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CJ

PLAIN

LONDON

Dated July 18, 1939

Rec'd 2:48 p.m.

Secretary of State,
Washington.

1021, July 18, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

1. In reply to a question in the House of Commons today asking if he could give an estimate of the present value of holdings in the United Kingdom of foreign securities for which a free market exists in the United States the Chancellor of the Exchequer stated that the matter was one to which close and constant attention is being given but that he did not think it desirable to publish official estimates.

2. More optimistic views concerning the Danzig situation caused stock prices to be generally up today though gilt-edged securities were affected by the announcement of the forthcoming issue of a Sudan Government $3\frac{1}{4}$ per cent loan amounting to £2 million which will be issued at 97 and redeemable in 1954-59. British war loan closed however $1\frac{1}{16}$ up on the day at 92 $\frac{3}{16}$.

3. The foreign exchange market was also influenced by

the

-2- #1021, July 18, 6 p.m., from London

the more optimistic feeling and sterling was bid. British fund intervened by stages buying dollars it is believed in fairly substantial amounts from time to time first at 4.68 5/16 and later at 7/16. Nevertheless British fund gave 53 bars of gold at fixing when 115 were dealt in 8 of which were married. The market was pro-rated at 75 per cent of requirements, price being 148s.5 1/2d representing a 1/2d premium at 4.68 11/32.

On sales of dollars and gold buying in Amsterdam guilder was strongly bid the rate moving from 8.78 to 6.74.

4. Silver was steady today price being unchanged. Sales from the United States were reported and Indian bear covering kept the market steady on a fairly small turnover.

KENNEDY

HPD

Mr. Luskhead
MA 3

FEDERAL RESERVE BANK
 OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 18, 1939

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM J. W. McKeon

BANK OF ENGLAND

At 10:50 am today I telephoned Mr. Bolton at the Bank of England. Continental exchanges had firmed up against the dollar in London, and I was interested in obtaining his views. Bolton said nothing very much had happened. Probably the reasons were the rumors that Germany and Poland would come to a private arrangement over Danzig and that, therefore, the fear of war would abate for some time. Although dollars on the surface appeared weak, the actual turnover was very small. Up to the time of our conversation he had purchased only about \$2,000,000. He further stated that he was very anxious not to disturb the upward tendency of the pound; he wanted to give sterling a chance to work higher against the dollar. However he was not prepared to give me any idea as to how much higher he wanted sterling to go. He asked about our stock market, and I told him that there had been a strong opening, sizeable lots being traded in. I also said that there had been substantial improvement in business here during June, and there was some evidence of its continuing during July. Bolton said that there was no London buying of our stocks as far as he knew. Bolton emphasized the fact that inasmuch as the Poland-Germany rumors about Danzig had emanated from Berlin, he was very skeptical.

JWCK:BOC

RECEIVED

JUL 19 1939

RECEIVED BY MAIL
 JUL 19 1939

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: July 18, 1939, 7 p.m.

NO.: 1327

FOR THE TREASURY DEPARTMENT.

The exchange and security markets were cheered and stimulated today by press reports of a German plan for a peaceable solution of the Danzig problem. Moderate offers of dollars resulted, which the fund absorbed for the most part. Continued strength was shown by the florin on the belief that it is only a matter of hours until Colijn constitutes his Government. Fractional gains in rentes, with gains of from two to three percent in variable revenue securities.

There is no comment in the French financial press on today's FINANCIAL NEWS' trial balloon on abandonment of the immediate gold conversion basis of the tripartite agreement.

According to Rueff, subscriptions to armament bonds continue in satisfactory amounts.

BULLITT.

EA:LWW

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

7-18-39

Confidential

TO Secretary Morgenthau

FROM E. H. Foley, Jr.

For your information -

I am attaching a memorandum which Mr. Lawrence Morris and Mr. C. O. Donahue dictated after they talked with Arthur Garfield Hays about the action Rudolf Hecht was bringing against the UNIVERSAL TRADING CORPORATION.

Morris and Donahue think there is no substantial doubt that the case may be successfully defended with the cooperation and support of Treasury and other government officials. They are bringing the matter to your attention at the present time because of possible unfriendly publicity which may arise from the case should the plaintiffs bring the action on for trial.

Chen has been advised under no circumstances should he settle out of loan funds from the Export-Import Bank. Warren Pearson of the Export-Import Bank, and Claude Hamilton of the RFC have been furnished with copies of Hecht's complaint, but they have not been given copies of the attached memorandum nor have they been advised of the possible embarrassing implications.

No claim has been made that Chen, Ren, or Hsi had any dealings with Hecht, Munds or their associates.

Munds and Hecht have brought an action against General Motors and Chrysler and a salesman by the name of Baxter to recover commissions alleged to be due them arising from the sale of motor trucks to the UNIVERSAL TRADING CORPORATION. Baxter is being represented by Martin J. Bonboy; Chrysler by

- 2 -

Larkin, Rathbone and Perry; and General Motors by John T. Smith. Morris and Donahue have conferred at length with counsel representing the motor interests who are not disposed to make any offer of settlement.

After you have an opportunity to read the attached memorandum, I should like to discuss the case with you.

E. W. F. H.

Attachment

Memorandum re conference between Mr. Arthur Garfield Hays, Mr. Jerome I. Ziegler, Mr. Morris and Mr. Donahue on March 13, 1939 at office of Hawkins, Delafield & Longfellow.

