decisions and orders. The ultimate objective test is found in the decisions of the Supreme Court, in which the unusually large number of 24 final decisions have been rendered over a period of about three years. In 20 of these cases the Board's position was sustained, in two not sustained, and in two sustained in part and not sustained in part. Varied and difficult questions of constitutional law, statutory construction, appropriateness of the remedies called for in Board orders, questions of fact, etc., were involved in these 24 cases. The record of the Board constitutes the best record ever made by any agency of the

Government judged by review of its work by the Supreme Court. In the Circuit Courts of Appeals the percentage of approval has not been as high, but as Dean Garrison recently said to the Congressional Committee, it has been "notable." There have been about 100 final contested decisions of the courts passing on the Board's work since the Act was sustained. This excludes more than 100 injunction suits, all of which were finally decided favorably to the Board.

The Criticisms of the Administration
of the Act

The actual analyses of the records and statistics of the Board show that there has been no favoritism as between the A. F. of L. and the C. +. O. The record simply refutes any such claim. In cases involving the appropriate bargaining unit, in which the conflict between the A. F. of L. and the C. +. O. before the Board has been keenest, the Board's Globe doctrine, under which the employees in the smaller craft unit are permitted to vote separately whether or not they desire to be represented by the craft or the larger unit, is favorable to the A. F. of L. The other principal basis of attack by the A. F. of L. has been that in a small number of cases the Board has found it necessary to set aside A. F. of L. contracts found to have been made in violation of the statute, due to the interference, coercion and restraint of the employer in violation of the statute. Unless the Board had done so in these cases, the employees involved would not have been permitted to exercise the free choice in selecting representatives guaranteed by the

Act. These cases have been few in number. The same principle has been applied in both A. F. of L. and C. I. O. cases, although there have been more cases in which the contract set aside was made with an A. F. of L. organization than with a C. I. O. affiliate.

Employers may not justly complain of partiality against them when it is remembered that the overwhelming bulk of the charges filed against them have been disposed of amicably or in favor of the employer; and in the small percentage of cases in which orders against employers have necessarily been issued, all such orders are subject to court review before they are enforceable. Of course it is true that in some of these cases some of the employers who were the losing litigants may have felt injustice had been done, but the record of the Board in the large number of cases which have gone through the courts shows that there has been no more than a normal human percentage of error. Judged by comparison of the Board's record with the record even of the courts themselves on review of their decisions by higher courts this is incontestable. To illustrate, the Supreme Court has reversed Circuit Courts of Appeals in Labor Board cases, and sustained the position of the Board, much oftener than the reverse.

As to the generalized criticism of the procedure of the Board, it is believed that the Board has probably established as careful and as fair a procedure as any agency has ever adopted. The procedure has been consistently sustained by the courts. It would be interesting to compare the analysis of the Board procedure being made by the Attorney General's Committee on Administrative Procedure with the analysis by that Committee of the procedures of other independent agencies.

The criticisms of individual acts of a large staff carrying on a very important work in an emotional and super-critical atmosphere, such as those incidents disclosed by the Smith Committee, represent no more than occasional human error on the part of some members of the staff, occurring almost entirely when the staff was going through a period of extraordinary expansion, was under great pressure, and was necessarily less experienced than now. Many of the incidents referred to in the testimony before the Smith Committee in a critical manner are shown to have been cleaned up entirely by the Board itself in the ordinary process of improving its own personnel and administration, a continuing process with any agency employing a large number of people, particularly a new agency.

The press continually gives a completely distorted picture of the "disclosures." To illustrate: On Thursday last the Herald-Tribune (N. Y.) in an editorial said that the organization was "infested with spies." This is so absurd as to be simply incredible. There is no spy or anything comparable to a spy in the whole organization. There are two Special Examiners whose functions are known to the whole organization and who do routine checking and co-ordination of the work of the regional offices. More of this sort of thing is desirable to bring to each office the benefit of the experience and knowledge of the manner in which the work of all the offices is handled. The two Special Examiners are the "spies" with which the organization is "infested." On the same day an editorial in the Washington Post referred

to the "overwhelming" proof that trial examiners and Board attorneys trying cases before trial examiners more or less combined their work to the detriment of parties. The proof before the Smith Committee was that in two instances this had occurred, but the proof also was that in one of these instances the Board had found out about it and set aside the whole hearing, and that in the other instance the case had been abandoned and the complaint dismissed against the employer. These are two instances out of thousands of hearings. There may possibly be other instances, but the statement of the Washington Post was a rash distortion. On the same day, Mr. David Lawrence, with his usual intemperate language wherever the Board is concerned, claimed that the investigation has revealed the C. I. O. makes the policies of the Board, etc. He cited no proof, and there is nothing in the record before the Smith Committee that even approaches any proof of such wild and irresponsible statements.

The Act and Its Administration are Accomplishing
Their Purposes in Accordance with the
Congressional Intent.

Dr. Rubin's testimony before the Committee showed that there has been a general downward trend in strikes since the Supreme Court sustained the Act, notwithstanding the tremendous increase in the members of unions. The sit-down strike which grew up in the period of resistance to the Act, has gradually faded out and has become non-existent since the Supreme Court sustained the Act. Stabilized labor relations have spread through a great increase in the number of con-

tracts between employers and unions. More than a million employees have voted in Board elections for bargaining agencies. The day of the labor spy and professional strikebreaker is practically over. Thousands of employees have been reinstated to their positions after having been discharged merely because they belonged to or were active in a union. Harlan County has passed its notorious days, and although the prosecutions of the Department of Justice were extremely important, the fact is that it was the Labor Board that first established in that county, through court decisions, the new era of protection of the right of self-organization. Industrial peace has reigned in big steel, an industry in which previously some of the bloodiest episodes of our industrial history grew out of the opposition to organized labor. One could go on specifying indefinitely the improvement in labor relations and the elimination of evils, the benefits to the individuals and communities. These are overlooked. The Board is currently preparing for and will shortly conduct a great election in the automobile industry in which approximately 150,000 employees will vote for bargaining agencies. The election has been arranged with the consent of the employers and the employees. Such things as these, going on as a current part of the work, are the significant things.

The Future

The Act is being generally accepted, and will pass the stage of serious controversy if there is no retreat now from its fundamental principles. The Board organization has naturally improved with

experience. The status of its work is constantly improving. The whole organization functions more smoothly and efficiently, and indeed in an atmosphere far less controversial among those with whom it daily deals, than ever before. The emotional hangover of opposition and criticism has no real relation to the actual work of the Board from day to day throughout the country.

PSF: Admin. Assts.
Currie folder

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Foreign*

THE WHITE HOUSE
WASHINGTON

March 14, 1940.

MEMORANDUM FOR THE PRESIDENT:

Re: Herbert Hoover and Apples.

I have just been told of an amusing little slip with embarrassing historical associations Mr. Hoover made when testifying before the House Foreign Affairs Committee on an appropriation for Polish relief. He stated that shipments of food would not deprive the American people of "one apple". I am told that this appeared only in the first newspaper editions.

Lauch Currie
Lauchlin Currie

*B.F.
Currie*

THE WHITE HOUSE
WASHINGTON

March 15, 1940.

MEMORANDUM FOR THE PRESIDENT:

Re: Farm Security

Sometime back you authorized me to canvass with Jesse Jones the possibility of financing the rural rehabilitation loan portion of the Farm Security program outside the budget. I went over a proposal along these lines submitted by Secretary Wallace with Mr. Jones yesterday. This proposal is that the Farm Security Administration should raise its money for rehabilitation loans from the RFC, pledging its existing loans (\$320 million) as collateral to the RFC. Mr. Jones said that if this were made discretionary rather than mandatory, permitting him to decide how much to loan and how much collateral he would require, he would not only have no objections but he would favor the proposal. I have reason to believe that this suggested change would be acceptable to Agriculture.

The adoption of the proposal would -

1. Permit an expansion of the rural rehabilitation loan program. Of the proposed \$123 million appropriation for Farm Security only \$68 million would be available for loans, which would be a reduction of \$35 million from the current year's program. Secretary Wallace believes that \$150 million of loans are needed.
2. Permit a reduction in budgetary expenditures. If borrowing authority from the RFC were secured, Farm Security believes that its budgetary appropriation could be reduced to \$62 million, covering the cost of administration, grants, migratory camps, etc. This would be a reduction of \$60 million.
3. Permit an expansion of other programs without entailing a net increase in the budget as submitted by you. There seems every likelihood that a determined drive will be made to earmark a portion of the work of the relief appropriation for the food stamp program, since Congressmen are under great pressure to have cities and counties in their districts designated. Under existing appropriations, however, the full quota of cities for all next year will be reached in about forty-five days. On the other hand, it appears undesirable to reduce money for WPA. The release of a portion of the present Farm Security appropriation would permit a continued expansion of the extremely popular food stamp program without reducing funds for work relief.

The relief appropriation is to be introduced early next week. Mr. Jones is planning shortly to propose certain amendments to his Act and has stated that if the proposal under discussion is adopted, it could go forward with his amendments.

Lauchlin Currie
Lauchlin Currie

PSF
Currie

THE WHITE HOUSE
WASHINGTON

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To Take up
with Agric

March 16, 1940.

MEMORANDUM FOR THE PRESIDENT:

Re: Financing of Farm Mortgages.

Both Senator LaFollette and Department of Agriculture people have called me about this. I have therefore checked into the matter. I also talked to Daniel Bell and ascertained his objections.

The idea in brief is to convert the present undoubted moral obligation in connection with Land Bank bonds to a legal obligation, secure the resultant advantages of lower interest rates and pass this advantage along to the farmers. It is proposed to reduce the rate charged farmers to 3 percent, refund immediately at 2 percent land bank bonds held by the Federal Farm Mortgage Corporation and refund the bonds held by the public as they become callable up to 1946. The annual subsidy required could be somewhat less than that currently being paid and by 1946 it is anticipated that no further subsidy would be required.

Arguments for

1. Lower interest rates and possibility of longer terms of payment for farmers with a lessened immediate charge on the budget.
2. Increased security of principal as a result of lower annual charges.

Arguments against

1. Government will assume a large contingent liability.
2. Less reserves will be accumulated to meet eventual losses.
3. The Government will be committed to a subsidy for at least six years.

Discussion

The Government already has the moral obligation without the offsetting advantage of the low rate on guaranteed bonds. In effect we now guarantee a substantial portion of urban mortgages. We are also in effect committed to a continuing subsidy as it is highly unlikely that Congress would force a return to the contract rate of 5 percent on farm mortgages.

Less reserves would be accumulated but there is some question as to whether existing borrowers should be assessed to make up the losses that will arise from taking over many poor loans in the depths of the depression. These eventual losses might more properly be charged against capital.

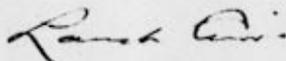
The proposal would not interfere with the return of excess capital to the Government since practically all of the proposed retirement of private

March 16, 1940.

Additional stock in the land banks would take the form of a reduction in outstanding loans. The assumption of a legal guarantee would, in addition, dispose of the argument that a reduction in the Land Banks' capital would make the sale of debentures more difficult.

The reduction in the rate to 3 percent is perhaps a little excessive. A 3½ percent rate might be more appropriate, at least until more financing is possible, and this would reduce the subsidy required. Borrowers would still benefit through this rate being made permanent, through the extension of maturities on farm loans, through the repayment of the privately-held capital stock, and through the reduction in the rate on Land Bank Commissioners' loans which is now 4 percent. An additional point might be made that if interest rates remain low, as appears likely, a 3½ percent rate to farm borrowers might eventually permit a payment to the Treasury of part of the subsidy initially required.

LaFollette stated that he believed Administration support for this measure would in turn result in increased Congressional support for the administration of FCA.



Lauchlin Currie

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PSF
Wine

THE WHITE HOUSE
WASHINGTON

March 23, 1940

MEMORANDUM FOR THE PRESIDENT:

Re: Federal Revenue Receipts

The reports on income tax collections through March 20 indicate that receipts for the month are likely to be between \$660 million and \$670 million as compared with the independent estimate of \$650 million and the Budget estimate of about \$550 million.

For the current calendar year, the independent estimate of total receipts is about \$450 million above the Budget estimates.

In terms of the debt and cash balance figures, indications are that if the debt as of June 30th is the same as in the budget message, the cash balance would be \$1.5 billion; if, on the other hand, the cash balance is \$1 billion, then the debt would be \$500 million less than in the Budget. Actually, if no new cash is raised in the open market, it appears probable that the cash balance will be \$1,250 million and the debt \$250 million less than shown in the Budget, or about \$43 billion.

Lauchlin Currie

Lauchlin Currie

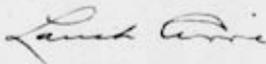
BSF
Currie

THE WHITE HOUSE
WASHINGTON

March 23, 1940

MEMORANDUM FOR THE PRESIDENT:

Jerome asked me to call the attached clipping to your notice. There does not appear to be much point in Wagner holding hearings on investment trusts if these hearings are merely going to be a sounding board for a general attack on the S.E.C.



Lauchlin Currie

SEC Inquiry Likely

Policies and Operations May Be Quizzed During Investment Trust Study

Senate Banking Group Bloc Seeks Accounting Before Granting More Authority

Hearings Scheduled April 2

BY ALFRED W. WYLLIE

Staff Correspondent of THE WALL STREET JOURNAL

WASHINGTON—Activities of the Securities and Exchange Commission appear likely to be subjected to a Congressional investigation during the present session.

Such an inquiry would use as a vehicle scheduled public hearings on the investment trust regulation bill legislation recently introduced at the request of the SEC and giving the Commission broad supervisory powers in the investment trust field.

Members of the Senate banking and currency committee, it was learned yesterday, are preparing to demand that their group's hearings on the trust bill be broadened into a thorough examination into SEC policies and operations. The position of these senators is that the Commission should be required to give an accounting before any further regulatory authority is granted by Congress.

Townsend States Position

Senator Townsend, ranking Republican member of the banking committee, has given notice that he will demand that SEC officials be subjected to an examination on criticized policies. A sufficient number of other committee members have indicated support for the Townsend move to insure a general study of commission policies.

Chairman Wagner of the banking committee has fixed April 2 for the opening of public hearings on the investment trust regulation bill, with SEC Commissioner Healy scheduled to appear as the first witness. Other members of the commission also will be requested to attend, committee members stated.

While the expected examination into SEC policies by banking committee members may not be as far-reaching as a separate special investigation, it will nevertheless give committee members an opportunity to cross-examine commission officials on past actions and questions of policy, an opportunity of which several committee members will take full advantage.

Customary Approach

This method of approach to an examination of a government agency's activities is not a new one. It has been the custom of standing committees of Congress to require agencies seeking broader powers to submit to questioning on uses which have been made of existing authority.

Considerable significance is attached to the fact that Investment Bankers Association representatives will confer with some members on the banking committee next week, presumably regarding complaints against SEC "arm's length" bargaining requirements on utility security offerings.

Earlier this week the SEC and the IBA exchanged strongly worded statements on the commission's policies on utility financing, the IBA in addition calling for a thorough public examination of problems of underwriting and corporate financing. This is the basis for the current demands for a congressional inquiry of the SEC's operations. The charge was made by Emmett F. Connelly, president of the IBA, that the SEC exceeded its authority in putting into force the existing rule on arm's length bargaining on securities. The SEC countered with charges that the bankers organization was guilty of "obstructionism" and "government-baiting."

Capitol Hill Reactions

On Capitol Hill the news reports of the controversy have been absorbed with considerable interest. Senator McCarran (Dem., Nev.) has given notice he will make a speech in the Senate demanding an inquiry of the "whole mess". Other members say that the SEC should not only be willing but anxious to clear up charges that it has overstepped its bounds.

It is expected that Senator Townsend will take the leadership in questioning the SEC officials on some of their conflicts with individuals and concerns subject to SEC regulation.

Meanwhile on the House side of the Capitol where the SEC has been subject to criticism off and on since last January Representative Cox (Dem., Ga.) issued a warning that the SEC would be subject of a "washing out" unless its behavior is improved.

The SEC as now functioning is rapidly falling to the low level of the NLRB and unless its behavior is quickly improved it will undergo the kind of washing out that awaits the board. Its high reputation made under the chairmanship of Joe Kennedy will not save it. Representative Cox said.

The leadership in the Senate has expressed the view that there will be no general inquiry of the SEC by a specially appointed committee at this session. Democratic Floor Leader Barkley said yesterday that he anticipated no developments along this line.

THE WHITE HOUSE
WASHINGTON

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Currie

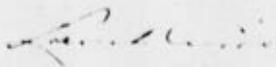
March 23, 1940

MEMORANDUM FOR THE PRESIDENT:

Re: F.C.A. and the Budget

I have spent a great deal of time this week on various proposals relating to the interest rate on farm mortgages. I have come to the conclusion that if the Wheeler-LaFollette-Bankhead-Jones bill were modified to provide for a $3\frac{1}{2}$ percent instead of a 3 percent rate, with some provision for the later repayment of the resulting small subsidy (\$13 million next year) to the Government, you could quite conservatively support it. I believe that the sponsors would so modify the bill to secure Administration support, and that Secretary Wallace would be glad to support the bill with these modifications. Unless some such compromise as this is worked out, I fear that you will not only face the unpopular step of vetoing a five year extension of the present arrangement (a bill to this effect has already passed the House), but, in addition, see your veto over-ridden as in 1938 with a resultant additional annual charge on the Budget of \$38 million.

If the suggestions meet with your approval, and if you wish, I shall be glad to clear the matter with Secretary Wallace. Hearings are under way currently.


Lauchlin Currie

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PBF
Currie

THE WHITE HOUSE
WASHINGTON

March 25, 1940.

MEMORANDUM FOR THE PRESIDENT:

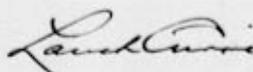
Re: Maritime Unemployment Insurance.

As a result of an intensive reworking of the statistical material, Mr. Latimer comes out with an estimate of the cost of providing a system with benefits comparable to state benefits only half as high as the original Social Security Board estimates, which latter the Social Security Board now admits to have been at least 80 per cent too high. It still, however, amounts to about $4\frac{1}{2}$ per cent of payrolls. Hence the difference between an inadequate schedule of benefits and one that can get by is estimated at only \$1.5 million. Actual experience may, of course, result in even lower costs.

All the people I consulted within the Administration feel strongly that it would be most inadvisable to set up a system with the low benefits the yield of a 3 per cent tax is estimated to cover. They recommend either trying to secure an advance from the Maritime Commission's ship construction funds to insure the financing of a provisional system or attempting to tap the rapidly mounting Railroad Unemployment Insurance Fund.

You might care to consider calling in the railroad labor members of your Committee of Six, George Harrison, Dave Robertson and Bert Jewell, and put the proposition up to them. You might hint at reducing the railroad unemployment payroll tax whose yield has turned out to be far more than necessary to finance benefits; you might hold out the prospect of working toward unification of both regulation and social security for all of transportation, so that what the railroad unions lost through higher unemployment among the seamen they would gain in lower costs for retirement benefits, since the average age is far less among the seamen and other transportation workers. It is this argument that weighs with Mr. Eddy, the railroad labor member of the Railroad Retirement Board.

I thought it best not to consult anybody on the Hill, as you suggested, until I learn your wishes after considering the possibilities outlined in the attached memorandum.


Leuchlin Currie

March 25, 1940.

MARITIME UNEMPLOYMENT INSURANCE

Receipts From a Three Per Cent Pay Roll Tax

It is estimated that a three per cent pay roll tax on the deep-sea maritime industry would yield about \$2,900,000 a year. Assuming that the cost of administration would not exceed \$300,000 [ten per cent of the tax proceeds], an average of about \$2,600,000 a year would be available for benefits.

Benefits Possible on Revenues From a Three Per Cent Tax

- (a) A weekly benefit rate of one-half the weekly rate of pay, including the value of subsistence, to a maximum of \$10 per week, with a minimum of \$5 per week.
- (b) A waiting period of one week at the beginning of each separate spell of unemployment.
- (c) Benefits payable on the basis of a fixed benefit year from July 1 to the following June 30, with appropriate transitional provisions for payments between January 1 and July 1, 1941;
- (d) Benefits payable for a maximum of nine weeks in the benefit year.
- (e) To qualify for benefits individuals must have earned at least \$200 or the equivalent in terms of days of employment (probably ninety days' employment) in the calendar year preceding the beginning of the benefit year.
- (f) Benefits withheld for three weeks from persons who leave work voluntarily without good cause (failure to renew employment at the end of a voyage would constitute a voluntary quit).
- (g) A similar disqualification for failure to accept suitable work available and offered to an applicant, unless he had good cause; in accordance with the practice of the industry a maritime worker would be deemed to have a good cause for rejecting two job offers when at the top of the list, under the rotary hiring practice.
- (h) A disqualification of five weeks in the event unemployment resulted from participation in a strike.
- (i) Maximum benefit payable in a year would be about \$90 with the average at \$50.

Comparison With State Systems

An unemployment insurance system having such provisions would be materially less favorable to maritime workers than would be the provisions of the typical State law. Even the least liberal State law

would be superior to the maritime system. The important benefit provisions of an unemployment insurance system are those relating to the weekly benefit rate, the maximum duration of benefits in the course of a year, and the amount of earnings needed to qualify for benefits. The typical State provides for a maximum weekly benefit of \$15; there are six States that pay a larger amount (\$16 - \$18). A three per cent maritime plan would provide for a maximum weekly benefit of only \$10. Normally the States are paying benefits for a maximum of sixteen weeks in the year. However, some States pay for twenty weeks or more and one State for as many as twenty-six weeks. Even the least liberal State provides for a maximum of twelve weeks. A three per cent maritime plan would place the worker in a much inferior position in allowing benefits for a maximum of only nine weeks in the year. The inadequacy of a three per cent plan is further aggravated by the earnings qualification. The typical State law requires as a condition of qualifying for benefits that the unemployed worker should have earned a little over \$100 on wages in the year preceding the unemployment. Only eight States require \$200 or more in earnings in the preceding year. As compared with the State systems the three per cent plan requirement of \$200 in qualifying wages is very rigid.

Undesirability of a Separate Three Per Cent System

Altmeyer, McNutt, Bruere, Bigge, Block and Latimer are unanimous in stressing the undesirability of instituting a Federal system with the above schedule of benefits. They feel that the seamen would view such a system unfavorably and that it would offer a most unfortunate precedent in the current struggle between those advocating more liberal benefits in the State systems and those advocating pay roll tax reductions.

According to Mr. Latimer's calculations, benefits comparable to those prevailing in a typical State system could be secured at a cost equal to $4\frac{1}{2}$ per cent of pay rolls, or about \$1,500,000 more than the 3 per cent tax would yield. Such benefits would range from \$5 to \$15 a week for a maximum period of sixteen weeks.

Possibilities of Securing Benefits Comparable to State Systems With a 3 Per Cent Pay Roll Tax and No Subsidies

A. Build up a fund that could carry the provisional "4 $\frac{1}{2}$ per cent" system through a three or four year period with the thought that in this period a national Federal re-insurance or equalization fund for all the unemployment insurance systems will be created. This could be done by:

(1) Imposing a tax as of July 1, 1940, sufficient to produce in the last six months of 1940 revenues equivalent to a pay roll levy of 3 per cent for one year (about \$3,000,000), the regular pay roll levy to begin as of January 1, 1941.

(2) Securing an advance from the construction funds of the Maritime Commission of \$3,000,000 with a guarantee of repayment by the Treasury if necessary.

(3) Beginning benefit payments January 1, 1941. This procedure may or may not involve a subsidy, depending on the unemployment experience and the arrangements made when and if the general Federal equalization fund is established. It does not in any event contemplate a permanent subsidy. It would probably be prudent to provide by advances from the Treasury for the remote contingency of a complete paralysis of American shipping.

B. (1). Another course favored by the conferees would be to merge the railroad and maritime unemployment insurance systems into one transportation unemployment insurance system, with some pooling of risks of costs above 3 per cent. This would, of course, require the assent of the railroad unions. Arguments advanced for this procedure are as follows:

(1) It would permit the payment of the railroad unemployment insurance benefits to seamen without requiring either a Federal subsidy or a pay roll tax higher than 3 per cent.

(2) Annual railroad unemployment tax collections are about four times more than annual benefits, the difference for this year being estimated at around \$45,000,000. It is indicated that on the basis of the present Railroad Unemployment Insurance Act and accounting for taxes on an accrual basis the fund as of December 31, 1941, will be about ten times the average annual payments during the calendar years 1940 and 1941. The figures, on payments, moreover, assume that there will be an increase in benefits in 1941 of forty per cent over 1940. Should this estimate not be realized (and it appears to be quite a conservative one) the fund might well be twelve or fourteen times the annual benefit payments. According to the above estimate, the cost of the railroad benefits over and above the three per cent tax levied on the deep-sea branch of the maritime industry would be less than the interest which would accrue to the railroad account on additional reserves to be accumulated in the two years 1940 and 1941 under the present law.

(3) The Railroad Unemployment Insurance System already covers about 4,000 maritime workers in the employ of steamship lines owned by railroads, and it would be undesirable to have such workers receive benefits differing widely from other maritime workers.

(4) It would be unwise for the Federal government to multiply national unemployment insurance systems, administrations, and acts. Conditions of employments and unemployment among workers in different branches of the transportation industry are sufficiently similar to warrant inclusion under one system, with discretionary powers to take account of especial conditions with respect to employment. Unemployment in the shipping and railroad industries are in part related in that they may result from shifts from water to rail transportation and vice versa.

(5) The plan would provide a permanent, rather than a provisional system of maritime unemployment insurance.

(6) The Federal government should aim at the integration of social insurance, including old age and survivor insurance, unemployment insurance, workmen's compensation, and health insurance, for transportation workers as a whole. This would not only contribute to the unification of national transportation and to common regulation of all branches of the transportation industry, but would also equalize competitive costs among different branches of transportation in so far as social insurance taxes are concerned.

B. (ii). A variation on this procedure would be to institute the "4 $\frac{1}{2}$ per cent system" benefits rather than the same benefits as the railroad workers receive, with the provision of an "advance" or a limited subsidy from the Railroad Unemployment Insurance Fund.

Coverage and Administration

The conferees are unanimous in recommending that regardless of the scheme decided upon, it should be administered by the Railroad Retirement Board. They also recommend that the coverage of the system should be limited to intercoastal and other deep-sea portions of the industry, with a provision for a 3 per cent payroll tax to be levied on other branches of the industry now excluded from the Federal Unemployment Tax Act, 90 per cent of the proceeds of which to be made available to states if and when their coverage is extended to such maritime employment.

M. Currie

THE WHITE HOUSE
WASHINGTON

*PSF
Currie*

March 27, 1940.

MEMORANDUM FOR THE PRESIDENT:

Re: Jones Bill (FCA).

I have just learned from Dan Bell that at the invitation of Marvin Jones he is going to testify before the House Committee tomorrow morning. In your letter of March 12 to Senator Wheeler you stated, "I am surprised that reports should have come to you that representatives of the Treasury and the Budget Bureau intended appearing before the House Committee regarding this legislation. I am informed that such reports are entirely incorrect." Would you like me to:

(a) call Senators Wheeler, Bankhead and LaFollette, informing them of Jones' invitation? Or,

(b) suggest to Bell that he beg off appearing? Or,

(c) tell Bell that we are working on a compromise measure and see if I can line him up on it or at least not say anything that would be inconsistent with the compromise?

3 *21 min* *but* *Lauchlin Currie*

Lauchlin Currie

THE WHITE HOUSE
WASHINGTON

*PST.
Currie*

March 28, 1940.

MEMORANDUM FOR THE PRESIDENT:

Re: Inquiry from Senator Pepper.

Senator Pepper would like to know whether you have any objections to his attempting to secure hearings before the Senate Education and Labor Committee on his bill to employ 3,000,000 persons.

He thinks that hearings before a sympathetic committee on a fairly radical proposal might help the relatively modest WPA appropriation.

Lauch Currie

Lauchlin Currie

THE WHITE HOUSE
WASHINGTON

April 2, 1940.

MEMORANDUM FOR THE PRESIDENT:

Re: Farm Mortgages and FCA.

In accordance with your suggestion, I discussed my possible basis of compromise on the Wheeler-LaFollette-Bankhead-Jones bill with Secretary Wallace. I also discussed it with Dan Bell, Harold Smith, Marriner Eccles and Chester Davis. There appears to be general agreement that if the bill is passed in the following form, there could be little objection to it:

1. Continue the rate at $3\frac{1}{2}$ percent instead of the proposed 3 percent.
2. Guarantee land bank bonds and remove the present fully tax-exempt feature.
3. Make the subsidy or "advance" equal to the difference between $2\frac{1}{2}$ percent and the cost of money to the land banks. This would cover operating costs.
4. Combined capital funds and reserves of \$940 million would be available to meet losses.
5. Provide that loans made after 1946 bear a rate in relation to the cost of money to the land banks.
6. It would be desirable, but not essential, to abolish the Federal Farm Mortgage Corporation.

The effect of these proposals would be to reduce the subsidy from the present \$38 million to \$13 million in the next fiscal year with the prospect that it will disappear entirely by 1945.

Would you like a more detailed discussion of these proposals or can I tell Secretary Wallace to go ahead and work it out along these lines with the sponsors of the bill?

Lauchlin Currie
Lauchlin Currie

Grace:

Is this from Lauchlin
Currie?

P

yes

April 8, 1940.

COMMENTS ON THE APRIL REVISED ESTIMATES OF REVENUES

Fiscal year 1940.

1. Income Taxes. Despite the revision upward of \$193 million in the estimate for the fiscal year 1940 it still appears a little low. The independent estimate is \$207 million above the January figure.

2. Miscellaneous Internal Revenue. The Treasury revised estimates are down \$33 million from the January estimates. The downward revision occurred largely in the alcoholic beverage taxes. On various grounds the revised estimate appears to be too low. The unchanged estimate for estate taxes also appears low. The independent estimate for this whole category is \$4 million higher than the January estimate, or \$37 million higher than the April revision.

3. Employment taxes. There appears to be no good basis for revising the January estimate.

4. Customs. This estimate has been revised upward by \$57 million, or 20 percent. This revision allows for an average of \$24 million a month for the remaining three months of the year. Should customs receipts average nearly \$28 million a month (collections in March were \$29 million), collections for the year would amount to about \$11 million above the new estimates.

5. Miscellaneous Receipts. The Treasury estimate is unchanged. The independent estimate which on various grounds appears conservative is \$17 million above the Budget estimate.

Summary. The Treasury estimate for total receipts is raised \$218 million. The independent estimate is \$294 million over the January estimate, or \$76 million above the April estimate.

Fiscal year 1941.

1. Income Taxes. The increase of \$172 million in income taxes over the January estimates represents a write-up for the last two quarters of the current calendar year by approximately the amount indicated by the March returns. Apparently the estimate for collections in the first six months of the calendar year 1941 has not been revised. The Treasury is evidently estimating \$1,407 million collections for the first six months of 1941 as contrasted with \$1,352 million of collections in the first six months of the calendar year 1940. This estimated increase of \$55 million appears somewhat out of line with the Treasury assumption that industrial activity will average 111 in the calendar year 1940 as contrasted with 105 in 1939. The independent estimate for income tax collections for the fiscal year as a whole is put at \$250 million above the January Budget estimate.

2. Miscellaneous Internal Revenue. The April estimate is revised downward by \$97 million from the January estimate. The bulk of this reduction occurs in alcoholic beverages and tobacco taxes. In view of (a) the assumption of a higher national income and (b) the secular growth factor, a downward revision of this magnitude appears difficult to justify. The independent estimate is \$7 million below the Budget estimate, or \$90 million above the April revision.

3. Employment Taxes. April estimates are \$8 million above the Budget estimates. The independent estimate is \$19 million above the Budget estimate.

4. Customs. Although the customs receipts have been revised upward by \$27 million, the total still calls for a \$40 million decrease from the estimated receipts for the fiscal year 1940 and this estimate in turn, as we have seen, appears conservative. The independent estimate is \$42 million above the April revision.

Summary. The Treasury's April estimate for total receipts is \$110 million higher than the Budget estimates. The independent estimate is \$335 million higher. For the two fiscal years combined the Treasury's April revision shows an increase of \$338 million over the Budget estimates. The independent estimate is over \$600 million higher than the Budget estimates.

General Observations.

1. Accuracy of the Estimates. Mr. Bell's letter calls attention to the fact that the April revision constitutes an increase of only 3.8 percent over the Budget estimates. This is a little misleading. Leaving aside the fact that the January estimates themselves were \$100 million higher than the estimates the Treasury wished to publish in November, it can be pointed out that the January estimates applied properly only to one-half year's collections, since the first half year was already known. On a half-year's basis, the revision amounts almost to 10 percent. Moreover, as pointed out above, the revised estimate still appears conservative. The revision in the estimate for income taxes alone for the six months' period amounts to 18 percent. The estimate for income tax collections for March alone was off 20 percent. Similarly, a revision of only 1.8 percent in the estimates for the fiscal year 1941 is over and above the \$200 million more or less arbitrarily added in the January estimates and, in any case, will probably have to be further revised upward.

2. Implications of April Revisions on Future Cash and Debt Positions. On the basis of the Treasury's April revisions of revenue receipts, the Budget Bureau's estimates of expenditures, and making what appear to be reasonable assumptions with reference to sales of savings bonds, etc., I estimate the Treasury cash balance on June 30 at \$960 million. This assumes that no new money will be raised. The debt would be \$43,160 million. On the same assumptions the Treasury cash balance on December 31, 1940, will be \$1,110 million and the debt \$44,150 million. In addition to the assumptions noted above these estimates assume a \$700 million return from government corporations.

On the basis of the independent estimates the Treasury cash balance on December 31, 1940, will be \$1,370 million and the debt \$44,240 million.

Thus, on either basis no new open-market borrowing appears necessary, and additional appropriations could be made for, say, WPA, without exceeding the debt limit or drawing down cash balances unduly before the next session of Congress.

3. Estimated Deficits as Affected by Revisions. The Treasury April revised estimates of revenue would change the estimated deficit for fiscal 1940 to \$3,715 million and for fiscal 1941 to \$2,066 million. The independent estimates are \$3,530 million and \$1,850 million respectively.

THE WHITE HOUSE
WASHINGTON

-2-

Added April 22nd.

The Budget Bureau is currently estimating that expenditures in fiscal 1940 will be down fifty million from the January estimates. The independent estimate is one hundred and nine million lower than the January estimates. Combining the independent estimate of expenditures and receipts yields an estimate of the deficit of 3.5 billion dollars or four hundred million less than the Budget January estimate.

For the fiscal year 1941, the expenditures other than WPA are likely to be one hundred million less than in the Budget (assuming sixty-eight million Farm Security loans financed through RFC) Assuming additional WPA expenditures at four hundred and fifty million and assuming the independent estimates of revenues of three hundred and thirty five million higher than the Budget's, the deficit would be about 2.2 billion dollars or approximately the same as in the Budget.

For the two years the deficit would be but four hundred millions lower than estimated in the Budget or nearly the amount of the additional taxes requested.

April 5, 1940

COMPARISON OF ESTIMATED RECEIPTS, FISCAL YEARS 1940 AND 1941
(In millions of dollars)

	: Budget estimates :	: Treasury April estimates :	: Independent estimates :	: Change over Budget estimates Treasury revision :	: Change over Independent est. :	: Change, independent over Treasury revised ests. :
Fiscal year 1940:						
Income taxes...	1,959	2,152	2,166	+193	+207	+14
Misc.int.rev...	2,356	2,323	2,360	-33	+4	+37
Soc.Sec. taxes.	832	833	831	+1	-1	-2
Customs.....	283	340	351	+57	+68	+11
Misc. receipts.	274	274	291	0	+17	+17
Total receipts	5,704	5,922	5,998	+218	+294	+76
Fiscal year 1941:						
Income taxes...	2,306	2,478	2,557	+172	+251	+79
Miscl.int.rev..	2,482	2,385	2,475	-97	-7	+90
Soc. Sec. taxes	868	876	887	+8	+19	+11
Customs.....	273	300	342	+27	+69	+42
Misc. receipts.	221	221	225	0	+4	+4
Total receipts	6,151	6,261	6,486	+110	+335	+225

April 6, 1940

ESTIMATED DIRECT DEBT SUBJECT TO STATUTORY LIMITATION
(In dependent estimates: in millions of dollars)

Outstanding debt, December 31, 1939		41,980
Add for January-June 1940:		
U. S. Savings bonds (maturity value)	890	
Special issues to Social Security accounts, etc.	<u>580</u>	+1,470
Deduct for January-June 1940:		
Retirement of Treasury bills	150	
Retirement of matured debt, etc.	<u>70</u>	-220
Outstanding debt, June 30, 1940		43,230
Add for July-December 1940:		
U. S. Savings bonds (maturity value)	470	
Special issues to Social Security accounts, etc.	<u>600</u>	+1,070
Deduct for July-December 1940, retirement of matured debt, etc.		-60
Outstanding debt, December 31, 1940		44,240

April 6, 1940

ESTIMATED TREASURY CASH REQUIREMENTS, CALENDAR YEAR 1940
(Independent estimates: in millions of dollars)

Treasury cash balance, December 31, 1939		1,710
Add for January-June 1940:		
Sales of U. S. Savings bonds	670	
Social security funds (net receipts)	<u>500</u>	<u>1,170</u>
Total available funds		<u>2,880</u>
Deduct for January-June 1940:		
Cash deficit	1,490	
Retirement of Treasury bills	150	
Retirement of matured debt, etc.	<u>70</u>	<u>1,710</u>
Treasury cash balance, June 30, 1940		1,170
Add net receipts of Gov't corporations ↓		<u>140</u>
		<u>1,310</u>
Add for July-December 1940:		
Sales of U. S. Savings bonds	350	
Social Security funds (net receipts) /	540	
Return of surplus funds of Gov't corporations	<u>700</u>	<u>1,590</u>
Total available funds		<u>2,900</u>
Deduct for July-December 1940:		
Cash deficit	1,320	
Retirement of matured debt, etc.	60	
Expenditures of Gov't corporations	<u>150</u>	<u>1,530</u>
Treasury cash balance, December 31, 1940		1,370
<hr/>		
Treasury cash balance including additional W.P.A. expenditures of \$75,000,000 in June and \$395,000,000 during July-December 1940:		
Treasury cash balance, June 30, 1940		1,235
Treasury cash balance, December 31, 1940		900

1/ Assumes sales of \$150,000,000 of R. F. C. notes in May.