This summary of what took place at the above mentioned conference was dictated immediately after the conference and is based on the recollection of Mr. Morris and Mr. Donahue.

Mr. Hays started the conference by producing copies of three memoranda which he stated had been prepared by Rudolf Hecht. These were apparently exhibited to show the extent of Hecht's activities in connection with his alleged attempt to obtain a loan for the benefit of China. The first of these was dated about February 2, 1938. Mr. Hays stated that Hecht commenced working on the loan early in 1938. This memorandum, which both Mr. Morris and Mr. Donahue glanced at but did not read carefully, seemed to deal with a proposed loan from the Manufacturers Trust Company and referred, among other things, to conferences with Mr. Harvey Gibson, president of the Manufacturers. The second memorandum was dated about March 8th or 9th and the third was dated some weeks later. All of these memoranda refer to negotiations with the Manufacturers Trust Company and in one or more of them reference was made to conferences with Mr. Kuhn, head of its foreign department, and a Mr. Johnson, one of its vice-presidents. The names of various other persons were also mentioned in these memoranda. Mr. Morris and Mr. Donahue did not have an opportunity carefully to examine these memoranda (or the other documents produced by Mr. Hays and hereinafter referred to) and for obvious reasons did not think it desirable to

make any notes during the conference. Mr. Morris asked Mr. Hays if he would leave copies of the memoranda with us. Mr. Hays stated that while he was willing to show any of his papers to us he did not wish to leave any copies.

Mr. Hays stated that sometime in April, 1938 Mr. Harvey Gibson, he believed, had made the suggestion to Hecht that an effort should be made to reinstate the unused portion of the Chinese wheat-cotton loan of 1933 and that this idea was adopted by Hecht. Mr. Hays said that he and Hecht then began to enlist the aid of various prominent persons for the purpose of bringing about the reinstatement of the balance of this loan. The first person whose aid was obtained was Louis de L'Aigle Munds with whom was associated a Mr. Friedman. Mr. Hays said that Mr. Munds, with the aid of Mr. Friedman, secured the aid of Mr. Basil O'Connor who in turn spoke to the President and also the aid of Mr. Fred Fisher who spoke to Mr. Jesse Jones. Mr. Fisher is supposed to have been interested because of the possibility of the purchase of automobiles. Mr. Hays said that he himself obtained the assistance of Ambassador Bullitt who, he stated, was a close friend and former client of his. Mr. Frank Murphy, then Governor of Michigan, was also interested either by Mr. Hays or Mr. Munds. Mr. Murphy was supposed to have lent his aid also because of the possibility of the purchase of automobiles. Mr. Hays also said that Mr. Bernard Baruch had been interested in the matter but was not clear as to whether his assistance was obtained by Mr. Munds or Mr. Hays or by one of the other persons whom they had interested in the matter. Mr. Hays used the term "wire pulling" to describe the activities of his group during the Spring and Summer of 1938. The picture which he seemed to be painting showed Hecht in

the background acting as the master mind with Mr. Hays and Mr. Munds operating openly in conferring with the prominent persons who were supposed to have influence with the administration. While Mr. Hays did not expressly say so, the implication was that the group was aware of Hecht's disqualifications in dealing directly with either government officials or people of the type mentioned. The only prominent person with whom Hecht was said to have been in direct contact, other than Dr. Wang, was Mr. Harvey Gibson, President of the Manufacturers Trust Company. Mr. Ziegler's principal part seems to have been to bring Mr. Hays and Hecht together.

Mr. Hays said that Hecht, Mr. Ziegler and he worked constantly to secure a loan all through the Spring and Summer of 1938. He said that they had been in constant communication with Ambassador Wang and W. Carl Richards of Cumberland, Maryland, and had had numerous conferences at the Hotel Ambassador and elsewhere in New York City during that time.

Mr. Hays stated that W. Carl Richards was the official attorney for the Chinese Embassy and was so registered with the State Department.

Mr. Ziegler produced a manuscript copy of a letter, the original of which he said is in Mr. Hays' safe. This letter he said was written about June 2, 1938 by W. Carl Richards to Mr. Hecht at the Hotel Ambassador in New York City in the presence of Dr. Wang and at his direction. The letter states in substance that if the proposed wheat and cotton loan of thirty million dollars is secured for China the Republic of China will pay Mr. Hecht _____

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one million where the blank appears on the copy. The explanation of
this omission by Mr. Ziegler was that at the time the copy was made Mr.
Hecht did not wish to disclose the amount which he had been promised
to any one and had not done so until the pending law suit was begun.

Mr. Hays stated that due to the combined efforts of
Hecht, Munds, Ziegler and himself the President and other important
officials of the United States Government had become very favorably
disposed toward aiding China by the 1st of September; that at a
Cabinet meeting on the 2nd of September, which was the first full
meeting of the Cabinet after the summer vacation, the matter was
taken up and it was unanimously decided that some form of financial
assistance should be given to China. He said that the day following
this Cabinet meeting, Secretary Morgenthau came to New York and told
Dr. Wang of the action that had been taken and immediately thereafter
Dr. Wang, in the presence of Mr. Ziegler, congratulated Hecht on
having secured the loan. At about this time, although possibly prior
to the Cabinet meeting, Mr. Hays said, he got in touch by long dis-
tance telephone with Ambassador Bullitt either while he was on the
Normandie or in Paris or both. Mr. Hays said that as a result of
this conversation, Ambassador Bullitt spoke to Mr. Wellington Koo,
Chinese Ambassador to France, who in turn telephoned Dr. H. H. Kung,
Chinese Financial Minister in China and suggested that a mission be
sent to the United States to close the loan.