BF
M

THE WHITE HOUSE
WASHINGTON

April 9, 1940.

MEMORANDUM FOR THE PRESIDENT:

Re: Capitalization of Revenue-yielding Assets of Government.

The Bill. As you know, a bill was drafted in the Treasury last spring and circulated for comments among the interested agencies. I do not think it necessary to go into the details of this bill except to raise two matters of policy for your decision.

(a) Should the bill be drafted to read, "No bonds shall be issued in anticipation of the earnings of self-liquidating facilities unless and until the facilities are operating and have a proved earning power satisfactory to the Corporation, and then only in such an amount as, in the judgment of the Secretary of the Treasury, may reasonably be expected to be paid, with interest thereon, out of such earnings", or "No bonds shall be issued in anticipation of the earnings of self-liquidating facilities in excess of an amount as may reasonably be expected to be paid"? In their comments on the bill Secretaries Wallace and Ickes favored the latter version.

(b) The bill as drafted provides for setting up a corporation in the Treasury under the direction and control of the Secretary. Subsequent to this, the Federal Loan Agency was established. Should the Corporation be in the Treasury or under the Federal Loan Administration?

Comments from Agencies. The comments from affected agencies were generally favorable. Reclamation wanted earnings from facilities that now go into a revolving fund to be excluded, and TVA also asked to be exempted.

Previous Expenditures that could be Capitalized in the Fiscal Year 1941. The Budget Bureau has prepared some tentative estimates and concluded that generally it seems that about \$750,000,000 would represent the amount of self-liquidating projects that could now be capitalized by the Revenue Finance Corporation, and on the basis of existing authorizations about as much more could be added if we assume a long period of amortization and a low interest rate. The chief items are attached.

Mr. Jones' Reaction. Mr. Jones, with whom you asked me to discuss the proposal, was non-committal beyond suggesting that to bring up such legislature at this time would look like an attempt to evade the debt limit. He suggested that it might be possible for the RFC to "buy" the projects from the Government but I told him I was sure the Departments concerned would object to this.

Memorandum for the President.
Re: Capitalization of Revenue-yielding
Assets of Government.

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April 9, 1940.

Conclusion. Possibly some Senators and Congressmen would like to sponsor such a bill with the idea of calling attention to certain offsets to the public debt.



Lauchlin Currie

March 13, 1940

MR. CURRIE:

The question of evaluating self-liquidating public works projects is one that should require a great deal of thought and study. Due to the short time available to gather information, some of the figures herein are necessarily approximations. The periods of amortization are arbitrary, as are the interest rates.

(all figures in millions)

Panama Canal

Total cost of construction through 1939	\$414	
Interest at 3% (on the assumption that the Government borrowed to finance construction).	<u>129</u>	<u>\$543</u>
Total revenues through 1939.	506	
Less maintenance and operation	<u>207</u>	<u>299</u>
Amount necessary to be returned to the Treasury in order that the Government realize 100% on its capital investment		<u>244</u>

To amortize \$244,000,000 at a 3% interest rate over thirty years would require an annual payment of \$12,400,000. Over a forty-year period the annual cost would be \$10,500,000. Net revenues have been averaging about \$13,000,000 a year. On the basis of these net revenues and using an interest rate of 1%, the net investment in the Canal could be returned in approximately twenty years. The assumption is made of course that expenditures on the Canal for the purpose of national defense would be paid by direct appropriations and not be a charge against the Canal revenues.

Congress has authorized construction of a third set of locks at an estimated total cost of \$277,000,000. However, since the purpose of these locks is primarily one of national defense, it seems that their cost should be financed separately from that of the Canal proper.

Reclamation Projects

Boulder Canyon project, to date	\$117	
All American Canal	26	
Other Reclamation projects	380	
Interest at 3%	<u>100</u>	<u>\$623</u>
Net revenues to date		<u>60</u>
		<u>\$563</u>

To amortize \$563,000,000 at a 3% interest rate over a period of fifty years would require an annual payment of \$21,900,000; over sixty years would require \$20,300,000 and over seventy-five years would require \$18,900,000. Net annual revenues are now nearly \$10,000,000, but these revenues are expected to show a definite increase in the next few years, reaching a peak of \$36,000,000 in 1963. This includes revenues from projects authorized but not yet built. The present net annual revenues from reclamation projects on a 1% basis would amortize the total \$563,000,000 outlay over a period of 75 years. Over a shorter period, say 50 years, they would be sufficient to amortize an investment of about \$400,000,000 at a 1% rate.

During the next 3 years there will be an additional expenditure of about \$180,000,000 on reclamation projects now authorized by Congress and under construction and in that same time the revenue will increase only \$1,000,000 so that only a very small portion of these additional expenditures could be capitalized at this time. To complete these self-liquidating projects now authorized by Congress will require an expenditure over the next 10 years of approximately \$700,000,000, which includes the \$180,000,000 referred to above. Eventually it will be possible to capitalize the greater portion of this amount although on the basis of earning power it may take a little time to do it.

Bonneville Project

Interior Department (Power Distribution System),
 estimate of total cost \$36
 War Department, Corps of Engineers (Power Plant) . 50

\$86

The total of \$86,000,000 can be amortized at \$3,700,000 annually for forty years. The Washington representative of the Bonneville project states that in addition \$3,000,000 a year (net) will come into the Treasury. In the current fiscal year revenues are expected to be \$1,000,000. In 1941 they are estimated at \$2,200,000. The actual amount expended on the Bonneville project to date is about \$25,000,000, all of which could be capitalized on the basis of present revenue and the additional amounts could probably be capitalized as construction progressed.

Fort Peck Power Plant

The total cost of the power plant is estimated at \$6,000,000. This amount could be amortized over a period of forty years at \$259,000 annually.

Denison Reservoir, Texas

This project is handled by the Army Engineers. The total cost is estimated at \$54,000,000 of which \$15,200,000 would be allocated to power on the basis of a 75,000 k.w. installation or \$18,550,000 on the basis of a 125,000 k.w. installation. Plans call for theoretical amortization over fifty years. On the basis of 75,000 k.w. the annual cost would be \$591,000; on the basis of 125,000 k.w., the annual cost would be \$721,000. This project is just being begun and probably at the present time it would not be safe to include it among the projects to be financed by the Revenue Finance Corporation.

Tennessee Valley Authority

The President has approved allocations for the four completed dams (Wilson, Norris, Wheeler, and Pickwick Landing) as follows:

	<u>Amount</u>	<u>Percent</u>
Flood control	22.3	29.7
Navigation.	37.8	17.5
Power.	<u>67.2</u>	<u>52.8</u>
Total	<u>127.3</u>	<u>100.0</u>

The T.V.A. does not attempt to make allocations between flood control, navigation and power on a project until its completion. The figures above relate to dams completed to date, but in addition there have been expenditures on other dams, part of which will eventually be allocated to power. In order to arrive at an approximation of the total cost of power installations to date, the assumption is made that 50% of expenditures already made either have been or will be allocated to power. On this basis the cost of power development to June 30, 1939 is \$110,000,000. This sum could be amortized over forty years at \$4,800,000 a year. Expenditures allocable to power will total about \$60,000,000 in the fiscal years 1940, 1941 and 1942. It is estimated that upon completion of all projects the total allocated to power will be about \$250,000,000.

It is stated in the T.V.A. annual report for 1938 that for the three dams then completed (Norris, Wilson and Wheeler) the sale of power would "cover all costs of operation, including depreciation and 3% interest on the investment allocated to power and, in addition, to return in thirty years the entire investment allocated to navigation and flood control."

* * * * *

Generally, it seems that about \$750,000,000 would represent the amount of self-liquidating projects that could now be capitalized by the Revenue Finance Corporation, and on the basis of existing authorizations about as much more could be added if we assume a long period of amortization and a low interest rate.

March 13, 1940.

HST
Currie *file* *personal*

THE WHITE HOUSE
WASHINGTON

April 11, 1940

MEMORANDUM FOR THE PRESIDENT:

Re: Results of 1st Quarter's Operation of Old Age Insurance

I think you will be interested in the following unpublished figures:

Monthly benefit payments to the aged, wives, widows, children and parents.

Jan. \$70,000
Feb. 210,000
Mar. 790,000

Total Number of Claims Received by Months

	Old Age Annuitants	Other Monthly	Amended Lump-sum	Original Lump-sum
Jan.	21,300	5,600	700	----
Feb.	13,100	8,200	4,100	16,400
Mar.	10,700	10,700	6,600	4,500
Total	45,100	24,500	11,400	20,900

Total Number of Awards

	Old Age Annuitants	Other Monthly	Amended Lump-sum	Original Lump-sum
Jan.	9,600	1,500	---	---
Feb.	11,100	4,800	2,200	15,300
Mar.	9,400	7,800	4,800	5,400
Total	30,100	14,100	7,000	20,700

Lauchlin Currie
Lauchlin Currie

THE WHITE HOUSE
WASHINGTON

BSF
Currie

April 17, 1940.

MEMORANDUM FOR THE PRESIDENT:

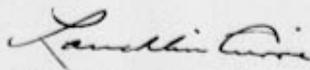
Re: Maritime Unemployment Insurance Bill.

Mr. Latimer will have a bill drafted in a few days and I should like to know how you would like to have it handled.

Maritime unemployment insurance bills hitherto introduced in the House of Representatives have been referred to the Committee on Ways and Means. Quite likely any new bill providing for a maritime unemployment insurance system would be similarly referred. There apparently has been some feeling on the part of the Chairman of the Committee on Merchant Marine and Fisheries, Mr. Bland, that his committee should at least participate in the consideration of such measures. Congressman Frank H. Buck of California, a member of the Committee on Ways and Means, is quite interested in the matter of maritime unemployment insurance and has indicated his willingness to be of assistance in clearing with the Committee on Merchant Marine and Fisheries. Congressman John W. McCormack of Massachusetts, also a member of the Committee on Ways and Means, will probably be helpful in connection with the maritime unemployment insurance bill.

In the Senate a bill would probably be referred to the Committee on Finance.

I should be glad to help in any way I can but I think that whoever is to sponsor the bills should be asked to work closely with Latimer.



Lauchlin Currie

PST
Currie

THE WHITE HOUSE
WASHINGTON

April 17, 1940.

MEMORANDUM FOR THE PRESIDENT:

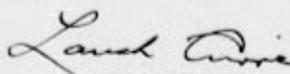
Re: Yield Insurance on Large Rental Housing Developments

I had hoped for an opportunity to discuss this with you. The idea in brief is to guarantee a 2-3/4 percent return (less insurance premium of 1/4 of 1 percent) on 100 percent equity investment in rental housing developments. A number of refinements and safeguards have been worked out by the FHA technicians. Essentially, however, it provides an incentive for the use of very timid insurance and savings bank money in a neglected field.

The present status of the proposal is as follows:

Insurance companies' heads, A.F. of L. international presidents, Stewart McDonald and Jesse Jones have all expressed themselves as in favor of the idea. McDonald, however, believed that it would be unwise to attempt to secure legislation this session on the ground that labor would insist on a prevailing wage clause on this and also on Title II work. After preliminary talks with Dan Tracy I arranged a meeting of Jesse Jones with Tracy, Bates of the Bricklayers' and Coyne, President of the Building Trades Department, A.F. of L. They urged the plan on Jones and when I raised the question of a prevailing wage clause, they suggested a bill be introduced not containing it. Mr. Jones then said he thought we might have such a bill introduced to ascertain the reaction and stimulate discussion. The matter was left there but so far as I know, no bill is being prepared.

I do not want to push it any further until I receive your reaction. I believe the scheme is sound economically and will result in large-scale building at no cost to the Government. Politically it would constitute one part of an answer to those who complain that we do not provide any incentives to private capital to put idle savings to work.


Lauchlin Currie

PSF
Currie

File
Personal

THE WHITE HOUSE
WASHINGTON

May 1, 1940.

MEMORANDUM FOR THE PRESIDENT:

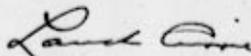
Re: USHA.

I don't know whether you are going to get into a discussion of any detailed amendments with Gore and Monroney but if you do the following points might be helpful:

According to Straus there is general agreement

- (a) to cut the maturity of loans and annual contributions from sixty years to forty-five years,
- (b) to cut the rate of interest,
- (c) to add a new rural housing amendment,
- (d) to limit the annual contribution to a maximum of one-third of the total rent that would be paid on a comparable private building, and
- (e) to raise the loan authorization to \$400 or \$500 million.

He says that in addition there is strong pressure to increase the local annual contribution to 20 percent of the USHA contribution, and the local capital grant to 20 percent of the original development cost. The latter proposal would greatly slow up the program and he hopes that the capital contribution can be reduced to not more than 10 percent of the original cost. In any case, he urges most strongly that these proposed amendments for local contributions be not made applicable to the \$150 million in loan authorizations still available, but which cannot be used without new subsidy authorization. This would permit him to push his program ahead rapidly this summer and fall.


Lauchlin Currie

PST.
WML *File*
Personal

THE WHITE HOUSE
WASHINGTON

May 2, 1940.

MEMORANDUM FOR THE PRESIDENT:

Re: NLRB order to reinstate five striking seamen.

The facts are as follows:

On January 26, 1938, following an election, the Board certified the National Maritime Union as the exclusive bargaining representative of the unlicensed personnel of the ships of the Southern Steamship Company. The company refused to bargain collectively with the union despite repeated attempts on the part of the latter. Finally, on July 18, 1938, while the ship was moored at the dock in Houston, Texas, thirteen unlicensed seamen went on strike to compel the company to recognize the union. There were nineteen unlicensed seamen in the crew and the officers of the ship, with the assistance of those who did not participate in the strike, proceeded with the loading of the cargo. The strikers made no effort to interfere with the firing of the boilers or with the loading, but during the entire period of the strike sat on the poop deck. The strike terminated in the evening of the same day and the officers stated that the strike did not delay the sailing and that the vessel was in no danger during the period of strike.

When the ship docked in Philadelphia on July 25, five strikers were discharged, whereupon six other seamen struck and at the time of the Board's hearing were still on strike.

The Board went carefully into the question as to whether the original strike constituted a violation of the Shipping Articles and it decided that it did not. It pointed out that "unlike an industrial plant, a ship is not only a place of employment but also the living quarters of the crew" and that "the strikers were not regarded as trespassers by the captain or other officers of the ship". Consequently, it ordered the reinstatement of the five discharged men.

The Maritime Labor Board believes that the NLRB's decision was eminently sound and in line with the former's recommendation in its recent report to the effect that "The navigation laws of the United States or any other laws relating to seamen should not be so construed as to abrogate the right of seamen to strike in domestic harbors".

While checking on the case above, I had occasion to look into another recent decision of the NLRB involving maritime workers, which had various aspects I think might interest you. This was the order reinstating three radio operators on trawlers.

Subject:

-2-

May 2, 1940.

NLRB order to reinstate
five striking seamen.

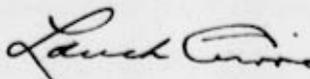
Subsequent to the employment of three radio operators who were members of a CIO union, the crews, members of the Atlantic Fishermen's Union, AFofL, refused to take the trawlers out unless the CIO men were discharged and replaced by AFofL radio operators. The owners of the trawlers thereupon discharged the CIO radio operators.

The majority of the Board held that the Act prohibits such discrimination for union activity without exception. This was admitted in the dissenting opinion of Leiserson. However, he held that this was only an unfair labor practice in a technical sense, and expressed himself as "unwilling to exercise the discretionary power of reinstating with back pay". The majority contended that this decision would virtually nullify the Act in any situation where rival labor unions were involved. "It would mean that an employer would be relieved of all obligation under the Act merely upon a showing of pressure, and consequent probable loss from one of the rival organizations." The majority expressed its accord with the language of the Circuit Court of Appeals, the Ninth Circuit, in the Star Publishing Case: "the act prohibits unfair labor practices in all cases. It permits no immunity because the employer may think that the exigencies of the moment require infraction of the statute."

Comment:

As an administrative policy, the Board has endeavored to keep out of strikes arising from CIO- AFofL clashes where it appeared that the parent organizations could settle the matter. This is the second case it entered into where the parent organizations could not settle the matter satisfactorily.

The decision appears hard on the particular employers involved. However, through court enforcement of this order, a way is opened for the avoidance of one of the most disturbing and unpopular types of strikes, those arising from CIO-AFofL "jurisdictional" clashes. If the Board did not penalize these particular employers, it would open the door to a whole series of discriminations and clashes because of membership in a rival union. Henceforth, employers will tend to avoid such hirings as will precipitate such clashes. On the whole, therefore, I should say that the Board's decision is a contribution to industrial peace, rather than otherwise.



Lauchlin Currie

UNITED STATES OF AMERICA

BEFORE THE NATIONAL LABOR RELATIONS BOARD

.....
 In the Matter of
 SOUTHERN STEAMSHIP COMPANY

and

Case No. C-1204

NATIONAL MARITIME UNION OF AMERICA
 (Affiliated with the C. I. O.)

Mr. Joseph F. Castiello, for the Board.
Adams, Childs, McKaig & Lukens, by Mr.
Randolph W. Childs, and Mr. Edgar McKaig,
 of Philadelphia, Pa., Mr. Joseph W. Ho-
derson, of Philadelphia, Pa., and Boynton &
Rayzor, by Mr. John Brown, of Houston, Texas,
 for the respondent.

Mr. William L. Standard, by Mr. Max Lustig, of
 New York City, and Mandell & Combs, by
 Mr. Arthur J. Mandell, of Houston, Tex.,
 for the Union.

Mr. Ray Johnson, of counsel to the Board.

DECISION

and

ORDER

Statement of the Case

Upon charges and amended charges duly filed by National Maritime Union of America, affiliated with the C. I. O., herein called the Union, the National Labor Relations Board, herein called the Board, by the Regional Director for the Fourth Region (Philadelphia, Pennsylvania), issued its complaint on November 23, 1938, against Southern Steamship Company, Philadelphia, Pennsylvania, herein called the respondent, alleging that the respondent had engaged in and was engaging in unfair labor practices affecting commerce, within the meaning of Section 8 (1), (3), and (5) and Section 2 (6) and (7) of the National Labor Relations Act, 49 Stat. 449, herein called the Act.

In respect to the unfair labor practices, the complaint alleged in substance (1) that the unlicensed personnel employed in the deck, engine, and stewards' department, except wireless and radio operators, chief electricians on electrically driven ships, and junior engineers who hold licenses, on vessels operated out of Atlantic and Gulf ports by the respondent, constitute a unit appropriate for the purposes of collective bargaining; (2) that on January 26, 1938, the Board certified the Union as the exclusive bargaining representative of all the employees in such unit; (3) that in the months of January, February, March, April, and August, 1938, and at all times thereafter, the respondent refused to bargain with the Union as the exclusive bargaining representative of employees in the appropriate unit; (4) that on July 18, 1938, as a result of the respondent's unfair labor practices, a strike occurred on the

respondent's ship, City of Fort Worth, while it was moored to the dock at Houston, Texas; (5) that on July 25, 1938, the respondent terminated the employment of and refused to reinstate Joseph G. Warren, John Pfuhl, Jr., Elmer J. Ferguson, Edward W. Smith, and John J. Tracey because they participated in said strike, joined the Union, and engaged in other concerted activities with employees of the respondent for the purposes of collective bargaining and other mutual aid and protection; (6) that on July 25, 1938, as a result of said discharges, a strike occurred on the respondent's ship, City of Fort Worth, while it was moored to the dock at Philadelphia, Pennsylvania; and (7) that by the foregoing and by other acts the respondent interfered with, restrained, and coerced its employees in the exercise of the rights guaranteed in Section 7 of the Act.