Shortly thereafter Dr. Wang ceased to be Ambassador.
He did not leave the United States immediately but stayed in New
York City for some time. Mr. Hays said that during this period Dr. Wang

was furnished with an aide memoire prepared by Mr. Hecht (presumably to be taken back to China to explain the status of the loan). This aide memoire, Mr. Hays said, was prepared with the assistance of Dr. Leonard Hsu, 150 Fifth Avenue. Mr. Hays said that Dr. Hsu is the personal representative of General Chiang Kai-Shek; also that Dr. Hsu was a former professor of economics and that he had been in this country for two or three years for the purpose of obtaining financial assistance for China. The aide memoire which Mr. Morris and Mr. Donahue looked at is divided into two parts. The first part (1) summarizes rather vaguely the efforts which the group claims to have made on behalf of China; (2) refers with surprise and regret to the fact that Dr. Wang was no longer to be Ambassador; (3) states that the sending of a mission is probably a mistake although it is not for the group to question the wisdom of those responsible for sending it. The conclusion reached in the first part of the aide memoire is that it would be a great mistake for anything to be done which might upset the negotiations being carried on by the group; that the negotiations would necessarily be most delicate and that therefore they had best be left in the hands of the group of important men Hecht had interested in the matter.

The second part of the aide memoire consists of a brief summary of the attainments and position in public life and in the business world of the persons supposedly interested by the group on behalf of the loan. These persons include Basil O'Connor, Fred Fisher, Governor Murphy of Michigan, Ambassador Ballitt, Bernard Baruch and Arthur Garfield Hays.

The aide memoire does not say anything about compensation to anyone.

Mr. Hays stated that the persons interested in obtaining some compensation for services in this matter were Hecht, Ziegler, Munda and himself. He stated that both Hecht and Munda would have to compensate other persons who had been associated with them. One of the persons who, he stated, would have to be compensated by Munda was Friedman. He also said that Hecht had borrowed money for the purpose of financing the operation. Mr. Hays stated that so far as he knew, W. Carl Richards was not entitled to any compensation but had been paid for whatever services he had rendered as attorney for the Chinese Ambassador. Mr. Murphy, Mr. Bullitt, Mr. Fisher, Mr. Baruch and Mr. O'Connor, Mr. Hays said, did not expect any compensation, their interest having been purely pro bono publico.

Mr. Hays emphasized strongly what he considered to be the moral side of the claim and by indirection indicated that he was not too happy about its legal status. He stated that of course the case could be settled for a great deal less than a million dollars but that if they were able to sue the Republic of China he would take a very different attitude. He said that he thought the members of the Chinese Financial Mission were very naive if they thought the loan had been granted without a great deal of preparatory work having been done by someone prior to September, 1938 and that he and his associates had worked very hard and in good faith for the best interests of the Chinese Republic and that he thought it would be outrageous if they were denied any compensation therefor. Mr. Hays stressed particularly the fact that he personally, as well as Hecht, Ziegler and Munda, had spent many hours almost daily during

the Spring and Summer of 1938 in working on the matter.

Mr. Hays said he regretted the necessity of bringing suit as it would be a most unpleasant one to try but that if the suit could not be settled it would have to be tried because Hecht was entitled to his day in court. Mr. Hays said he would be glad to arrange an interview with W. Carl Richards if we wished.

Mr. Morris stated in substance that our clients did not know anything about the matters which Mr. Hays had been talking about. He said that we would look into the matter further and let Mr. Hays know if we wanted any further conferences.

Lawrence Morris

COONALUE

JUL 18 1939

Secretary Morgenthau

E. H. Foley, Jr.

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The second part of the aide memoire consists of a brief summary of the attainments and position in public life and in the business world of the persons supposedly interested by the group on behalf of the loan. These persons include Basil O'Connor, Fred Fisher, Governor Murphy of Michigan, Ambassador Bullitt, Bernard Baruch and Arthur Garfield Hays.

The aide memoire does not say anything about compensation to anyone.

Mr. Hays stated that the persons interested in obtaining some compensation for services in this matter were Hecht, Ziegler, Munds and himself. He stated that both Hecht and Munds would have to compensate other persons who had been associated with them. One of the persons who, he stated, would have to be compensated by Munds was Friedman. He also said that Hecht had borrowed money for the purpose of financing the operation. Mr. Hays stated that so far as he knew, W. Carl Richards was not entitled to any compensation but had been paid for whatever services he had rendered as attorney for the Chinese Ambassador. Mr. Murphy, Mr. Bullitt, Mr. Fisher, Mr. Beruch and Mr. O'Connor, Mr. Hays said, did not expect any compensation, their interest having been purely pro bono publico.

Mr. Hays emphasized strongly what he considered to be the moral side of the claim and by indirection indicated that he was not too happy about its legal status. He stated that of course the case could be settled for a great deal less than a million dollars but that if they were able to sue the Republic of China he would take a very different attitude. He said that he thought the members of the Chinese Financial Mission were very naive if they thought the loan had been granted without a great deal of preparatory work having been done by someone prior to September, 1938 and that he and his associates had worked very hard and in good faith for the best interests of the Chinese Republic and that he thought it would be outrageous if they were denied any compensation therefor. Mr. Hays stressed particularly the fact that he personally, as well as Hecht, Ziegler and Munds, had spent many hours almost daily during

the Spring and Summer of 1936 in working on the matter.

Mr. Hays said he regretted the necessity of bringing suit as it would be a most unpleasant one to try but that if the suit could not be settled it would have to be tried because Hecht was entitled to his day in court. Mr. Hays said he would be glad to arrange an interview with W. Carl Richards if we wished.

Mr. Morris stated in substance that our clients did not know anything about the matters which Mr. Hays had been talking about. He said that we would look into the matter further and let Mr. Hays know if we wanted any further conferences.

July 18

Dear Mr Secretary,

Your statement before the Senate Banking and Currency Committee on the Self-Regulating Project Act was excellently phrased and effectively and persuasively put. It struck the jugular vein.

As I read your statement I was struck by the fact that much of your argument in support of this Act would have equal application to the Mead bill which would bring the benefits of low interest rates to productive private enterprise with a minimum risk to the government.

With much appreciation
Yours

Henry Morgenthau

Ben V. Olsen

Sen. Glass looked up the word "catalyst" in the dictionary and may ask what it means:

24

Catalytic process! -

- acceleration of a reaction produced by the presence of a substance which itself remains unchanged, → being

is! - The government acts as the catalytic agent to bring together the idle savings and willing borrowers to the end of increasing business activity.

Statement of Secretary Morgenthau Before the
Senate Committee on Banking and Currency
on S. 2759, July 18, 1939.

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

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

July 18, 1939

My dear John:

I am somewhat slow in replying to your letter of June 23rd, but not, I can assure you, because of any lack of appreciation of the spirit which prompted your letter. You put into words an expression of the loyalty and complete understanding which has been implicit in all of our relations since you came over to the Treasury and which has made our work together a joy also to me.

I think we can both take a great deal of satisfaction in the enactment of the 1939 tax bill, as well as in the other work that we have done together. It is characteristic of you that having accomplished well a most difficult task you thank me for the opportunity of doing it. My own thanks to you are most heartfelt and sincere.

I look forward to our continued happy association in carrying out our very great responsibility here in the Treasury.

As always,

Sincerely yours,

Henry

Secretary of the Treasury.

The Honorable

John W. Kanes

Under Secretary of the Treasury



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

27

June 23, 1939

Dear Henry:

Your tax bill has now passed successfully through both Houses of Congress. One of the major tasks in which we have been so deeply interested since I came to work with you is therefore completed.

Your constructive leadership has been an inspiration to me. I have never been associated with anyone more devoted to the public interest. Your conscientious performance of duty as exemplified in your daily work as Secretary of the Treasury, your courage and unselfishness, have become as apparent to others as they have always been to me.

I realize that I will never be able to properly impress upon you my gratitude for the opportunity of serving as your Under Secretary during this important period.

With warmest regards, believe me,

Faithfully yours,

John W. Haues

The Honorable

Henry Morgenthau, Jr.

Secretary of the Treasury

July 18, 1939
3:08 p.m.

28

Jesse
Jones: Hello, Henry.

HMJr: Jesse.....

J: Yeah.

HMJr: For your information, the President called me at five minutes of two, and I saw by the ticker that Wallace was having lunch with him. He didn't tell me Wallace was there.

J: Yeah.

HMJr: And he said for legal reasons he wanted the name changed on the piece of paper on Commodity Credit.

J: Wanted to do what?

HMJr: Change the name on the Commodity Credit stock certificate. You see?

J: Yeah.

HMJr: And he wanted the directors reduced to five and the R.F.C., Farm Credit and the Treasury should each have one ex officio director.

J: Yeah.

HMJr: So, he said, "What do you think"? So I said, "I told you, Mr. President, what I thought. I understood you wanted me to sit tight until January when you were going to have a Farm Credit agency outside of Agriculture with everything."

J: Yeah.

HMJr: Well, he says, "We do, but this is a legal matter." So I said, "Well," I said, "Mr. President, if you are ordering me to do it the stock is yours. You can do anything that you want with it." "Well, I want it in Wallace's name." I said, "Well, that ends it." But inasmuch as I had an agreement with you to talk to you.....

J: Uh-huh.

HMJr:and inasmuch as I thought I understood the President wanted me to hang onto this thing, and I wrote Wallace to that effect, you know -- I sent you a copy, didn't I?

J: Yeah.

HMJr: So this came out of a clear sky and I've got no choice in the matter.

J: O. K.

HMJr: And I'm just.....

J: He's the boss and the leader.

HMJr: Yeah. And -- but I wanted you to know that I had kept faith with you.

J: Yes. Well, I'm sure of that -- I'm glad you called me up. I don't think it will -- we are -- each of these is going to have an ex officio director.

HMJr: Well, I don't want anything to do with it.

J: Yeah.

HMJr: What -- what good is an ex officio director?

J: Well, the only thing is to keep -- is to know, Henry, what is going on.

HMJr: Yeah. Well, that's what the President said.

J: Well, I think that's highly desirable.

HMJr: Well, if you want one, you're welcome to it. I don't want -- I (laughingly) don't want even an ex officio director.

J: Well, Henry, if I were you I'd take one.

HMJr: You would?

J: Put some of your boys over there and let them go -- boys that know what it's all about.....

HMJr: Yeah.

J:and observe and listen.

HMJr: Well.....