On November 23, 1938, copies of the complaint and an accompanying notice of hearing thereon were duly served upon the respondent and the Union. On November 30, 1938, the respondent filed with the Regional Director a motion to extend the date of the hearing. On the same day the Regional Director denied the motion. On December 1, 1938, the respondent filed an answer to the complaint in which it admitted the allegations concerning the nature and scope of its business, the appropriateness of the above-described unit, and the certification of the Union by the Board, but denied that it had engaged in any unfair labor practices. In its answer the respondent alleged, *inter alia*, that the Board's certification of the Union was invalid, that it had not refused to bargain collectively with the Union prior to August 1938, that because of the acts of certain union members in participating in a sit-down strike on July 18, 1938, it was not thereafter required to recognize the Union as the exclusive bargaining representative of the employees, and that the employees named in the complaint were not discharged but were refused reemployment because they had wilfully disobeyed lawful commands and engaged in a sit-down strike in violation of their shipping articles.

Pursuant to notice, a hearing was held on December 5, 6, 14, 21, 22, and 23, 1938, at Philadelphia, Pennsylvania, and on January 9, 1939, at Houston, Texas, before William Seagle, the Trial Examiner duly designated by the Board. The Board, the respondent, and the Union were represented by counsel and participated in the hearing. Full opportunity to be heard, to examine and cross-examine witnesses, and to introduce evidence bearing on the issues was afforded all parties. At the close of the entire case, counsel for the Board moved to amend the complaint to conform to the proof. The motion was granted. On January 25, 1939, pursuant to permission granted at the hearing, the respondent filed with the Trial Examiner: (1) a motion to dismiss the complaint; (2) a motion to strike out certain testimony; and (3) an objection to the motion that the complaint be conformed to the proof and an exception to the ruling of the Trial Examiner thereon. In his Intermediate Report the Trial Examiner denied both motions and overruled the objection. During the course of the hearing the Trial Examiner made several rulings on other motions and on objections to the admission of evidence. The Board has reviewed the rulings of the Trial Examiner and finds that no prejudicial errors were committed. The rulings are hereby affirmed.

On February 25, 1939, the Trial Examiner filed an Intermediate Report, copies of which were duly served upon all parties, finding that the respondent had engaged in and was engaging in unfair labor practices, within the meaning of Section 8 (1), (3), and (5) and Section 2 (6) and (7) of the Act. He recommended that the respondent cease and desist from its unfair labor practices, upon application offer reinstatement to six employees who went on strike on July 25, 1938, offer reinstatement with back pay to four of the five employees who he found had been discriminatorily discharged, and offer back pay to the fifth employee. Thereafter the respondent filed exceptions to the Intermediate Report and a brief. Pursuant to notice duly served upon all parties, a hearing for

the purposes of oral argument was held before the Board in Washington, D. C., on November 2, 1939. The respondent and the Union were represented by counsel and participated in the argument.

The Board has considered the exceptions to the Intermediate Report and, except in so far as they are consistent with the findings of fact, conclusions of law, and order set forth below, finds no merit in them.

Upon the entire record in the case, the Board makes the following:

Findings of Fact

I. The business of the respondent

The respondent, Southern Steamship Company, is a Delaware corporation having its principal office in Philadelphia, Pennsylvania. It owns and operates seven vessels having an aggregate gross tonnage of 18,382 and carrying freight between the ports of Philadelphia, Pennsylvania, and Houston, Texas. South-bound cargo carried by the ships is obtained from all of the States on the Eastern Seaboard and from the State of Ohio. North-bound cargo is obtained from Arizona, Colorado, Louisiana, New Mexico, Oklahoma, and Texas. During 1937 the respondent's vessels carried 341,581 tons of freight representing revenue amounting to \$1,991,351.81.

We find that the respondent is engaged in trade, traffic, transportation, and commerce among the several States and that the crews employed on its ships are directly engaged in such trade, traffic, transportation, and commerce.

II. The organization involved

National Maritime Union of America is a labor organization affiliated with the Committee for Industrial Organization. ^{1/} It admits to its membership the unlicensed personnel employed in the deck, engine, and stewards' departments, except wireless and radio operators, chief electricians on electrically driven ships, and junior engineers who hold licenses, on vessels operated out of the Atlantic and Gulf ports by the respondent.

III. The unfair labor practices

A. The refusal to bargain

The complaint alleges that on or about January 26, 1938, and at all times thereafter, the respondent refused to bargain collectively with the Union as the exclusive representative of the employees in an appropriate unit although the Board had certified the Union as such representative. The respondent denies that the Union requested the respondent to bargain collectively prior to August 18, 1938, and alleges that "on and after August 23, 1938, it maintained its position that pending a judicial determination of the validity of the election and of said certification" it was not required to recognize the Union, and that by reason of the unlawful acts of the employees in conducting a sit-down strike and refusing to obey orders, it was not thereafter required to recognize the Union as the exclusive representative of the employees in the appropriate unit.

On July 16, 1937, the Board issued a Decision and Direction of Election ^{2/} in which it found, inter alia, that the unlicensed personnel

^{1/} How the Congress of Industrial Organizations.

^{2/} Matter of American France Line et al. (Southern Steamship Company) and International Seaman's Union of America, 3 N.L.R.B. 64.

employed in the deck, engine, and stewards' departments, except wireless and radio operators, chief electricians on electrically driven ships, and junior engineers who hold licenses, on the vessels operated out of Atlantic and Gulf ports by the respondent, constitute an appropriate bargaining unit. The complaint herein alleges that this unit is appropriate and the respondent admits the allegation. We find that the unlicensed personnel employed in the deck, engine, and stewards' departments, except wireless and radio operators, chief electricians on electrically driven ships, and junior engineers who hold licenses, on the vessels operated out of Atlantic and Gulf ports by the respondent, constitute a unit appropriate for the purposes of collective bargaining and that said unit insures to employees of the respondent the full benefit of their right to self-organization and to collective bargaining and otherwise effectuates the policies of the Act.

On January 26, 1938, following an election conducted pursuant to the Direction of Elections, the Board certified the Union as the exclusive bargaining representative of all the employees in the appropriate unit and dismissed a petition filed by the respondent to vacate the election on the ground that no representative of the respondent was permitted to observe the balloting on one of its vessels. ^{3/} The respondent now contends that the certification was invalid since the Board's ruling on its petition was incorrect. The respondent stipulated that the validity of the certification depended, for the purposes of the present proceeding, upon the correctness of the Board's ruling that in the absence of consent by the labor organizations involved, the respondent was not entitled to have an observer at the polls. In discussing the petition of the respondent we said:

The Board has consistently held that in the absence of consent by the labor organizations involved, company representatives should not be permitted to be present at elections to determine collective bargaining representatives. The choice of representatives by employees should be made free from any interference or coercion by employers. The presence of an employer's representative at an election may prevent such a free choice, although no interference or coercion is intended by the employer. The Board has adopted means of conducting these elections whereby the interests of all parties, including the employer's, are adequately protected.

Employers may not, as a matter of right, exercise any prerogative in the Board's administration of Section 9 of the Act. ^{3a/} We are of the opinion that the respondent was in no manner prejudiced by our refusal to permit it to participate in the conduct of the balloting and we affirm our ruling cited above.

We find that on January 26, 1938, and at all times thereafter, the Union was the duly designated representative of a majority of the employees in the appropriate unit, and pursuant to Section 9 (a) of the Act, was on January 26, 1938, and at all times thereafter has been, the exclusive representative of all the employees in such a unit for the purposes of collective bargaining in respect to rates of pay, wages, hours of employment, and other conditions of employment. ^{4/}

^{3/} Matter of American France Line et al. (Southern Steamship Company) and International Seaman's Union of America, 4 N.L.R.B. 1140.

^{3a/} Under our present election procedure, we now permit the employer to designate non-supervisory employees as observers at the polling places during an election for the purpose of challenging ineligible voters and verifying the tally.

^{4/} The respondent does not claim that the Union at any time lost its status as bargaining representative of a majority of the employees in the appropriate unit. Cf. N.L.R.B. v. Highland Park Manufacturing Company, March 11, 1940 (C.C.A. 4) and Matter of Highland Park Manufacturing Company and Textile Workers Organizing Committee,

(Continued on next page)

Shortly after the certification of January 26, 1938, E. J. Cunningham, a union representative, requested L. A. Schreider, Jr., the respondent's representative at Houston, to arrange for a collective bargaining conference and to issue passes to the union shore delegates, without which they could not board the respondent's ships. Schreider replied that he did not have the authority to grant the requests, but that he would transmit them to the home office in Philadelphia. Schreider also promised to communicate the respondent's answer to Cunningham. Neither the Union nor Cunningham thereafter received a communication from Schreider.

In late January or early February 1938, after the Board had certified the Union, Paul Palazzi, the Union's business agent at Philadelphia, telephoned Charles F. Sherry, marine superintendent of the respondent, and requested a collective bargaining conference. Sherry replied that the matter was in the hands of the respondent's attorney. About the middle of February 1938, Palazzi wrote Sherry but received no reply. During the next month, Palazzi made two attempts to reach Sherry by telephone, but was told each time that Sherry was out. On the last occasion Palazzi left his telephone number and requested that Sherry call him. Sherry however did not respond to this request. 5/ Palazzi then attempted to interview Sherry at the respondent's docks in Philadelphia. A watchman asked Palazzi to identify himself, and when Palazzi revealed his identity and the nature of his business with Sherry, the watchman refused to grant him permission to enter Sherry's office.

On August 18, 1938, Palazzi sent Sherry a registered letter requesting a collective bargaining conference. On August 23, 1938, Sherry wrote Palazzi that until the validity of the Board's certification was settled by the Board and the courts the question of a collective bargaining agreement was premature. On cross-examination, Sherry admitted that the respondent had taken this position from the time of the certification. The respondent admits that it refused to bargain with the Union after August 18, 1938. It is plain from the evidence, however, that the respondent had refused to bargain with the Union at all times subsequent to January 1938. 6/

4/ (Continued) 12 N.L.R.B. 1238; N.L.R.B. v. Remington Rand, Inc. (Central Executive Council of Remington Rand Employees' Ass'n, Intervenor), 94 F. (2d) 862 (C.C.A. 2), en'g as modified, Matter of Remington Rand, Inc. and Remington Rand Joint Protective Board of the District Council Office Equipment Workers, 2 N.L.R.B. 626; N.L.R.B. v. Biles-Coleman Lumber Company, 96 F. (2d) 197 (C.C.A. 9) en'g Matter of Biles-Coleman Lumber Company and Puget Sound District Council of Lumber and Sawmill Workers, 4 N.L.R.B. 679; N.L.R.B. v. Louisville Refining Company, 102 F. (2d) 678 (C.C.A. 6) en'g as mod., Matter of Louisville Refining Company and International Association, Oil Field, Gas Well and Refinery Workers of America, 4 N.L.R.B. 844.

5/ The findings above with respect to the Union's efforts to initiate collective bargaining conferences with the respondent are based upon the uncontradicted testimony of Palazzi. During the hearing counsel for the respondent stated that Sherry would be called upon to testify that Palazzi's letter to him of February 1938 was never received. Proposed testimony was not elicited, although Sherry was called as a witness for the respondent.

6/ The respondent contends that by reason of the unlawful conduct of the strikers on July 18, 1938, any obligation on its part to bargain collectively with the Union thereafter was removed. We find below, however, that the conduct of the strikers was not unlawful. Even assuming therefore that such conduct would relieve the respondent of its obligation under the Act, its contention is without merit.

We find that on or about January 26, 1938, and at all times thereafter, the respondent refused to bargain collectively with the Union as the exclusive representative of the employees in the above-described unit and that the respondent has thereby interfered with, restrained, and coerced its employees in the exercise of the rights guaranteed in Section 7 of the Act.

B. The strike

On July 17, 1938, 13 unlicensed seamen 7/ of the City of Fort Worth, who were members of the Union, met at the union hall in Houston, Texas, and decided to go on strike the following morning in order to compel the respondent to recognize the Union and to issue passes to the shore delegates. At 8 a. m. on July 18, while the vessel was moored to the dock the same men carried the strike into effect when John J. Tracey, an oiler, failed to turn the steam "on deck" for the purpose of loading the cargo. However, sufficient steam was maintained to operate the fire alarms, the ice machine, the sanitary pumps, and the line.

When Norry Pool, 8/ the first assistant engineer, discovered that there was not sufficient steam to load the cargo, he asked Tracey why he had not turned on the steam. Tracey replied that the crew was striking for recognition of the Union and passes for the shore delegates and that he did not intend to turn on the steam. Pool then stated that he would put the steam on deck himself. Tracey answered, "Well, if you do, I will have to take the fireman out of the fireroom." Pool then turned the steam on, and Tracey thereupon called out Alexander A. Braun, the fireman, who "throw the pumps."

Braun, whose watch was ended at that time, went off duty and was replaced by Elmer J. Ferguson. Joseph A. Norton, the chief engineer, came to the fireroom and attempted unsuccessfully to persuade Ferguson and Tracey to perform their duties. After Ferguson refused to tend the fires, Laurence A. Robinson, the second assistant engineer tended the fires himself and ordered Ferguson out of the fireroom. Tracey and Ferguson thereupon joined the other strikers who were sitting on the poop deck, the general meeting place of the employees when not on duty.

There were 19 unlicensed seamen in the crew, and the officers of the ship, with the assistance of those who did not participate in the strike, proceeded with the loading of the cargo. The strikers made no effort to interfere with the firing of the boilers or with the loading but during the entire period of the strike sat on the poop deck. About 10:30 a. m., Captain Anthony G. Rudan appealed to the men to return to work and upon their refusal told them that they were violating their shipping articles under which they had agreed to make a round trip from Philadelphia to Houston and return. Joseph G. Warren, the spokesman of the strikers, replied that they were striking for recognition of the Union and passes for the shore delegates and were justified in doing so since the Union had won an election conducted by the Board. Rudan then ordered the strikers collectively and individually to resume their stations, but the strikers refused to comply. Later in the morning Rudan brought aboard a deputy United States Shipping Commissioner who read the following excerpt from the shipping laws to the strikers:

. . . the said crew agrees to conduct themselves in an orderly, faithful, honest, and sober manner, and to

7/ Joseph Crassavas, William Reeves, John Pfuhl, Jr., Joseph G. Warren, Henry A. Lathan, William Godfrey Burns, John J. Tracey, Edward B. Hughes, Alexander A. Braun, Elmer J. Ferguson, Gordon Nealey, Charles C. Holt, and Edward W. Smith.

8/ Designated in the record as both "Pool" and "Paul."

be at all times diligent in their respective duties, and to be obedient to the lawful commands of the said master 2/

It should be noted that at no time were the striking employees ordered to leave the ship. Indeed, without objection from the captain they were served their midday meal by one of their own members, Smith, a messboy.

On the afternoon of the same day, J. N. Rayzor, the respondent's attorney in Houston, called Sherry at Philadelphia and advised him that if the respondent would agree to issue passes to the shore delegates, he thought that the Union would release the ship. Sherry instructed Rayzor that he did not know whether the respondent would issue such passes and that no agreement with the Union was to be made. After the conversation with Sherry, Rayzor attempted to reach the president of the respondent, by telephone but was not successful. A few minutes later, however, Rayzor called A. J. Mandell, the union attorney in Houston, and without mentioning his prior conversation with Sherry, promised, if the Union would release the ship, to meet with Mandell during the following week in an effort to negotiate an agreement. He also agreed to recommend to the respondent that passes be issued to the shore delegates. Rayzor testified that he did not apprise Mandell of Sherry's instructions because he intended to make a personal appeal to the president of the respondent. Relying upon Rayzor's promise, Mandell advised the union leaders to terminate the strike. The strike was accordingly terminated about 7 p. m. and the ship sailed at about 9 p. m. the same day with the crew intact. The officers on board admitted that the strike did not delay the sailing and that the vessel was in no danger during the period of strike.

We find that the strike was precipitated and prolonged primarily by reason of the respondent's unlawful refusal to bargain collectively with the Union. 10/

C. The discharges

During the return voyage to Philadelphia, it is conceded that the members of the crew conducted themselves in a competent manner. Captain Rudan testified that he had no complaints to make. Second Assistant Engineer Robinson testified that the strikers "were a good crew on the return voyage, just as they always were a good crew." He further testified that he spoke to three of the strikers who were on his watch during the return voyage (Ferguson, Braun, and Hughes), and said to them, "Well, boys, let's forget all about what happened; let's string along just as though nothing had happened." He concluded, "they went home just as though nothing had happened." First Mate Holland testified that he felt that he had a safe crew when he sailed from Houston on July 18. 11/

Nevertheless, during the return voyage, the captain, at the recommendation of the ship's officers, decided not to re-ship Joseph G. Warren, John Pfuhl, Jr., John J. Tracey, Elmer J. Ferguson, and Edward W. Smith, five of the crew who had participated in the strike. The

9/ This excerpt was included in the shipping articles signed by the crew, which are considered in detail below.

10/ See N.L.R.B. v. Romington Rand, Inc. (Central Executive Council of Romington Rand Employees' Ass'n, Intervenor), 94 F. (2d) 862 (C.C.A. 2) en'g as mod., Matter of Romington Rand, Inc. and Romington Rand Joint Protective Board of the District Council Office Equipment Workers, 2 N.L.R.B. 626; Black Diamond S. S. Corporation v. N.L.R.B., 94 F. (2d) 875 (C.C.A. 2) en'g Matter of Black Diamond Steamship Corporation and Marine Engineers' Beneficial Association, Local No. 32, 3 N.L.R.B. 84.

11/ The only complaint that appears on the record was made by Holland who testified that Smith, a messboy, would say "Good morning kind of half-hearted like."

union members apparently anticipated the possibility that they might be discharged when the ship reached Philadelphia and while at sea, they met and decided to go on strike if any one of their number was discharged.

After the City of Fort Worth had docked at Philadelphia on July 25, and Warren, Tracey, Pfuhl, Smith, and Ferguson had signed off the shipping articles, the respondent informed them that they would not be engaged for the next voyage. Because of Ferguson's participation in the strike the respondent refused to pay him a bonus of \$25 to which he was entitled for having worked a full year for the respondent. All of the strikers who had not been discharged, with but one exception, struck in protest against the respondent's refusal to re-ship the above-named men. ^{12/} At his own request, Joseph Crassavaz, one of the strikers, was later reinstated. The record does not show that any of the other strikers have ever requested reinstatement; at the time of the hearing this strike was still in progress.