J: I think it's highly desirable, Henry in the -- just in the general cause.

HMJr: Well, I'll take it under consideration.

J: You do that because I -- God knows, I don't want anything to do with it, but I do think it's the interest of the -- the interest of the country, that we know as much about what's going on down there as we possibly can.

HMJr: Well, did I understand you right that the President implied to you that he wanted you to continue to run it.....

J: Well.....

HMJr: ..through your offices?

J:what he wanted was that the R.F.C. continue to handle this -- things in the field as we've always done.

HMJr: That's what I understood.

J: That's right. Not that we would run it here.

HMJr: No, no, I understood that.

J: But that our agencies would continue to serve and handle this business, which we can do.....

HMJr: Yes.

J:with much less expense and more experience and more efficiency.....

HMJr: Yeah.

J:than setting up a new group of county agents to handle these loans.

HMJr: I know. Well, that's what I understood.

J: And if it -- I know that I'm just letting ourselves in for trouble, but I think it's worth it. Everything we do is trouble, you know.

HMJr: Yeah.

J: We'd work together.

HMJr: Well.....

J: How did you get -- well, if I were you I would -- I would assign Dan Bell if I were you.

HMJr: Well, I'll think about it. Just now, the way I feel this afternoon, I don't want anything to do with it.

J: Well, I wouldn't feel badly about it.

HMJr: Yeah.

J: I'd just assign Dan because Dan knows what it's all about and he's got more sense than most people around here, and ~~then~~ he's been here a long time.

HMJr: That's -- there's no question about that.

J: And I think he's just a grand person myself.

HMJr: Yeah.

J: I mean by that, in knowing what ought to be done and how to do it.

HMJr: Yeah.

J: And so I would do that if I were you.

HMJr: O. K.

J: Now, how did you get along this morning?

HMJr: Ah -- O.K.

J: O.K.? That's fine.

HMJr: All right.

J: Well, I tried to clear things up at my press conference yesterday.

HMJr: Yeah, you certainly helped a lot.

J: And I told Steagall -- he called me this morning on when I could come up. I told him I'd come anytime. I think you're going tomorrow, aren't you?

HMJr: I'm going at ten thirty tomorrow.

J: Yeah.

HMJr: They treated me very nicely. They didn't go after me hard.

J: Um-hm. Well, they -- they razed me around a good deal, but then I don't mind that.

HMJr: Well, you can take it!

J: Well, I -- (laughs) -- it's -- it's sort of a dog fight.

HMJr: Yes.

J: O. K. Well, thanks.

HMJr: The mistake that you and I made was we should have gotten Wallace over here and let -- you tell him some of your stories.

J: That's right.

HMJr: Then we'd have gotten him blushing and we could have gotten anything we wanted.

J: That's right.

HMJr: Yeah.

J: Well, all right. Thanks.

HMJr: Goodbye.

J: Goodbye.

CONFIDENTIAL

July 18, 1939
3:13 p.m.

33

HMJr: Hello.

Charles
Edison: Hello. Mr. Secretary?

HMJr: Yes.

E: Charles Edison.

HMJr: Good evening.

E: I just wanted to tell you something. I tried to get you earlier in the day before I did it but the time was getting so short I had to release it.

HMJr: That's all right.

E: Now, we got that letter that they sent over from your shop...

HMJr: Yes.

E: ...which I'm supposed to write to you.

HMJr: Yeah.

E: And I think it's all right and I'm going to send that over to you.

HMJr: Good.

E: And again I want to appreciate the attention you've given this thing.

HMJr: Right.

E: Now - now then, another angle that was - we were working on before we went over to see you was in connection with that legislation that the President had suggested, see?

HMJr: Yeah.

E: Apparently he also took it up with the Budget.

HMJr: Yeah.

E: And they over there prepared some wording that they think is swell.

HMJr: Yes.

E: So - ah - it doesn't exactly suit me but, on the other hand, if - as a last resort that's all right with me, see?

HMJr: Well, are you going to do it both ways now?

E: Ah - yeah.

HMJr: You mean you're going to try to get your legislation through - ah - that the Government should buy these plants.

E: Yes. Then - then - I tell you that puts me in a perfectly swell position to trade with these fellows, you see?

HMJr: I see.

E: And I don't think this legislation is going to go through. That's actually the way I feel about it.

HMJr: Well.....

E: On the other hand it might.

HMJr: Well now, just so I understand, there's nothing more for me to do at the moment?

E: No, not a thing. I just wanted to inform you that I was doing it so you wouldn't hear I was going around and making other tracks, you see?

HMJr: Well, I appreciate that.

E: And -- that's all there was. I didn't want you to.....

HMJr: No, no. Well, I'm glad you called me so that I can let my boys know where they're at.

E: All right, because this is something that apparently originated over in the Budget, you know. They're all steamed up about it. I wasn't going to send it over but then they said, "Well, that's what the President wanted." So I finally turned it over.

HMJr: Well, thank you very much.

E: All right. Thank you.

HMJr: Goodbye.

E: Goodbye.

HMJr: Hello.

Operator: Operator.

HMJr: Listen, I want to dictate something on this.

O: All right.

HMJr: I want a copy made of this conversation and given to Mr. Foley and marked "Confidential".

JUL 18 1939

My dear Mr. Edison:

Pursuant to our conference of yesterday afternoon, I am sending you herewith: (a) A draft of a proposed letter from you to me setting forth the circumstances and the conditions upon which you request me to negotiate a closing agreement or agreements with the armor plate manufacturers; and (b) My proposed reply to your letter.

As soon as you have had an opportunity to go over these drafts, my staff and I are in readiness to discuss any changes you desire to make or to take any other reasonable steps to cooperate with you in solving the problem in question.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary.

Hon. Charles Edison
Assistant Secretary of the Navy
Washington, D. C.

Enclosures

JUL 18 1939

My dear Mr. Edison:

Pursuant to our conference of yesterday afternoon, I am sending you herewith: (a) A draft of a proposed letter from you to me setting forth the circumstances and the conditions upon which you request me to negotiate a closing agreement or agreements with the armor plate manufacturers; and (b) My proposed reply to your letter.

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Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary.

Hon. Charles Edison
Assistant Secretary of the Navy
Washington, D. C.

Enclosures

to be attached
to record of
meeting on that
date.

Memorandum.

In 1931 Anti Dumping Duty Orders were issued concerning the import of matches from the following eight countries: Finland, Sweden, Norway, ^{Estonia} Latvia, Netherlands, Austria and Poland. Already previously such an Order had been issued concerning imports from Russia.

~~These orders were revoked as far as Sweden is concerned August 12th 1933 and in respect of Russia January 24th 1934.~~

Japan, which seems to be the third biggest of match importers to this country, is also exempt from Anti Dumping Order.

The total value of matches produced in the United States may be between 20 and 30 millions (figures not checked). The total value of imports of matches during 1933 was \$ 285,000.

Imports from Finland were 1933 \$ 31,000, which corresponds to only a part of one per cent of the value of the total production in this country and to some 12 per cent of the total imports.

Of the total imports of \$ 285,000 ^{almost all or/} about \$ 246,000 comes from Sweden.

U.S.S.R. and Japan, i.e. from countries not under Anti Dumping Duty Orders

The Finnish price is considerably higher than the price for matches from the above mentioned countries.

It seems evident under these circumstances that the Finnish imports cannot constitute an injury to the American industry.

■ ■

■

It is furthermore argued by the importers of Finnish matches that the Finnish home market is a closed market as the ^{home market/}prices are fixed by a joint committee representing all the factories and that the price on the United States market is no lower than the corresponding price for corresponding grades of matches to other markets in general.

July 18, 1939

2:45 pm

Present:

Mr. Hjalmar J. Procope, Minister from Finland

Mr. Procope: Mr. Secretary, first I have a brief question. When do you -- do you go to Finland?

HM, Jr: I don't know. If we sail, we are going on the 2nd of August and we are going to Elsinore in Denmark.

Mr. P: To stay there?

HM, Jr: For a while, because there is a nice beach there and they say it's warm enough to swim. Now, how much farther we go

Mr. P: You go to the Marienlyst?

HM, Jr: Yes. Is that a nice place?

Mr. P: Yes. The beach is pretty good, but you better hire a car and then you drive from Elsinore about half an hour up to the most northern point. There is a wonderful beach. At Gilleleje.

HM, Jr: That's better?

Mr. P: You can't stay there, but you can drive there every day. The beach at Elsinore is like the New York beaches, full of people.

HM, Jr: Oh, really! But I have inquired as to whether the weather is warm enough. The hotel is all right?

Mr. P: Hotel is rather good.

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HM, Jr: Where is there a better one?

Mr. P: Up the coast. I could not tell you a better one because last year I went to Denmark, just to have a rest. I stayed in Copenhagen and drove every day to different beaches.

HM, Jr: They said for the children there is more life at Marienlyst.

Mr. P: Yes, there is more life.

HM, Jr: Tennis courts and so on.

Mr. P: Yes, that may be. Are you going to Finland?

HM, Jr: We hope to.

Mr. P: You hope to. If you don't sail the second of August

HM, Jr: then I don't think I would sail at all.

Mr. P: Do you allow me to let them know in Finland.

HM, Jr: Please! Yes, it would be a favor to me.

Mr. P: Mrs. Morgenthau told me I was not to let them know.

HM, Jr: No. It would be a favor to me.

Mr. P: Good! Good! How long do you think you could stay?

HM, Jr: I don't know.

Mr. P: Would you, from your legation in Elsinore would you let them know when you come there?

HM, Jr: Oh, yes! Oh, yes! I would like to go. It's just a question of time. We have such

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a little time.

Mr. P: How much time?

HM, Jr: 29 days.

Mr. P: For all?

HM, Jr: And the family wants to spend a week or ten days in England.

Mr. P: Oh, la la!

HM, Jr: It would be very kind if you would let them know and even if I just flew for a day to pay my respects to the one country that pays its debt ...

Mr. P: It's very easy to fly from Copenhagen.

HM, Jr: Oh, is it?

Mr. P: You fly in the morning at noon or one o'clock to Stockholm and then you are at 6 or 7 in Helsingfore.

HM, Jr: You go by Stockholm? How far from Stockholm to your country by air?

Mr. P: One and three-quarters hours, beautiful flight.

HM, Jr: What kind of planes are those?

Mr. P: They are American, the Douglas.

HM, Jr: Who flies them? What nationality?

Mr. P: Swedes, Finns, Dutch.

HM, Jr: Not Germans?

Mr. P: No. There are some planes which are of German construction.

HM, Jr: But not German owned.

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Mr. P: No.

HM, Jr: The lines are not German?