We have found that the strike of July 25 was caused by the discharge of Warren, Tracey, Pfuhl, Smith, and Ferguson. We find below that the respondent by discharging the five named employees engaged in an unfair labor practice. We find therefore that the strike of July 25, 1938, was caused and prolonged by the respondent's unfair labor practices.

The respondent contends (1) that the employment of the persons named in the complaint terminated when they signed off the shipping articles on July 25, 1938, and that consequently they were not discharged; (2) that their participation in the sit-down strike justified the respondent's refusal to re-ship these men; (3) that their violation of the terms of the shipping articles justified the respondent in refusing to re-ship them; and (4) that the persons refused re-shipment were thus refused for good and sufficient cause unrelated to their union membership and activity.

1. The shipping articles

Pursuant to statute seamen are required to sign shipping articles at the beginning of each voyage and to sign off the articles at the conclusion of each voyage. ^{13/} This requirement, however, does not preclude the employer and his crew "from mutually undertaking to assure a crew the right to continue as employees and to re-sign if it desires after signing off articles at a voyage's end." ^{14/} The record is plain that the mere termination of a voyage covered by shipping articles does not terminate the employee status of the respondent's employees here involved without some further action by either the respondent or the employees. Most of the seamen involved in this proceeding had worked continuously on the City of Fort Worth for a considerable period of time, being employed in the performance of odd jobs on the ship between voyages. ^{15/} In accordance with the respondent's custom, the seamen usually sign the new articles for the next voyage at the time they sign off the old. Moreover, even in those instances in which the old and new articles are not signed on the same day, the seamen consider themselves engaged for the next voyage unless they are notified to the contrary.

^{12/} This employee was Alexander A. Braun.

^{13/} 46 U.S.C.A. 564, 574.

^{14/} Waterman Steamship Corporation v. N.L.R.B., 60 S. Ct. 493, rev'g 103 F. (2d) 157 (C.C.A. 5), and on'g Matter of Waterman Steamship Corporation and National Maritime Union of America, Engine Division, Mobile Branch, Mobile, Alabama, 7 I.L.R.E. 237.

^{15/} Thus Tracey had been employed continuously over a period of 16 months, Ferguson for a period of 1 year, Pfuhl over a period of 8 months, Warren over a period of 6 weeks, and Smith over a period of 18 months. Each round-trip voyage of the City of Fort Worth is scheduled to take about 25 days.

We find that the tenure of employment of the respondent's seaman is not terminated by the mere expiration of shipping articles. 16/ We find, accordingly, that on July 25, 1938, the employment of the five men named in the complaint did not automatically terminate, but that they were discharged by the respondent on that day. 17/

2. The "sit-down" strike

In its answer to the complaint, the respondent alleges, inter alia, that the employees named in the complaint "unlawfully took possession of said steamship and solicited, incited and stirred up other members of the crew of said steamship to disobey and resist the lawful orders of the master and other officers of said steamship and to refuse to perform their proper duties on board said steamship." During the hearing the respondent sought to show that the union members took possession of the City of Fort Worth "or portions thereof" and "explicitly engaged in a sit-down strike and were guilty of unlawful acts and were trespassers." Accordingly the respondent argues that it was justified in refusing to re-ship the five seamen named in the complaint. The respondent's contention finds no support in the record.

We have found above that the strike was caused and prolonged by reason of the respondent's unlawful refusal to bargain collectively with the Union. The strike continued for 11 hours during which the striking employees refused to work and sat down on the poop deck. The City of Fort Worth was moored to the dock at Houston during the entire day and the refusal of the strikers to perform their duties in no manner endangered the safety of the ship. 18/ Moreover, the strikers neither unlawfully seized any portion of the ship nor despoiled any of the respondent's property thereon. 19/ The striking employees merely sat on the poop deck, the usual place of meeting and recreation for members of the crew when off duty; the ship "remained fully in the possession

16/ In N.L.R.B. v. Waterman Steamship Corporation, cit. supra., the Supreme Court, after reviewing evidence in support of a similar finding of the Board, stated that "maritime people generally" have recognized that tenure of employment does not terminate with the expiration of shipping articles. See also Letter of South Atlantic Steamship Company of Delaware and National Maritime Union of America, 12 N.L.R.B. 1367; Letter of The Texas Company, Marine Division and National Maritime Union, Fort Arthur Branch, 19 N.L.R.B., No. 89; and Letter of Calmar Steamship Corporation and National Maritime Union of America, et al., 18 N.L.R.B., No. 1.

17/ Ewn were we to assume that the employee status of those seamen did in fact cease with the termination of their shipping articles, it is undenied that they were refused reemployment. A discriminatory refusal to employ is no less a violation of the Act than is a discriminatory discharge. See Letter of Naumoo Mills, Inc. and United Textile Workers of America, 15 N.L.R.B. 37. The respondent's contention is thus no defense, in any event, to an alleged violation of Section 8 (3) of the Act.

18/ See N.L.R.B. v. Black Diamond S. S. Corporation, 94 F. (2d) 875 (C.C.A. 2) and Letter of Black Diamond Steamship Corporation and Marine Engineers' Beneficial Association, Local No. 32, 3 N.L.R.B. 84, and Cf. Ross v. United States, 95 F. (2d) 754 (C.C.A. 4) in which the Court found that the ship upon which a strike occurred "was not in fact moored to the dock or at anchor in a safe harbor, but was in such a position that the obedience of the crew to the orders of the master was essential to her safety."

19/ Cf. N.L.R.B. v. Finstool Metallurgical Corporation, 306 U.S. 240, aff'g, 98 F. (2d) 375 (C.C.A. 7), aff'g as mod., Letter of Finstool Metallurgical Corporation and Amalgamated Association of Iron, Steel and Tin Workers of North America, Local 561, 5 N.L.R.B. 950, and McNeely & Price Company v. N.L.R.B., 106 F. (2d) 876 (C.C.A. 3) aff'g as mod., Letter of McNeely & Price Company and National Leather Workers Association, Local No. 30, of the C.I.O., 6 N.L.R.B. 800.

of the respondent and its authorized officers" 20/ and the work of loading the ship proceeded without delay. No attempt was made by the strikers to interfere with the normal operations on shipboard, and as we have noted, the vessel sailed on schedule at the conclusion of the strike on the same day. At no time did the strikers claim to hold the ship in defiance of the right of possession of the owner nor did their presence on shipboard constitute a trespass. 21/ Unlike an industrial plant, a ship is not only the place of employment but also the living quarters of the crew. Consequently their mere presence on the ship, in the absence of interference with its control by the respondent's officers could not constitute a trespass, nor were the strikers regarded as trespassers by the captain or other officers of the ship. At no time were the strikers ordered to leave the ship. 22/

The evidence affords no basis for finding that the conduct of the union members during the strike projected them outside the framework of protection afforded by the act. We find that the respondent was not warranted in discharging any of the union members solely because of their collective activity in striking.

3. The alleged breach of contract

The respondent contends that the striking members of the crew, by wilfully disobeying the lawful commands of the master and other officers of the City of Fort Worth and by refusing to perform their proper duties on board this ship, breached their shipping articles and thereby afforded ample and lawful cause for the discharges. Maritime employees who sign shipping articles agree:

to conduct themselves in an orderly, faithful, honest and sober manner, and to be at all times diligent in their respective duties, and to be obedient to the lawful commands of said master . . . and of their superior officers, in everything relating to the vessel, and the stores and cargo thereof, whether on board, in boats, or on shore.

According to the respondent, by engaging in the strike and failing to "turn to" at the command of the master, the union members breached their shipping articles which constituted their contract of employment with the respondent.

20/ Cf. N.L.R.B. v. Stackpole Carbon Company, 105 F. (2d) 167 (C.C.A. 3) en'g as mod., Matter of Stackpole Carbon Company and United Electrical & Radio Workers of America, Local No. 502, 6 N.L.R.B. 171.

21/ See American Manufacturing Co. v. N.L.R.B., 60 Sup. Ct. 612, aff'g as mod., 106 F. (2d) 61 (C.C.A. 3) en'g as mod., Matter of American Manufacturing Company; Company Union of the American Manufacturing Company; the Collective Bargaining Committee of the Brooklyn plant of the American Manufacturing Company and Textile Workers' Organizing Committee, C.I.O., 5 N.L.R.B. 443, in which the court stated:

We do not regard the action of these or other employees in standing around the premises for a period of not more than two hours, while an attempt was being made to persuade the Company to fix a date for collective bargaining with I.W.O.C., as in the nature of a sit-down strike which would permit the termination of the employee relationship. They certainly were not claiming to hold the premises in defiance of the right of possession of the owner and we regard the case as no different from that of an ordinary strike where work has ceased because of an unfair labor practice.

22/ During oral argument before the Board, counsel for the respondent asserted that the conduct of the strikers in remaining on board was considered less serious than if they had left the vessel.

The fact that the striking seamen refused to obey the respondent's orders during the strike is not in dispute. The mere fact that such refusal constituted a breach of contract, however, is immaterial to the issues here involved. ^{23/} We recognize that an employer may lawfully discharge his employees because of their failure to obey his orders or their refusal to perform their duties, whether or not such failure or refusal constitutes a breach of an express contract of employment. The undertaking by employees that they will obey the orders of their employer and perform their duties is necessarily implicit in every form of hire and tenure of employment. Whenever employees during a labor dispute cease work in order to strike, necessarily during the period of the strike they neither obey their employer's orders nor perform the duties for which they were hired. Nonetheless they remain employees within the meaning of the Act ^{24/} and are entitled to the protection afforded under the Act against discrimination by the employer. ^{25/}

We have found that the strike herein was attributable to the respondent's unlawful refusal to bargain collectively with the Union and that the conduct of the union members during the strike was in no manner unlawful or otherwise beyond the limits of permissible activity. We therefore find untenable the respondent's contention that the discharges were lawful and justified because the strike in effect constituted a breach of contract. ^{26/}

^{23/} An agreement not to strike, when validly entered into by a labor organization as a result of collective bargaining, is, of course, binding upon the members of the labor organization. Shipping articles, however, are individual contracts and cannot lawfully be construed under the Act as requiring that each seaman renounce the right to self-organization and collective bargaining or under normal circumstances refrain from striking in order to protect such right. Cf. Matter of Arcade-Sunshine Company, Inc. and Laundry Workers Cleaners & Dyers Union, 12 N.L.R.B. 259.

^{24/} Section 2 (3) of the Act.

^{25/} Black Diamond S. S. Corporation v. N.L.R.B., 94 F. (2d) 375 (C.C.A. 2), and Matter of Black Diamond Steamship Corporation and Marine Engineers Beneficial Association, Local No. 33, 3 N.L.R.B. 84.

^{26/} Cf. N.L.R.B. v. Sands Manufacturing Company, 306 U.S. 332, wherein the Court found that the repudiation by the employees of their agreement was not caused by any unfair labor practices of the employer.

It should be noted moreover that the employees named in the complaint were not discharged forthwith upon their failure to "turn to" but were permitted to work for 7 days until the ship docked in Philadelphia. Even assuming the validity of the respondent's contention that the breach of the shipping articles afforded justification for the discharges, it may reasonably be argued that the respondent, in continuing to avail itself of the employees' services for a period of 7 days after the alleged breach of contract, waived such breach.

. . . In the law of Master and Servant, if the Master has cause justifying the discharge of the servant, and nevertheless continues, with knowledge of the facts, to receive the benefit of the servant's services, he cannot afterwards make the breach ground for discharge

. . . The employer has no right, whether he desires it or not and whatever intention he manifests, to continue employment and yet retain the privilege of asserting a breach of condition. It is true that an employee may consent to be retained on such terms, but his clearly manifested assent is necessary, for it cannot be presumed . . . Williston on Contracts, Rev. Ed., Vol. 3, S. 725, p. 2062.

4. Defenses with respect to the individual discharges

Although the defenses discussed above were the only defenses assigned by the respondent in its answer for the discharges of the five seamen named in the complaint, during the hearing the respondent sought to show that in addition there existed other causes for the discharges.

a. John J. Tracey and Elmer J. Ferguson

Tracey had been employed continuously by the respondent since March 10, 1937, as an oiler, fireman, and wiper. He was the engineering division delegate of the Union and had obtained the memberships of nine members of the crew. Ferguson, a fireman, had been employed continuously by the respondent since July 1937. Although Ferguson held no office in the Union, we have observed his activity at the beginning of the strike on July 18.

The respondent's witnesses admitted that Tracey and Ferguson were selected for discharge solely because of their acts during the strike. Second Assistant Engineer Robinson testified that Tracey had "threatened" him when he told the oiler that he was going to put the steam on deck himself. According to Robinson, Tracey had replied, "You had better not. You will be sorry." Robinson further testified that when he began to turn on the steam, Tracey said, "Go ahead, you won't have any after 8 o'clock." According to Tracey's testimony, he merely asked Robinson, "Second are you going to light the fires?", and that when Robinson answered in the affirmative, he replied, "That's all I want to know."

Even accepting Robinson's version of the incident we do not believe that Tracey's statements can be construed as threatening, and it is apparent from the testimony that they were not so construed by Robinson. On cross-examination Robinson stated that he recommended Tracey's discharge because the latter had given him "back talk."

The evidence is plain that both Tracey and Ferguson were discharged because of the leading parts they played in the strike. Chief Engineer Norton testified that he did not recommend Ferguson's discharge merely because he had disobeyed orders. "I would have overlooked that had he taken the fires until we got straightened out." Captain Ruden testified that he discharged both these men upon Norton's complaint that "they had been on watch at the time of the commencement of this what I consider disobedience, and if they had gone on watch at the time, that the rest of the men probably would have followed . . ."

We find that the respondent, by discharging Tracey and Ferguson, discriminated in regard to their hire and tenure of employment, thereby discouraging membership in the Union and interfering with, restraining, and coercing its employees in the exercise of the rights guaranteed in Section 7 of the Act.

At the time of their discharge Tracey and Ferguson were earning \$85 and \$75 a month, respectively, plus maintenance on shipboard. At the time of the hearing neither had been employed since his discharge.

b. John Pfuhl, Jr.

Pfuhl, an able seaman, had been continuously employed by the respondent since November 24, 1937. He joined the Union on June 30, 1938, and participated in the strike of July 18.

At the hearing the respondent sought to show that in addition to having engaged in the strike, Pfuhl had been convicted of petit larceny

prior to his employment by the respondent and had been arrested for larceny during his employment, and that his criminal record, taken in conjunction with his inefficiency and negligence as an employee, warranted his discharge.

Captain Rudan testified that Pfuhl had served under three mates and that all had complained that he was a slow worker. Pfuhl admitted that a complaint had been made concerning his work on his first voyage in November 1937, but he testified that no complaint was made thereafter. Since Pfuhl was re-shipped several times despite his alleged slowness, we do not believe that this was a motivating factor in his discharge. ^{27/} There was testimony that on two occasions Pfuhl negligently spilled paint on the deck. He had been re-shipped, however, after he had spilled paint on the first occasion, and the testimony shows that the second offense was not brought to the respondent's attention until after the respondent's officers had decided to discharge him. Moreover, on several occasions other seamen had spilled paint and had not been disciplined.

Finally, the respondent urges that prior to his employment, Pfuhl had been convicted of petit larceny and that during his employment he had been arrested for a similar offense. That Pfuhl's criminal record was not disturbing to the respondent and was not the cause of his discharge is plain from the testimony. The respondent did not find Pfuhl an undesirable employee after his arrest since he was permitted to continue in the respondent's employ and the officers of the ship apparently had no knowledge of his previous conviction at the time they decided to discharge him.

Captain Rudan's testimony makes it abundantly clear that the motivating factor in the respondent's decision to discharge Pfuhl was his participation in the strike. Presumably Pfuhl's personal record did not disqualify him as an employee, according to the respondent, but did constitute a bar to his union activity. "After being lenient with him," Rudan explained, "he had indulged in this disobedience down there."

We find that the respondent, by discharging Pfuhl, discriminated in regard to his hire and tenure of employment, thereby discouraging membership in the Union and interfering with, restraining, and coercing its employees in the exercise of the rights guaranteed in Section 7 of the Act.

At the time of his discharge Pfuhl was earning \$75 per month plus maintenance on shipboard. Between the date of his discharge and the date of the hearing, he secured two temporary jobs on which he earned a total of \$182.50, plus maintenance on shipboard during one of these periods of employment.

c. Joseph G. Warren

Warren, an able seaman, had been continuously employed by the respondent for about 6 weeks prior to his discharge. Warren was the deck delegate of the Union and the recognized leader of the strikers.

The respondent urges as contributing factors in its selection of Warren for discharge, his intoxication on three occasions during the period of his employment, and his arrest for cursing. About a month prior to his discharge Warren became intoxicated and was unable to work for 1 day. On the second occasion, Warren reported to work late. Warren's third spree occurred while he was off duty.

^{27/} Montgomery Ward & Co. v. National Labor Relations Board, 107 F. (2d) 555 (C.C.A. 7) *en'g* as mod., Matter of Montgomery Ward & Company and Nathan Litschberger, et al., 9 N.L.R.B. 336, wherein the Court stated, "Although long service does not necessarily indicate efficiency, it does indicate that the employee's work is not considered so unsatisfactory as to merit discharge."

We entertain no doubt that an employee's intoxication provides ample reason for his discharge. We believe, however, that the respondent did not discharge Warren for this reason, but rather that it seized upon his drinking proclivities to rid itself of an active union officer. We have observed that the respondent did not ascribe Warren's drunkenness as the reason for his discharge in its answer to the complaint. Warren had been re-shipped after his arrest and after two instances of intoxication. Moreover, the evidence shows that beer is sold on board the City of Fort Worth and that it is not uncommon for seamen to become intoxicated.

We find that the respondent, by discharging Warren, discriminated in regard to his hire and tenure of employment, thereby discouraging membership in the Union and interfering with, restraining, and coercing its employees in the exercise of the rights guaranteed in Section 7 of the Act.

At the time of his discharge, Warren was earning \$75 per month plus maintenance on shipboard. Warren did not appear at the hearing and the record does not show the amount of his earnings, if any, since his discharge.

d. Edward W. Smith

Smith, the crew messboy, was the steward delegate of the Union. At the time of his discharge, he had been employed continuously by the respondent for approximately 18 months. Kuhnreiber, the steward, testified that Smith was surly and did not do his work properly, that he quarreled with the cook, and that the cook had requested that he be discharged. Kuhnreiber admitted, however, that these facts were reported to the Captain about 3 months prior to Smith's discharge.

Smith was admittedly popular with the crew and was re-shipped several times after the reports of his alleged shortcomings. Kuhnreiber freely admitted that he recommended that Smith be discharged because he wanted "to put his head a little bit wise," and that he intended at the time Smith was discharged to reemploy him within a short time. On cross-examination Sherry admitted that Smith was discharged because of his participation in the strike.

We find that the respondent, by discharging Smith, discriminated in regard to his hire and tenure of employment, thereby discouraging membership in the Union and interfering with, restraining, and coercing its employees in the exercise of the rights guaranteed in Section 7 of the Act.

At the time of his discharge Smith was earning \$52 per month, plus maintenance on board the ship. At the time of the hearing, Smith had earned \$26 since his discharge on a trial run of a United States cruiser.