Mr. P: No. It is very good. One of the best lines I know in the world. You can leave Copenhagen at noon or one o'clock. You are in the same evening at Helsingfore for dinner and you stay the next day and the day after you leave at 8 o'clock in the morning and you are at Copenhagen at noon.

HM, Jr: If I do, our Legation will know several days in advance. And your Legation in Copenhagen will know so we can contact them. I don't know whether I am going to sail until after the 29th of this month. I don't know when Congress will be out. I don't know whether the President will let me go.

Mr. P: If you go to Finland, you can't tell if your family will go?

HM, Jr: They would be apt to.

Mr. P: If they go, take more than one day to see the lakes country.

HM, Jr: If we go, it would be for more than a day. I hope to go, but I don't like to make promises.

Mr. P: No. Of course. That's fine.

Mr. P: No. I am in America. I wonder if I could send your secretary some books on Finland.

HM, Jr: Yes. Send them to Mrs. Klutz. Yes. Thanks very much.

Mr. P: May I ask if you had opportunity

HM, Jr: I have not been successful.

Mr. P: There is no

HM, Jr: I got enough rebuff that I thought, for your sake, I had better not go further and I am sorry. I can't explain it, but I promised you secrecy.

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Mr. P: Yes.

HM, Jr: But I had sufficient rebuff that I think it would be a mistake to take it up at this time. I am sorry I can't explain it, but it's ...

Mr. P: I understand.

HM, Jr: I was very much disappointed.

Mr. P: Do you think there can be a change?

HM, Jr: Yes. You see, just now everything is all upset with this Neutrality.

Mr. P: Yes.

HM, Jr: Get that out of the way they may feel entirely different, but now with this Neutrality, anything you speak of that has to do with any foreign country they magnify it 100 times. Everybody is nervous, on edge. It's a bad time to bring up anything that has to do with any foreign country.

Mr. P: Yes, I see.

HM, Jr: Where normally they would say fine, now everything is looked at with suspicion.

Mr. P: With suspicion. Yes.

HM, Jr: It's a bad time.

Mr. P: Yes. Yes. If in the autumn the question could come up as a concrete proposal.....

HM, Jr: That's something else again. But I did it very discreetly and I went far enough that I thought I ought to drop it. Nobody has suffered.

Mr. P: I thank you. I thank you very much.

HM, Jr: But with this Neutrality, everybody is so suspicious.

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Mr. P: Yes.

HM, Jr: I did not hurt you any.

Mr. P: No. I thank you.

HM, Jr: But, I mean, I haven't heard it, so if you want to bring it up again

Mr. P: I understand. May I ask you if in the autumn it would come up as a concrete proposal, is there anything to be done through Pierson's bank - the Export-Import Bank?

HM, Jr: There again we have no extension. If we get our \$100,000,000 extension maybe it would be all right.

Mr. P: You have only capital of \$100,000,000 now?

HM, Jr: Yes. All loaned almost up to the limit now. So taking it all around, it's the worse time. I haven't hurt your cause a bit and my recommendation is leave it alone until Congress gets out and see what happens later.

Mr. P: Thank you. Thank you. I am very thankful.

HM, Jr: At least I did not hurt your country. I would be delighted to take it up again in the Fall.

Mr. P: Then we will discuss it.

May I mention another question which is in your office?

HM, Jr: Please.

Mr. P: It is in your Custom Bureau. They have under examination the question of anti-dumping orders against, partly against, Finland as far as they concern matches, safety matches. In 1930 or 1931 Mr. Mellon

-8-

or Mr. Ogden Mills issued eight anti-dumping orders against States. They were later revoked as far as Sweden and Russia were concerned. Japan, which is the third of the biggest importers to this country was also. Now we think we ought not to be under that because we have -- first, you produce in this country matches for \$20,000,000 to \$30,000,000 a year and the total value of imports to this country is \$285,000.

HM, Jr: Now, you haven't got a brief you could leave with me.

Mr. P: I come to this: that our imports from Finland are \$31,000 which corresponds to only a part of one per cent of the value of the total production in this country and about 12 percent of the total imports. The bulk of the imports comes from countries, Sweden, Japan and Russia, which are not under the dumping and whose prices are in fact lower than ours.

HM, Jr: Do you have something to leave me?

Mr. P: Yes, only that it is dictated to the machine and not in good shape.

HM, Jr: If they want something they can get in touch with you?

Mr. P: I am in touch with Mr. Johnson.

HM, Jr: Oh, you are?

(To Miss Chauncey: Tell Johnson I would like to have a report from him for my own personal information.)

oOo-oOo

CJ

SPECIAL GRAY

47

PARIS

Dated July 19, 1939

Rec'd 2:20 p.m.

Secretary of State,
Washington.

1327, July 19, 4 p.m.

FOR THE TREASURY.

The fund acquired as small amount of sterling in full trading today at 176.72. The dollar was stronger on realization that rumors of an early and peaceful Danzig settlement lacked real foundation. The Swiss franc was very steady, the Bank of France being a purchaser for railway maturities. The florin was a little easier on delay in formation of Colijn's Ministry. Securities were off about two per cent with rentes down from twenty to eighty five centimes the loss averaging around thirty five.