IV. The effect of the unfair labor practices upon commerce

The activities of the respondent set forth in Section III A, B, and C above, occurring in connection with its operations described in Section I above, have a close, intimate, and substantial relation to trade, traffic, and commerce among the several States, and tend to lead to labor disputes burdening and obstructing commerce and the free flow of commerce.

The Remedy

Having found that the respondent has engaged in certain unfair labor practices, we shall order it to cease and desist from such practices

and take certain affirmative action designed to effectuate the policies of the Act.

Having found that the respondent refused to bargain collectively with the Union as the exclusive representative of its employees within an appropriate unit, we shall order the respondent, upon request, to bargain with the Union as such representative.

We have found that the respondent, by discharging John J. Tracey, Elmer J. Ferguson, Joseph G. Warren, John Pfuhl, Jr., and Edward W. Smith, discriminated against them in regard to their hire and tenure of employment. We shall therefore order the respondent to reinstate these employees to their former or substantially equivalent positions without prejudice to their seniority and other rights and privileges, and to make them whole by payment to John J. Tracey, Elmer J. Ferguson, Joseph G. Warren, and Edward W. Smith, respectively, of a sum of money equal to the amount he would normally have earned as wages from July 25, 1938, the date of the discrimination against him, to the date of the offer of reinstatement, including the value of maintenance on shipboard calculated at the rate of \$2.35 per day, 28/ less his net earnings 29/ during such period. There shall be added to the amount thus due to Ferguson, the bonus of \$25 to which he was entitled on the day of his discharge by reason of his continued service with the respondent. The Trial Examiner did not recommend the reinstatement of Pfuhl, because of his personal record. We shall not follow the recommendation of the Trial Examiner. The respondent has not shown, and indeed the record belies the respondent's contention, that a conviction for a misdemeanor disqualifies an employee for continued employment. The respondent, however, shall not be required to give Pfuhl back pay from February 25, 1939, the date of the Intermediate Report, to the date of this Decision. The back pay awarded Pfuhl will be a sum of money equal to the amount which he would have normally earned from July 25, 1938, to February 25, 1939, and from the date of this Decision to the date of offer of reinstatement, including the value of maintenance on shipboard, calculated at the rate of \$2.35 per day, less his net earnings during such period.

Prior to the hearing, one of the seven strikers who went on strike on July 25, 1938, in protest against the discriminatory discharges, had been reinstated. Since this strike was caused by the respondent's unfair labor practices, in order to effectuate the policies of the Act, we shall order the respondent, upon application, and upon the first available sailing date after such application, to offer to the other six employees who struck on July 25, 1938, reinstatement to their former or

28/ The parties stipulated that the value of maintenance on shipboard was \$2.35 per day.

29/ By "net earnings" is meant earnings less expenses, such as for transportation, room, and board, incurred by an employee in connection with obtaining work and working elsewhere than for the respondent, which would not have been incurred but for the unlawful termination of his employment and the consequent necessity of his seeking employment elsewhere. See Matter of Crossett Lumber Company and United Brotherhood of Carpenters and Joiners of America, Lumber and Sawmill Workers Union, Local 2590, 8 N.L.R.B. 440. Monies received for work performed upon Federal, State, county, municipal, or other work-relief projects are not considered as earnings, but as provided below in the Order, shall be deducted from the sum due the employee, and the amount thereof shall be paid over to the appropriate fiscal agency of the Federal, State, county, municipal, or other government or governments, which supplied the funds for said work-relief projects.

substantially equivalent positions, without prejudice to their seniority and other rights and privileges, dismissing if necessary any employees since hired to replace them. 30/

We shall also order the respondent to make whole the said six persons for any loss of pay they may suffer by reason of any refusal of their application in accordance with the provision above, by payment to each of them a sum of money equal to the amount which he normally would have earned as wages, including the value of maintenance on shipboard, calculated at the rate of \$2.35 per day, during the period from the date of any such refusal of his application to the date of reinstatement, less his net earnings during such period.

Upon the basis of the foregoing findings of fact and upon the entire record in the case, the Board makes the following:

Conclusions of Law

1. National Maritime Union of America, affiliated with the C.I.O., is a labor organization, within the meaning of Section 2 (5) of the Act.
2. By discriminating in regard to the hire and tenure of employment of Joseph O. Warren, John Pfuhl, Jr., Elmer J. Ferguson, Edward W. Smith, and John J. Tracey, thereby discouraging membership in the National Maritime Union of America, affiliated with the C.I.O., the respondent has engaged in and is engaging in unfair labor practices, within the meaning of Section 3 (3) of the Act.
3. The unlicensed personnel employed in the deck, engine, and stewards' departments, except wireless and radio operators, chief electricians on electrically driven ships, and junior engineers who hold licenses, on vessels operated out of Atlantic and Gulf ports by the respondent, constitute a unit appropriate for the purposes of collective bargaining, within the meaning of Section 9 (b) of the Act.
4. The National Maritime Union of America, affiliated with the C.I.O., is and at all times since January 26, 1938, has been, the exclusive representative of employees in such unit, for the purposes of collective bargaining within the meaning of Section 9 (a) of the Act.
5. By refusing on or about January 26, 1938, and at all times thereafter, to bargain collectively with the National Maritime Union of America, affiliated with the C.I.O., as the exclusive representative of all its employees in such unit, the respondent has engaged in and is engaging in unfair labor practices, within the meaning of Section 8 (5) of the Act.
6. By interfering with, restraining, and coercing its employees in the exercise of the rights guaranteed in Section 7 of the Act, the respondent has engaged in and is engaging in unfair labor practices, within the meaning of Section 8 (1) of the Act.
7. The aforesaid unfair labor practices are unfair labor practices affecting commerce, within the meaning of Section 2 (6) and (7) of the Act.

ORDER

Upon the basis of the above findings of fact and conclusions of law and pursuant to Section 10 (c) of the National Labor Relations Act,

30/ See Black Diamond Steamship Corporation v. N.L.R.B., 94 F. (2d) 875 (C.C.A. 2) and latter of Black Diamond Steamship Corporation and Marine Beneficial Association, Local No. 23, 3 N.L.R.B. 84.

the National Labor Relations Board hereby orders that the respondent, Southern Steamship Company, Philadelphia, Pennsylvania, and its officers, agents, successors, and assigns, shall:

1. Cease and desist from:

(a) Discouraging membership in National Maritime Union of America, affiliated with the C.I.O., or any other labor organization of its employees by discharging or refusing to reinstate any of its employees, or in any other manner discriminating in regard to their hire and tenure of employment or any terms or conditions of their employment;

(b) Refusing to bargain collectively with the National Maritime Union of America, affiliated with the C.I.O., as the exclusive representative of the unlicensed personnel employed in the dock, engine, and stewards' departments, except wireless and radio operators, chief electricians on electrically driven ships, and junior engineers who hold licenses, on vessels operated out of Atlantic and Gulf ports by the respondent;

(c) In any other manner interfering with, restraining, or coercing its employees in the exercise of the right to self-organization, to form, join, or assist labor organizations, to bargain collectively through representatives of their own choosing, and to engage in concerted activities for the purpose of collective bargaining or other mutual aid or protection, as guaranteed in Section 7 of the National Labor Relations Act.

2. Take the following affirmative action which the Board finds will effectuate the policies of the Act:

(a) Upon request, bargain collectively with the National Maritime Union of America, affiliated with the C.I.O., as the exclusive representative of the unlicensed personnel employed in the dock, engine, and stewards' departments, except wireless and radio operators, chief electricians on electrically driven ships, and junior engineers who hold licenses, on vessels operated out of Atlantic and Gulf ports by the respondent, in respect to rates of pay, wages, hours of employment, and other conditions of employment;

(b) Offer to Joseph G. Warren, John Pfuhl, Jr., Elmer J. Ferguson, Edward W. Smith, and John J. Tracey immediate and full reinstatement to their former or substantially equivalent positions, without prejudice to their seniority and other rights and privileges previously enjoyed by them;

(c) Make whole Joseph G. Warren, Elmer J. Ferguson, Edward W. Smith, and John J. Tracey for any loss of pay they may have suffered by reason of the respondent's discrimination in regard to their hire and tenure of employment, by payment to each of them of a sum of money equal to that which he would normally have earned as wages, including therein the value of maintenance on shipboard calculated at the rate of \$2.35 per day, from July 25, 1938, to the date on which the respondent offers him reinstatement (and adding thereto in the case of Elmer J. Ferguson the bonus of \$25 due him on the date of his discharge), less his net earnings during said period; provided, however, that the respondent shall deduct from the amount thus due him, monies received by him during said period for work performed upon Federal, State, county, municipal, or other work-relief projects, and pay over the amount, so deducted, to the appropriate fiscal agency of the Federal, State, county, municipal, or other government or governments which supplied the funds for said work-relief projects;

(d) Make whole John Pfuhl, Jr., for any loss of pay he may have suffered by reason of the respondent's discrimination in regard to

his hire and tenure of employment, by payment to him of a sum of money equal to that which he would normally have earned as wages, including therein the value of maintenance on shipboard calculated at the rate of \$2.35 per day, from July 25, 1938, to February 25, 1939, and from the date of this Decision to the date of offer of reinstatement, less his net earnings during said period; provided, however, that the respondent shall deduct from the amount thus due him, monies received by him during such period for work performed upon Federal, State, county, municipal, or other work-relief projects, and pay over the amount, so deducted, to the appropriate fiscal agency of the Federal, State, county, municipal, or other government or governments which supplied the funds for said work-relief projects;

(e) Upon application, and upon the first available sailing date after such application, offer to William Reeves, Henry A. Lathan, William Godfrey Burns, Edward B. Hughes, Gordon Nealey, and Charles C. Holt, immediate and full reinstatement to their former or substantially equivalent positions, without prejudice to their seniority or other rights and privileges previously enjoyed by them, dismissing, if necessary, those who have been hired to replace them;

(f) Make whole William Reeves, Henry A. Lathan, William Godfrey Burns, Edward B. Hughes, Gordon Nealey, and Charles C. Holt, for any loss of pay they may suffer by reason of any refusal of their applications for reinstatement, as provided in the section entitled "The Remedy," by payment to each of them a sum of money equal to that which he would normally have earned as wages, including therein the value of maintenance on shipboard calculated at the rate of \$2.35 per day, from the date of any such refusal of his application to the date of offer of reinstatement, less his net earnings during said period; provided, however, that the respondent shall deduct from the amount thus due him, monies received by him during said period for work performed upon Federal, State, county, municipal, or other work-relief projects, and pay over the amount, so deducted, to the appropriate fiscal agency of the Federal, State, county, municipal, or other government or governments which supplied the funds for said work-relief projects;

(g) Post immediately notices to its employees in conspicuous places on its docks and on its vessels, and maintain such notices for a period of at least sixty (60) consecutive days from the date of the posting, stating: (1) that the respondent will not engage in the conduct from which it is ordered to cease and desist in paragraphs 1 (a), (b), and (c) of this Order; (2) that the respondent will take the affirmative action required by paragraphs 2 (a), (b), (c), (d), (e), and (f) of this Order; and (3) that the respondent's employees are free to become or remain members of the National Maritime Union of America, affiliated with the C.I.O. and that it will not discriminate against any employee because of membership or activity in that organization;

(h) Notify the Regional Director for the Fourth Region in writing within ten (10) days from the date of this Order what steps the respondent has taken to comply herewith.

Signed at Washington, D. C., this 22nd day of April 1940.

J. Warren Madden

Chairman

Edwin S. Smith

Member

Wm. M. Loiserson

Member

THE WHITE HOUSE
WASHINGTON

RF
Currie

May 4, 1940.

MEMORANDUM FOR LAUCHLIN CURRIE:

Will you see Wagner and Meade
about this. The general idea is
pretty good.

F.D.R.

THE WHITE HOUSE
WASHINGTON

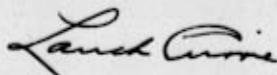
May 3, 1940

MEMORANDUM FOR THE PRESIDENT:

Re: Finance Requirements of Small Business

A day or so before we discussed this matter Jerome Frank renewed his proposal and it appears to have aroused a good deal of interest and approbation. It occurred to me that with the addition of your idea of diversification, it comes quite close to your view. I am attaching a brief summary of the plan, together with some outside comment.

If you think you would like to adopt this plan with certain modifications, you might consider letting Senator Mead be one of the sponsors. It might be advisable, however, to have Wagner's name precede Mead's, since Wagner is the Chairman of the Committee and the "Mead Bill" has acquired certain connotations.


Lauchlin Currie

REGIONAL INDUSTRIAL FINANCE COMPANY

1. A regional industrial finance company will be set up in each federal reserve district.
2. Each such finance company will procure its capital primarily (and perhaps entirely) through investment in its own common stock by private persons who, through directors elected by them, would manage and control the finance company.
3. However, if and to the extent that any such company, in order to procure sufficient capital, needed governmental assistance, the government would give such assistance solely by buying the preferred stock of such finance company. The preferred stock would have a low rate of preferred dividends. It would either have no voting power or, as a class, the power to elect only one director. The preferred stock would be redeemable at the option of the finance company.

Governmental assistance in this form, to the finance companies, would avoid the criticism of the kind of governmental assistance heretofore proposed. Such criticisms would be applicable if the government purchased the bonds of any such finance companies. For, if the government owned the bonds of such a finance company and if that company did not succeed, the government would become the owner of the finance company and would thus become, in effect, the owner of the securities of business enterprises in which the finance company had invested; in that way the government would be in control of numerous small and medium sized business enterprises.

4. The plan involves a recognition of a fundamental difference between (1) funds required by medium and small sized business for working capital and (2) funds for such enterprises to be used for plant expansion, i.e., fixed capital. A small or medium sized business can obtain funds for working capital without danger, by borrowing through the issuance of bonds or notes. But funds for fixed capital ought not to be borrowed. Such funds should be obtained, by any medium or small sized business, through the sale of its stock. As Mr. Owen Young said in May 1939 before the TNEC, where money is borrowed to buy machines and the like, to fill orders, the money should not be borrowed "because you can't liquidate the cost of machines out of orders." What such businesses need for such purposes is not lenders, but partners. The reason is as follows: Fixed capital is, by its very nature, not liquid, and a business slump may interfere with paying interest on the bonds, or paying the principal when it comes due, thus precipitating bankruptcy. What a small or medium sized business needs for purposes of capital expansion (as distinguished from working capital) is, therefore, not loans but money procured through the sale of its stock.

For that reason each of the regional finance companies would have the primary purpose of buying the stocks* of small and medium sized business corporations, the proceeds to be used for capital expansion.

* Preferably common stocks. SEC experience shows that preferred stocks are, generally, bad medicine for most investors. Many authorities on finance agree with that attitude. That may seem to be inconsistent with the purchase of preferred stocks of the finance companies by the government. The answer is that the government is not in the same position as the ordinary investor; also, it is trying to aid business rather than attempting to act as an investor.

5. As above noted, funds for working capital, needed by promising and deserving small business enterprises can appropriately be procured by loans. It might be provided that the finance companies could make loans for working capital of, say, not to exceed \$20,000 each.

6. The self-interest of the owners of the common stocks of the finance companies would go to insure the fact that investments of the finance company would be made in small and medium businesses which showed a real promise.

In other words, the finance companies would not be eleemosynary institutions or rescue agencies.

7. The need for such companies is shown by the fact that an issue of stock by a small or medium sized business, in the amount of \$100,000 to \$1,000,000, cannot be distributed through investment bankers to the public at less than about 20 per cent of the face amount of the stock issue. That is no fault of the investment banker; his overhead on a small issue makes such distribution highly expensive. But the cost to the issuing business is prohibitive. Most of that cost has nothing whatsoever to do with registration under the Securities Act since the additional cost, of selling such a small stock issue resulting from registration amounts to only 1/2 per cent to 1 per cent of the face amount of the issue.

The virtue of the proposed finance company operations is that the finance company would not distribute to the public the securities of the companies in which they invested but would hold them; therefore, the huge cost of public distribution would be avoided.

8. If and to the extent that such regional finance companies do not receive assistance from the federal government, there is no need for legislation relating to their creation. It is to be noted, however, the type of company engaging in such financing is included in the investment trust bill now pending in Congress, so that any such company would be subject to federal supervision of the same kind as other investment trusts, if the investment trust bill becomes law.

9. Quite legitimately (and also to avoid opposition from investment bankers) each regional finance company should be authorized to assist investment bankers by agreeing to take some unsold portion of small and reasonably promising stock issues of local businesses. And it might also employ underwriters to market the stocks of such businesses after those stocks have been seasoned in the portfolio of the finance company.

10. The regionalization of such finance companies is of very considerable importance because people in each locality are far more likely to know of promising business enterprises in their regions than would investors in some distant portion of the country. Our internal frontiers can best be opened up by those acquainted with the regional business possibilities.

Attachments

1. Copies of editorial comments on Frank's recent speech of April 25, 1940 on regional financing.
2. Telegram from Beardsley Ruml.
3. Excerpt from testimony of Owen D. Young before the Temporary National Economic Committee.
4. Copy of Frank's recent speech on regional financing.

Capital for Small Business

It is generally admitted that a gap exists in the financial machinery of this country in so far as the capital needs of the small business enterprises are concerned. The cost of raising equity capital, in particular, for such companies is all but prohibitive, a fact which places concerns of this category at a distinct competitive disadvantage with their larger rivals.

In the old days it used to be that well-to-do individuals in the community financed the smaller local enterprises. Today, however, such individuals are apparently more inclined to put their funds into nationally known securities listed on the big exchanges.

Numerous proposals have been put forward to meet this need, with the two best known, perhaps, the first and second Mead bills. The first of these measures would have provided government insurance for loans made by banks to small business. The second measure went beyond that and would have set up a Federal industrial loan corporation within the Federal Reserve system, to be financed by the United States government. But Jerome Frank, who outlined his ideas on this subject on Thursday in a talk at Cleveland, has, it seems to us, a much sounder approach. Mr. Frank would set up regional "investment companies," and instead of lending money these institutions would provide equity capital for small enterprises by buying their securities. In several respects Mr. Frank's proposal tends to get away from what were substantial weaknesses in the Mead bill and in other proposals of the same general character. There is, first, the advantage that his "trusts" would provide equity capital, which is what most companies really need and should have. Again, while the government would furnish capital, it would invest only in the preferred shares of the institution. It would have "little or no control" of the banks' affairs. The risk capital, represented by common stock, would be provided by private investors. In the third place, he does not envision an eleemosynary institution, but a company which would quite frankly be run on a profit-making basis. And, finally, the organizations would be manned by local persons, on the theory that they would be the best judges of local conditions.

As we say, there will always be difficulty in inducing private investors to take risks if they are to be deprived of the advantage of these risks as they are in such an important degree today. But to the extent that some new type of facility is required to mobilize capital for small business Mr. Frank seems to have offered much the best formula that has been produced to date.

C O P Y

T E L E G R A M

May 2, 1940
1:26 P.M.

JEROME FRANK
CHAIRMAN SECURITIES AND EXCHANGE COMMISSION

CONGRATULATIONS ON YOUR CLEVELAND SPEECH. I HAVE JUST RETURNED FROM ATLANTA WHERE I HAVE BEEN VISITING ONE OF OUR STORES, DAVISON PAXON COMPANY. I AM CONVINCED THAT A REGIONAL INVESTMENT COMPANY SUCH AS YOU OUTLINE WOULD BE A GREAT BENEFIT FOR THE SOUTH ATLANTIC STATES AND WOULD CONTRIBUTE MATERIALLY TO THE ECONOMIC WELLBEING AND STANDARD OF LIVING OF THE REGION. THIS THING WELL DONE WOULD START MANY OTHER THINGS GOING. HOPE TO SEE YOU SOON. BEST WISHES --

BEARDSLEY RUMML
R. H. MACY AND CO., INC.
TREASURER

Excerpt from Testimony of Mr. Owen Young

Before the T.N.E.C. on May 17, 1939.

Mr. Young. Well, I think -- I don't think you can deal with it through loans, Senator. . . . The fact about it is that there is all the difference in the world between loaning a company something where it turns over its capital and can pay it back and lending money to buy machinery or something of that sort, and have it fixed capital where it can't pay back.

(Senator G. H. Harkness)

The Chairman. But I understood you to tell me, in your opinion, there is an opportunity for adventure capital.

Mr. Young. Yes; equity capital but not loan capital. I am making that distinction in reference to your term "loan capital."

The Chairman. It isn't altogether clear to me why it was an economical and wise thing for General Electric to borrow money to adventure in this field and why it would be unwise for a small enterprise to borrow money for that purpose.

Mr. Young. Oh, it isn't unwise for the small company to borrow. Please don't misunderstand me.

The Chairman. Then I didn't get your explanation.

Mr. Young. Suppose a small company has a block of orders here and it needs to buy materials and pay wages in order to get them out, but it has the orders and the buyers are here. There

is no reason why they shouldn't borrow money to carry that and pay it out of the proceeds of the sale.

The Chairman. Then it comes down to this, that a loan which is on security in the business is a perfectly proper loan --

Mr. Young. No; if you will pardon me just a minute. It is quite a different matter to borrow money to build machines to fill those orders because you can't liquidate the cost of the machines out of the orders and, therefore, you have an unlimited -- there is no way of paying them back; you can't turn the machine over to the bank very well.

The Chairman. But if the machines were to produce a product for which there was an insured sale in an expanding industry, would not that product be a --

Mr. Young. (interposing). It would over a course of time.

The Chairman. But that, of course, is what the little business enterpriser says he can't get and what he should get.

Mr. Young. Well, what I think, he may be mistaken himself. I don't think he wants loans. He needs partners to put up money with him. That is what he needs.

Mr. Frank. Isn't the difficulty, if he borrows against a fixed plant and if for any reason there is a temporary recession so he isn't able to earn enough to pay the interest on the loan, he is going to be foreclosed?

Mr. Young. Bankrupt

Mr. Frank. Therefore, what he ought to have is a flexible condition where those who advance the money are his partners and will take potluck with him in those periods of recession.

Mr. Young. Quite right.

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Mr. Frank. Mr. Young, I gather you think, if new and small and medium-sized enterprises are to be aided, that you would prefer to see that aid, assuming Government weren't to do it, come in the form of equity financing rather than disproportionately through loans.

Mr. Young. I don't think that loans will solve the problem at all. I have had some experience in watching the applications of the Federal Reserve bank in New York, where I am chairman of the board of directors, and the great number of cases that apply there for loans, even on a 5-year term, are cases which need permanent fixed capital, capital to be invested in new machinery, perhaps in new improved machinery, in the development of processes, which in the nature of things can't be paid back.

Mr. Frank. And even if the loan were of long term, the fixed charge through interest might put the small, growing business in a precarious position if there came a temporary

recession and default, whereas equity financing would avoid that embarrassment.

Mr. Young. It would avoid that embarrassment.

CAUTION - ADVANCE
FOR RELEASE UPON DELIVERY

"REGIONAL FINANCING"

ADDRESS

of

JEROME N. FRANY

Chairman, Securities and Exchange Commission

Before the

KIWANIS CLUB OF CLEVELAND

Cleveland, Ohio

12:30 P.M., Thursday, April 25, 1940

I find that no member of the SEC has visited Cleveland since former Chairman Douglas was here in 1936. That is much too long a time. As it is one of the leading financial and industrial centers of the nation, we are very much interested in Cleveland and its problems. In fact, we have, as you know, opened one of our few branch offices here within the past eighteen months, under the direction of your distinguished former State Securities Commissioner, Dan T. Moore.

Mr. Justice Douglas, when he was here, some two years ago, addressed the Cleveland Chamber of Commerce's "Committee of the Banks and Investment Bankers of Cleveland." I wonder if you recall what a resounding challenge it was to the financial leaders of your city. He pointed out that the proportion of the magnitude of your industry and wealth in the Fourth Federal Reserve District far exceeds your geographic proportion of the nation, but that your financial leaders were not obtaining their pro rata share of the nation's financial business. He pointed to the concentration of financial business in New York and showed that, although in the two years just preceding his talk, the Cleveland Federal Reserve District had been the domicile of corporations offering 12 per cent of bonds and stocks, dealers in the Cleveland district had participated in only about 5 per cent of all issues and had actually managed the distribution of only a little over two and one-half per cent of all issues.

In conclusion he said:

"Undoubtedly, then, there is a considerable supply of funds available for long term investment and a large demand for long term funds originating in the Fourth District. Much of this might be matched regionally, but now goes to New York to be matched there. Suppose a part of these amounts were handled locally to form the basis of a regional capital market. What would that mean to you and to the Fourth Federal Reserve District?

"I hardly need to tell you that it would mean more business for the investment bankers of the District, for the trust and registrar departments of your commercial banks, and for lawyers and auditors of the District; for printers of the prospectuses, etc. It would, indirectly, mean more business for your banks in the form of loans on new securities and wider opportunities for investment. All of this is an important aspect of the problem, no doubt. To me, however, there are other aspects of at least equal or greater consequence, though they may seem somewhat intangible.

"First and foremost, I should expect simpler and more conservative finance, where finance is brought closer to the locus of business and where investors are brought closer to finance and investment.

"Second, I should hope regional financing would produce better planned financing, since under that system, there might be greater freedom from the scramble in the capital market for the issues of temporarily popular industries.

"Third, I should hope that regional finance might be able to develop an adequate organization for the supply of long term capital, particularly in equity form, to enterprises of moderate size.

"Fourth, I should expect that a reduction in absentee financing would result in a reduction of absentee ownership and management, with all of the advantages which flow from keeping business at home for the home folks.

"Finally, I should expect that the development of regional capital markets would bring new capital and new brains into the investment banking industry and the financial management of local business. This is not meant as a reflection on its present personnel. But regional capital markets of sufficient stature should help retain and employ the best of its own sons at home.

"The development of regional capital markets seems to me to be eminently desirable but it will not come just by talking and writing. Regional capital markets, even under the best of conditions, can grow up only if local bankers and local businessmen want them. With local patronage, development of regional capital markets is possible. Without it, it is impossible. The problem therefore at this stage is largely in your hands."

I understand from friends of mine in Cleveland, that Mr. Justice Douglas' talk made a great impression here and, what is more important, that at least some leaders in your community decided to do something about it. I understand that, as a result of their activity, the pro rata share of the Cleveland District's participation in stock and bond issues has substantially increased.

I entirely agree with what Mr. Justice Douglas said about the importance of regional finance -- and not only as to its importance but as to the fact that the initiative in fostering it must, in the final analysis, rest with the leaders in those regions. They have it in their power to give more substantial aid in promoting the promising small business enterprises in their respective localities. And many small businesses need and deserve such aid.

When I say that I am not to be understood as being opposed to all bigness in business. I believe that there are some industries where bigness is today almost indispensable. But to say that bigness is necessary and desirable in some industries is not, by any manner of means, to say the same thing of all industries. There are many areas of American life in which there is no need for bigness. It is foolish, therefore, to make an antithesis between big business and small business. Each has its legitimate place in the American scheme of things.

Do you remember the First Grade Reader story of the little pig and the big giraffe? The little pig said it was better to be small and the big giraffe said, no, it was much better to be big. They argued all morning, but neither could prove his point. Finally, as they walked along, still arguing, they passed a high wall. Now, on the other side of the wall there was an orchard, and both the little pig and the big giraffe wanted to go inside and eat the apples and the tender leaves. The little pig looked and looked, but could find no entrance. But the giraffe had no trouble in reaching his long neck over the wall and eating all the leaves he wanted. "You see," he said, "it is much better to be big." Then they walked on until they came to another orchard enclosed by a high wall. This time the giraffe found he could not stretch his neck over the wall to eat the leaves. But the little pig found, at the bottom of the wall, a hole which was just large enough for him to squeeze through. Into the orchard he went and ate his fill of the apples. Then he returned to the giraffe and said, "It is really much better to be small."

Bigness as such is not a virtue. Neither is littleness. To worship either, as such, is a neurotic obsession. To fear either, as such, is a neurotic phobia. The fear of size, as such, is silly. The worship of

littleness, as such, is equally silly. In some situations, bigness is more desirable. And the situation in which it is better varies with technological conditions. Bigness and littleness are relative terms. Life is not static and no size-formula can be static. Moreover, there can be no perfection: There is, usually, not a "best" but merely a "better." And, when bigness is preferable, devices must be sought which will offset, if possible, its defects. It will not do to show the defects of bigness, in any given context, without asking whether littleness, in that same context, would not be worse. And when it comes to reducing bigness, one must ask, "How much reduction is now desirable?" There is need for scepticism concerning the dogma that the biggest is always the best. There is also need for scepticism as to the opposing dogma that littleness is always the best. Both dogmas are equally fallacious. As to any specific industry, the question is always pertinent: "What, at this particular moment, is the most desirable size?"

It is, accordingly, folly for anyone to say either "I am for big business" or "I am for small business." It is wiser to say, "I am for both, each in its proper sphere." The result of not recognizing the folly of any basic antithesis between the two is that a false issue is presented and that, as a consequence, many persons, who quite rationally defend the rights and needs of big business in certain industries, pay altogether too little attention to the rights and needs of small business. In many sectors of American life, small and medium sized businesses will always be the backbone of American business. They often receive insufficient consideration from financial leaders and government.

Local industries and regional industries must thrive and prosper. It is imperative that they, as well as the giant corporations, should have credit and capital facilities. And, with Justice Douglas, I feel that, as a general rule, the fountain head of capital and credit for most local and regional industries should, as far as possible, be in the locality or region where they are located.

Now I know that you have heard a great deal of talk about how the SEC interferes with small business, and you may wonder how I, as a member of what is said to be such an obstructionist agency, can consistently express sympathy with the needs of small and medium size business. The answer is a simple one: By and large, the SEC has practically no effect on small business. That it has is a popular misconception. The fact is that, out of the million or more businesses in this country, the SEC has in its entire life come in contact with probably no more than a few thousand. By and large, we affect only those who want to sell their securities to the public.

Naturally, I think you here in this audience know that those are not small businesses. They are medium sized businesses. As you know, issues under \$100,000 are exempt from the SEC requirements. And a one-hundred thousand dollar issue is a small issue only from the standpoint of a big company. From the standpoint of the very great majority of businesses in America, such an issue is a big issue. I assume that most of you are representatives of small and medium sized business and I am sure that few of your companies have much more than \$100,000 of stock or bonds outstanding in the hands of the public.

But very likely there are many of you who have felt that your capital credit facilities were not what they should be. You have felt that it is much too hard to obtain the money you need for the legitimate expansion of your business - even when you have orders on the book which would justify an expansion. That, at least, has been the problem of thousands of businessmen all over the country. And there is no possible question that it is a very serious problem, not only for the particular businessman, but for the country as a whole.

We have stories of retailers and small manufacturers who could not obtain bank loans without pledging as collateral so much of their inventory to conduct business became virtually impossible. We have stories of businessmen who have had to go to the commercial loan companies or to factors or even in some cases to actual usurers to obtain vitally necessary capital at interest rates so large as to be literally staggering. We have other stories of businessmen whose crying need was for partners to invest equity capital and who could find only creditors who piled the mass debt so high that the shadow of bankruptcy was often visible around the corner. I am not to be understood as blaming all those who make such loans for the harsh terms they may exact; for, frequently, the nature of such loans, by ordinary lenders, justifies such terms.

There are two distinct problems involved: The first has to do with relatively small loans for working capital. The second has to do with funds to be used for plant expansion. It is with the latter, because of my SEC experience that I am primarily concerned.

As I have said on many occasions, I am in favor of seeing a great deal of equity money and a great deal less debt money go into business, especially where funds are needed for plant expansion. There is very little elasticity in debt. Interest charges are fixed, regardless of economic conditions. American business is a growing, changing, thing. But an excessive amount of interest charges, on funds used for capital expansion, is a static condition.

The two are, to my mind, often incompatible. Let me give you a word picture of what I mean. On the one hand you have a spirited horse (American style) - rarin' to go. On the other, you have a huge stake in the ground - representing debt created in the past. Tying the horse that wants to go forward to the stake which holds him to the past, you have the stoutest of fixed interest charges on the debt. On the other hand, to carry my picture further, if you release the horse and give him an able rider in the form of a partner with equity money, he will really go places.

It is significant that, for many years since the last world war, an increasing number of our giant industrial corporations in our prosperous manufacturing industries have issued few, if any, bonds, but instead, have done their financing largely through stock.

The following editorial in the Wall Street Journal, for February 5, is apposite: "A news article in a recent issue of The Wall Street Journal recorded the fact that many corporations are now applying cash in lieu of immediate working capital requirements to the reduction of debt, the payment of preferred stock or reduction of arrearages in cumulative dividends on senior issues. Better net earnings of the latter part of 1939 have created these processes and it is anticipated that good earnings of the next quarter will carry further this work of simplifying and improving the capital structures of a considerable number of corporations. Reduction of mortgage or floating debt obviously fortifies any unit of business

enterprise, both for the performance of its economic functions and for the compensation of those who have committed their investment funds to the use of its management. Retirement of preferred shares and reduction of accumulated unpaid dividends are measures of a somewhat different order but still they help materially toward a stronger capital structure, one better adapted to meet contingencies either of suddenly expanding operations and the borrowing that may entail or of contracting business volume and resulting smaller earnings.

"It was noted in the article referred to that these applications of earned income will in many instances bring nearer the time when dividends on common stock may be resumed or begun. That means more than merely the pecuniary benefit of common stockholders. A large corporation of which the common shares are so remote from dividend possibilities as to be little more than trading chips is far from an ideal set-up from any point of view, whereas a corporation able to pay common dividends not only enlists the active interest and support of all its security holders but also, under favorable general conditions, may obtain needed capital for expansion without incurring the potential disadvantage of fixed interest charges."

Once that would have been considered heresy; once it was thought that it was always good business for a corporation to issue an immense amount of bonds at low interest rates to procure money which the corporation could employ to earn a much larger rate of return for the stockholders. That kind of margin trading was once considered invariably wise.

But many of those who manage many of our prosperous big companies no longer adhere to that business doctrine. And, if it has proved unsound with reference to many big businesses, surely it is even more unsound for a small or medium sized business, which frequently has less capacity to stand up under the impact of a business slump at a time when it has a large amount of interest to pay or a large amount of debt principal to refinance. A proportionately large amount of bonded debt for big business, and even more for small business, is a constricting thing. It produces lack of elasticity, the inability to adjust to bad business weather.

Since much big business has found it wise and possible to avoid the restriction resulting from a large proportion of bonded debt, every effort should be made to make the same possible for small business. And that means that there must be more equity financing of the small, promising business enterprises.

A large proportion of financing by such enterprises through bonds involves dangers to the investors in those bonds and to the owners of the stocks in those enterprises. The chief danger is that, if, because of a default in interest payments or the arrival of the maturity date, the bonds come due in a period of recession, bankruptcy or reorganization is precipitated; and bankruptcy or reorganization is, generally, harmful to all investors.

More and more that fact is coming to be recognized. In October 1938, a committee consisting of some of our leading conservative bankers, insurance company executives, and other business men, publicized such views in an important book called "Debts and Recovery." I earnestly recommend that you read it.*

* You will find that theme expanded in a speech of mine, *Too Much Interest in Interest*, which I made on September 22, 1938. See also my book, *Save America First* (1938) pp. 385-386.

To avoid any possible misunderstanding, let me say, parenthetically, that my preference for increased equity financing is personal and must not and does not affect my conduct in helping to administer the statutes which the SEC enforces. Under the Public Utilities Holding Company Act of 1935, the question of lawful financing of gas and electric utilities companies does come before us, frequently. But there we must make our decisions in accordance with the standards set forth by Congress in that particular Act, and the application of those standards does not authorize us to disapprove of bond financing of such utility companies, if it conforms to those statutory standards. In other words, if the management of a utility company elects to issue bonds, we have the power and duty to interfere with its judgment only to the limited extent that its judgment flies in the face of these statutory standards; on a few occasions, we have been required to hold that a proposed utility bond issue was excessive and violative of that Act; our position, in such cases, was substantially the same as that of the Interstate Commerce Commission which, under somewhat similar provisions of the Transportation Act of 1920, has, not infrequently, over the past twenty years, refused railroad companies permission to issue an excessive amount of bonds in violation of the standards of that Act. But, except for cases, relating solely to bond issues of utility companies within our jurisdiction under the 1935 Act, the SEC has no power whatever to pass upon the amount of bonds a corporation may issue. Accordingly, when I express a preference for increased equity financing I am merely stating my personal non-official attitude. That is, however, an attitude based upon a study of a very large number of cases involving insolvent corporations which have gone into bankruptcy. For, under the Chandler Act, the SEC makes advisory reports to the courts in connection with reorganizations of bankrupt corporations; and, in connection with such reports, we learn much about the disastrous consequences of excessive bond financing.

I know the problem of equity financing for the prosperous small or medium sized business is not simple of solution. But I believe the solution must, in considerable part, be regional. And I believe that communities like Cleveland, with its great financial, industrial and human resources, can solve it. I would like to relate to you one suggestion which I have made on several occasions. It pertains to the establishment of something which, for lack of a better name, might be called regional industrial capital institutions.

You are probably thinking, at once, in terms of further government control over business. If that worries you, let me say that it also worries me. If I felt that what I have proposed could not be worked out without giving the government ownership or control - either direct or indirect - of American business, I would be opposed to it myself. The institutions which I propose might require some financial support from the government. That would depend upon how much support could be obtained in the community. Under no circumstance, would the government contribution be made in such a way that the government might eventually take over any businesses which the institution might have aided. But I am getting ahead of myself.

In short, I know from my experience on the SEC that there is no way in which most small business enterprises can raise capital in amounts from \$50,000 up to even \$1,000,000, unless they have some special connection with an underwriter. Most individual underwriters are not equipped to handle security issues of this size except at an excessive cost to the issuer. This

is not a criticism of the spirit or motives of the underwriter, but it is a frank analysis of their capacities. Our figures show that for small issues of common stock registered with the SEC, the underwriting charges alone run to nearly 20 per cent of the issue. When the cost runs that high, even I, with my predilection for equity financing, must acknowledge that debt financing is unavoidable, no matter how unfortunate that may be.

I do not deny that it costs the underwriter a great deal to market securities of little known enterprises and that his risks may be high. I am not, therefore, blaming him for charging a large price for his services.

But I feel that money which costs that much is too expensive for most small American business. And for that matter, the underwriting charges for small bond issues and small preferred stock issues are also so very much larger than for big business that little and medium sized businesses are placed at a terrific competitive handicap in their race for their proper share of the nation's business.

So I have proposed the creation of these regional institutions. The plan has not been worked out as to detail, but roughly it is as follows: In each of the Federal Reserve Districts, a financial institution would be set up, with the common stock owned by private persons in the district. In order to stimulate private investment in the stock of these institutions, the government would invest in their preferred stocks, carefully safeguarded so as to have little if any voting power. But, the privately owned common stock would control the institution and elect the officers and directors. Each institution would, in turn, buy the stocks of deserving and growing local business enterprises, in good financial condition, which needed money for capital expansion. Generally speaking, the institutions would not make loans. They would supply equity capital instead of debt.

In other words, each of those institutions would be a sort of speculative finance company or investment trust. I want to emphasize that I believe they should not be eleemosynary institutions. They should be run for a profit. We all know that there are hundreds of persons in every community who think they ought to get capital for everything from making gasoline out of salt water to operating a rocket service to Mars. But we also know that there are plenty of good promising businesses which, with a little additional capital, can prosper. And you business men in the community know those situations better than anybody else. That is the principal reason why I believe so firmly in localized control of the proposed financing companies. An investment committee made up of local business men can judge better than anybody else which are the deserving situations and which are not. They can also judge the likelihood of success of a given venture in their particular community. They can know, for example, that a giant market might succeed in one neighborhood because of competitive conditions, while it would have very little chance in another. Those are judgments that cannot, nearly as well, be made from a distance.

Those regional finance companies, as I envision them, would not merely themselves invest in the securities of prosperous small business enterprises, deserving the opportunity to expand, but would also, in appropriate circumstances, participate with underwriters in the distribution of the securities of such businesses.

Naturally, it would be too much to expect that all the investments of the finance companies would succeed. Some, of course, would not. But I believe that, with a wise selection, most of them would. And I believe that, from time to time, it would be often found that some expert management advice, such as could be supplied by the institution, would pull a business, in which it had invested, into the black when it had gone into the red.

That at least has been the experience of private groups which, on their own initiative, have attempted that kind of project on a small scale. Not long ago, I was talking to a man in New York who does almost exactly what I believe these institutions could do. He takes a stock interest in a small business which appears promising at a price agreed upon as fair. He then sends one of his own men out to study the business and give management advice for as long as may be necessary - a month or six months. He supplies that management service at no charge. His only profit comes from an improvement in the value of his stock through an improvement in the affairs of the company. He tells me that, of course, he turns away a great many unworthy applications; but he also has to turn away many very promising situations. He is an enthusiastic supporter of the regional finance company idea. He says, incidentally, that he has put none of his money into enterprises in New York City -- all in small business on Long Island, New Jersey, Connecticut, etc.

As a matter of fact, the investment trust bill now before the Senate makes provision for this type of company -- frankly speculative -- frankly for special situations. I believe that finance companies of this nature will aid materially in filling the gap, but I doubt whether such companies, managed from New York, can get down into the local situations. By and large, I think they will have to place their funds with companies a little larger than those I have in mind. But size is no measure of potentiality. A small business venture, in many industries, has relatively as much chance of success as a large one. I would be worried about America if I did not believe that. And I think it requires a knowledge of local conditions adequately to know the prospects of the local industry.

There are two things I want to say about my proposal. First, I do not regard it as a panacea; I am not a perfectionist and therefore do not believe in panaceas. I merely regard it as a step in the direction of filling the gap in our underwriting machinery which presently makes it too difficult for small and medium sized companies to obtain capital. Second, I do not suggest it as an alternative to, but rather as supplemental to, the plans sponsored by Senator Mead of New York, which would provide governmentally aided credit facilities for small business.

I want, once more, because it is so important, to stress the desirability of regionalization. Greater regional autonomy is important because, I repeat, in many areas, local needs are best known to those in the locality. Regionalization, as to security issues for capital expansion, seems to me to be of very considerable importance. For not only is there need, in general, for assistance to the growing small business enterprise, but there is specific need for stimulating business activities in the several regions of our country where today there is too little such activity.

Now if I am correct in thinking that there are internal frontiers which call for development, then it seems to me that it follows, that, insofar as such internal frontiers are to be opened up through financial assistance to business enterprise, it is necessary that there be localized or regional finance companies for that purpose, so that the regional possibilities will be studied by those who are interested in and sensitive to them. Centralization of all such financial institutions in any one city is likely to foster insensitivity to local potentialities almost to the same extent as now exists as the result of excessive centralization of investment banking in New York. The urge for regional development must come from, and will receive its most intelligent encouragement in, the several regions.

What I have been discussing is, of course, part of the larger problem of stimulating an increase of the flow of savings into capital expansion, in order to add to employment and to our national prosperity. In connection with that entire problem it is well worth considering whether some form of tax exemption should not be given to those who make investments that augment capital expansion which would not otherwise occur. That is a large topic and I can do no more here than suggest it for consideration.

And while I am talking of tax laws it may be well to refer to another pertinent problem: One deterrent to equity financing is to be found in provisions of the income tax law which permit the deduction of bond interest (as distinguished from dividends) from gross income in determining taxable net income. There would seem to be a need for considering some revision of that provision of the Revenue Act so as to stimulate equity financing; that is a problem not too easy to solve and I shall not attempt to work out a solution of it here.

I have said that the government could stimulate interest in the regional industrial capital companies by subscribing to their preferred stocks. It is by no means certain that such governmental participation will in all cases be needed. There is no reason under the sun why a group of Cleveland men should not get together and do the job themselves -- form a corporation to be known as Cleveland Enterprises, Inc., or Cleveland Industries, Inc. If you did, I believe it would succeed. I believe it would also increase the prosperity of Cleveland and reveal again the private initiative that has made Cleveland the great city that it is. And I would like it better if done entirely by private funds than if with government participation. I am not urging it on you, because it is not my business to do that. But I would be happy to discuss the idea with any of you to whom it appeals.



"In proportion as the structure of a government gives force to public opinion, it is essential that public opinion should be enlightened"
 GEORGE WASHINGTON

The United
 Title Rec.



MONEY FOR JOBS

BY DAVID LAWRENCE

Perhaps the most significant bit of news relating to the creation of more jobs for the unemployed came last week in the address which Jerome Frank, chairman of the Securities and Exchange Commission, made in Cleveland urging that equity capital be made available for small businesses in America.

Mr. Frank suggests that regional corporations be established with or without government aid, but the control to be in private hands. He points to the difficulties which small businesses now have in getting new capital. It is refreshing to learn that this subject has not been side-tracked by the Administration. It goes to the heart of our economic difficulties.

For unless small businesses are able to get capital, all the trade and business of the United States will drift into the hands of larger and larger units. The big companies already have adequate surpluses but the small businesses which must keep alive the system of free competition are handicapped.

Legislation designed to furnish credits to small businesses was opposed in the last session of Congress by commercial banks. The latter have steadfastly refused to permit commercial deposits to be used for such purposes and have argued that short term credit was ample and that long term financing should really be done through common stock instead of bonds.

EQUITY FINANCING PROBLEM IS NOT A NEW ONE Chairman Frank takes the same view. He believes it is a problem for equity financing and in adjacent columns we present excerpts from his address. In passing it may be noted, however, that this problem has been before us for many years. As early as August 28, 1933 we said in an editorial in *The United States News* that a system of regional credit corporations was a vital necessity. We outlined at that time a plan for an intermediate credit system for American business and while the essence of that proposal was the sale of long term debentures through regional corporations with the Reconstruction Finance Corporation ready to make a market for such debentures as it has done with Federal Housing Authority mortgage loans, the plan suggested by Mr. Frank turns wholly on the use of common stock with the RFC as an owner of junior securities or preferred stocks.

But we should not overlook the fact that equity capital is scarce even for small business because

many New Deal laws have made it difficult for small businesses to make a profit. The payroll taxes, for example, take a disproportionate toll out of the gross income of small companies. Why should a business that loses \$25,000 a year pay out of its capital an additional \$15,000 for payroll taxes?

"UNDERWRITING COSTS AND RISKS HIGH"

Any tax which is so wholly unrelated to capacity to pay and to profits as the payroll tax is a vicious deterrent and should be

removed. There are other deterrents. Rigid and blanket arrangements imposed by the Wage and Hour Law have unquestionably hurt small businesses.

We need, therefore, to re-examine the opportunity of small businesses in America if the free enterprise system is to be maintained. It is encouraging that Mr. Frank has portrayed so candidly the plight of small businesses needing capital. He is to be commended for drawing attention to this weakness in our economic structure. Excerpts from Mr. Frank's speech follow:

"Since much big business has found it wise and possible to avoid the constriction resulting from a large proportion of bonded debt, every effort should be made to make the same possible for small business. And that means that there must be more equity financing of the small, promising business enterprises. . . .

"I know the problem of equity financing for the prosperous small or medium-sized business is not simple of solution. But I believe the solution must, in considerable part, be regional. I believe that communities like Cleveland, with its great financial, industrial and human resources, can solve it. I would like to relate to you one suggestion. It pertains to the establishment of something which, for lack of a better name, might be called Regional Industrial Capital Institutions.

"You are probably thinking, at once, in terms of further government control over business. If that worries you, let me say that it also worries me. If I felt that what I have proposed could not be worked out without giving the Government ownership or control—either direct or indirect—of American business, I would be opposed to it myself. The institutions which I propose might require some financial support from the Government. That would depend upon how much support could be obtained in the community.



Jerome Frank, chairman of SEC, makes a significant suggestion that regional industrial capital institutions be established with Government help but private control—needs of small businesses for equity capital are stressed.



Under no circumstance would the government contribution be made in such a way that the Government might eventually take over any business which the institution might have aided. But I am getting ahead of myself.

"I know from my experience on the SEC that there is no way in which most small business enterprises can raise capital in amounts from \$50,000 up to even \$1,000,000 unless they have some special connection with an underwriter. Most individual underwriters are not equipped to handle security issues of this size, except at an excessive cost to the issuer. This is not a criticism of the spirit or motives of the underwriter, but it is a frank analysis of their capacities. Our figures show that for small issues of common stock registered with the SEC, the underwriting charges alone run to nearly 20 per cent of the issue. When the cost runs that high, even I, with my predilection for equity financing, must acknowledge that debt financing is unavoidable, no matter how unfortunate that may be.

"I do not deny that it costs the underwriter a great deal to market securities of little known enterprises and that his risks may be high. I am not, therefore, blaming him for charging a large price for his services.

"But I feel that money which costs that much is too expensive for most American business. And for that matter, the underwriting charges for small bond issues and small preferred stock issues are also so very much larger than for big business that little and medium sized businesses are placed at a terrific competitive handicap in their race for their proper share of the nation's business.

PLAN BASED ON PURCHASE OF COMMON STOCKS "So I have proposed the creation of these regional institutions. The plan has not been worked out as to detail, but

roughly it is as follows: in each of the Federal Reserve districts a financial institution would be set up, with the common stock owned by private persons in the district. In order to stimulate private investment in the stock of these institutions, the Government would invest in their preferred stocks, carefully safeguarded so as to have little if any voting power. But the privately owned common stock would control the institution and elect the officers and directors. Each institution would in turn buy the stocks of de-

serving and growing local business enterprises, in good financial condition, which needed money for capital expansion. Generally speaking, the institutions would not make loans. They would supply equity capital instead of debt.

"INVESTMENTS WOULD NOT ALL BE SUCCESSFUL" "In other words, each of those institutions would be a sort of speculative finance company or investment trust. I want to emphasize that I believe they should not be eleemosynary institutions. They should be run for a profit.

We all know that there are hundreds of persons in every community who think they ought to get capital for everything from making gasoline out of salt water to operating a rocket service to Mars. But we also know that there are plenty of good promising businesses which, with a little additional capital, can prosper. And you business men in the community know those situations better than anybody else. That is the principal reason why I believe so firmly in localized control of the proposed financing companies.

"An investment committee made up of local business men can judge better than anybody else which are the deserving situations and which are not. They can also judge the likelihood of success of a given venture in their particular community. They can know, for example, that a giant market might succeed in one neighborhood because of competitive conditions, while it would have very little chance in another. Those are judgments that cannot, nearly as well, be made from a distance.

"Those regional finance companies, as I envision them, would not merely themselves invest in the securities of prosperous small business enterprises deserving the opportunity to expand, but would also, in appropriate circumstances, participate with underwriters in the distribution of the securities of such businesses.

"Naturally, it would be too much to expect that all the investments of the finance companies would succeed. Some, of course, would not. But I believe that, with a wise selection, most of them would. And I believe that, from time to time, it would be often found that some expert management advice, such as could be supplied by the institution, would pull a business in which it had invested into the black when it had gone into the red."

PSF: Currie

THE WHITE HOUSE
WASHINGTON

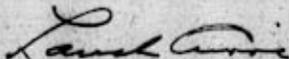
May 11, 1940

MEMORANDUM FOR THE PRESIDENT:

Re: War in Relation to Fiscal Problems

I am listing briefly some fiscal problems that you may want to consider in connection with the intensification of war and possibly increased national defense expenditures.

1. Taxation. I would remind you that we have on hand a good excess profits plan prepared by Randolph Paul which could be quickly drafted.
2. Gold Profit.
3. Debt Limit. I have an informal opinion from the A. G. that for the purpose of the statutory debt limit, savings bonds are being currently carried around \$300 million too high.
4. Allied Resources. A study of ways and means of mobilizing in this country Allied resources in other countries?
5. Tax Collections. Suggestion of increasing collections through more personnel.


Lauchlin Currie

CHAPTER I - COUNCIL OF NATIONAL DEFENSE

Section 1. Creation, purpose, and composition of council. A council of National Defense is hereby established, for the coordination of industries and resources for the national security and welfare, to consist of the Secretary of War, the Secretary of the Navy, the Secretary of the Interior, the Secretary of Agriculture, the Secretary of Commerce, and the Secretary of Labor. (Aug. 29, 1916, c. 418, par. 2, 39 Stat. 649).

Par. 2. Advisory commission. The council of National Defense shall nominate to the President, and the President shall appoint, an advisory commission, consisting of not more than seven persons, each of whom shall have special knowledge of some industry, public utility, or the development of some natural resource, or be otherwise specially qualified, in the opinion of the council, for the performance of the duties hereinafter provided. The members of the advisory commission shall serve without compensation, but shall be allowed actual expenses of travel and subsistence when attending meetings of the commission or engaged in investigations pertaining to its activities. The advisory commission shall hold such meetings as shall be called by the council or be provided by the rules and regulations adopted by the council for the conduct of its work. (Aug. 29, 1916, c. 418, par. 2, 39 Stat. 649).

Par. 3. Duties of council. It shall be the duty of the Council of National Defense to supervise and direct investigations and make recommendations to the President and the heads of executive departments as to the location of railroads with reference to the frontier of the United States so as to render possible expeditious concentration of troops and supplies to points of defense; the coordination of military, industrial, and commercial purposes in the location of branch lines of railroad; the utilization of waterways; the mobilization of military and naval resources for defense; the increase of domestic production of articles and materials essential to the support of armies and of the people during the interruption of foreign commerce; the development of seagoing transportation; data as to amounts, location, method and means of production, and availability of military supplies; the giving of information to producers and manufacturers as to the class of supplies needed by the military and other services of the Government, the requirements relating thereto, and the creation of relations which will render possible in time of need the immediate concentration and utilization of the resources of the Nation. (Aug. 29, 1916, c. 418, par. 2, 39 Stat. 649; Nov. 9, 1921, c. 119, par. 3, 42 Stat. 212).

Par. 4. Rules and regulations; subordinate bodies and committees. The council of National Defense shall adopt rules and regulations for the conduct of its work, which rules and regulations shall be subject to the approval of the President, and shall provide for the work of the advisory commission to the end that the special knowledge of such commission may be developed by suitable investigation, research, and inquiry and made available in conference and report for the use of the council; and the council may organize subordinate bodies for its assistance in special investigations, either by the employment of experts or by the creation of

AT Council

*... member of Council of May 13, 1942
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committees of specially qualified persons to serve without compensation, but to direct the investigations of experts so employed. (Aug. 29, 1916, c. 418, par. 2, 39 Stat. 650).

Par. 5. Reports of activities and expenditures. Reports shall be submitted by all subordinate bodies and by the advisory commission to the council, and from time to time the council shall report to the President or to the heads of executive departments upon special inquiries or subjects appropriate thereto, and an annual report to the Congress shall be submitted through the President, including as full a statement of the activities of the council and the agencies subordinate to it as is consistent with the public interest, including an itemized account of the expenditures made by the council or authorized by it, in as full detail as the public interest will permit; Provided, however, That when deemed proper the President may authorize, in amounts stipulated by him, unvouchered expenditures and report the gross sums so authorized not itemized. (Aug. 29, 1916, c. 418, par. 2, 39 Stat. 650).

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THE WHITE HOUSE
WASHINGTON

PSF
Currie

May 17, 1940.

MEMORANDUM FOR THE PRESIDENT:

Re: Maritime Unemployment Insurance and the Railroads.

After the railroad presidents refused to go along with our proposal, those railroad labor executives whom I had not seen got cold feet, since they were afraid (they said) that the managements would tell the men their leaders had sold them out in this instance. I accordingly met with about twenty of them the other night and got them to pass a formal motion to the effect that they would not oppose the reciprocal borrowing feature provided the preamble of the bill showed Congressional intent that this was a temporary plan and that when experience accumulates and permanent financing is decided upon an outstanding obligations of the Maritime Fund would be paid off.

I did this without bargaining or making any commitment. However, the unions and the AAR are at odds on increasing the railroad unemployment insurance benefits. The AAR is endeavoring to have its bill, which provides for very little increase in benefits, sponsored by Lea, who, of course, is Chairman of the Committee. The unions feel that the Chairman should not sponsor the AAR's bill in opposition to their own bill. They claim, moreover, that Lea is holding up hearings on their bill. They have appealed to me. I told them that it is doubtful whether I can help them. However, I should be glad, if you wish, to let Lea know that his sponsorship of the AAR bill will not be permitted to be interpreted as Administrative sponsorship.

I feel that I have established excellent relations with railroad labor and if you think you could go this far, it would help greatly to cement them.

Lauchlin Currie
Lauchlin Currie

*PSF. discussed
Currie*

THE WHITE HOUSE
WASHINGTON

May 21, 1940.

MEMORANDUM FOR THE PRESIDENT:

Re: Rural Rehabilitation Loans and the R.F.C.

On February 13 you told me that a shift of the rural rehabilitation loan program from the Budget to R.F.C. was not contrary to your wishes, if it could be arranged with Jesse Jones. An arrangement was amicably worked out at my suggestion between Jones and the F.S.A. I informed the Budget Bureau to this effect. Yesterday morning Jones offered the amendment. He called me last night and again this morning saying that the Budget Bureau had objected to the amendment as being contrary to your program. I have been unable to get in touch with Smith. Jones says he will have to withdraw his amendment unless the Budget Bureau's objections are withdrawn.

Would you care to sign the attached note to the Bureau clearing the matter and authorize me to tell Jones to leave his amendment as offered?

Lauchlin Currie

Lauchlin Currie