The FINANCIAL NEWS article mentioned in our telegram of yesterday has been more widely quoted in today's French press particularly the suggestion for the setting up of "some arrangement between France and England for the reciprocal support of each others currencies in case of adverse pressure

-2- #1327, July 19, 4 p.m., from Paris

pressure" and the further suggestion that "the ideal solution would be for the United States to participate in such an arrangement". Taking up this theme, AGENCE ECONOMIQUE ET FINANCIERE, in an editorial contrasting German and Italian financial problems with the success of the tripartite monetary agreement states that monetary relations between France, Great Britain and the United States "are becoming closer than ever" and concludes as follows: "Paris, London and Washington are no longer satisfied with purely technical mutual assistance; their financial collaboration is on the way to be more really effective."

BULLITT

HPD

CJ

GRAY

LONDON

Dated July 19, 1939

Rec'd 3:16 p.m.

Secretary of State,
Washington.

1023, July 19, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

One. The further supplementary estimates for air raid precautions and emergency hospital provisions together with certain other civil estimates (see the second paragraph of my 998, July 14, 6 p.m.) were issued last night totaling pounds 31,000,000; pounds 11,680,000 of which are to be met from loans. This brings the total budgeted expenditure for the year to pounds 1,453,000,000; pounds 501,000,000 of which is to be met by borrowing.

Two. Sterling was offered today but the market was relatively quiet. Gold was fixed at one pence premium and 91 bars were dealt in, 13 of which were married and the remainder supplied by the British fund. Buyers were prorated at 43 per cent of requirements.

Three. No silver was invoiced today and the price was unchanged at the fixing with some bear covering and Indian purchases and sales from New York also reported.

KENNEDY

GW:CSB

CJ

[REDACTED]

LONDON

Dated July 19, 1939

Rec'd 3:30 p.m.

Secretary of State,
Washington.

1024, July 19, 7 p.m.

STRICTLY CONFIDENTIAL.

British Treasury states that it is today informing the Chinese orally that the Export Credit Guarantees Department is prepared to authorize a credit of pounds two and a half million, that it has not yet so informed the Chinese but it is in fact prepared to increase the amount to pounds three million. The Chinese list of requirements totals pounds three million one hundred thousand and is designed to facilitate the immediate prosecution of the war and industrial expansion in southwest China. It includes such items as steel, tools, wireless telephone and broadcasting equipment, machinery and materials required by the National Resources Commission, industrial material and equipment submitted by the Industrial Mining Adjustment Administration, equipment for a paper mill and woolen textile and airplane factories, military equipment and supplies.

The British Treasury has authorized the Export Credit
Guarantees

-2- #1024, July 19, 7 p.m., from London

Guarantees Department to accept capital repayment over a ten year period which will not begin until four years after the conclusion of the credit agreement.

As regards the recent depreciation of the Chinese dollar the British Treasury states that both it and the Bank of England are somewhat "mystified" as to why Rogers and the Stabilization Committee did not allow the currency to depreciate to present level prior to the institution of the bank withdrawal restrictions but can only assume that demands have lately been unexpectedly heavy. The British Treasury feels that at 5 pence the Chinese dollar is if any thing undervalued but the unknown factor is whether there still remains a substantial amount of money which will leave China at almost any price. Referring to the negotiations in Tokyo the British Treasury again reiterated its attitude reported in my 967, July 10, 8 p.m. and indicated that the head of the chartered bank had recently returned to London and was expounding the same point of view.

It would be appreciated if the appropriate part of the foregoing be forwarded to the Treasury.

RECEIVED

KENNEDY

WWC:HPD

JUL 21 1950

THE UNITED STATES
TREASURY DEPARTMENT
OFFICE OF THE ASSISTANT
SECRETARY FOR INTERNATIONAL
FINANCE

No. 916/2492



THAI
THE SIAMESE LEGATION,
WASHINGTON, D. C.

July 19, 1939.

Sir,

Your Excellency was kind enough to receive me on June 29, 1938, and to advise me what I should do regarding the silver which the Thai Government proposed to sell to the Treasury of the United States Government. You were also good enough, for the discussion of details, to designate Mr. Archie Lochhead, who, I beg to say, was most courteous and helpful to me. I therefore desire to express to you my deep gratitude and appreciation for the courtesy and sympathy extended to me.

I have the honour to inform Your Excellency that the transaction has been satisfactorily carried out.

His Majesty's Government therefore instruct me to tender to the United States Treasury and to Your Excellency, in particular, their expression of sincere appreciation for the facility and kind gesture shown in this matter.

I have the honour to be
with the highest consideration

Sir,

Your obedient servant,

Abhibel Rajamathi

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

DEPARTMENT OF THE NAVY
WASHINGTON

July 13, 1939

My dear Mr. Secretary:

In order to comply with its battleship building program, it is necessary for the Navy Department to have the production of armor plate stepped up beyond the present capacity of the companies manufacturing it. To meet these production rates of armor plate, it is necessary for the Navy Department to enter into contracts with the manufacturers. The manufacturers are disinclined to enter into contracts and will not make the expenditures for new machinery, equipment, et cetera, which are necessary to meet with the armor plate production schedules of the Government, unless, with some degree of certainty, they can be given assurance as to what portion thereof as costs they are to be allowed under the Vinson-Trammell Act with respect to these expenditures.

After an investigation and study, I shall be in a position to certify to you the following: (a) what new machinery, equipment, et cetera, is reasonably necessary and has been or will be installed by the manufacturers to comply with the contracts for armor plate; (b) the cost of such new machinery, equipment, et cetera; and (c) the extent to which, in percentages, such new machinery, equipment, et cetera, is likely to become obsolete, of no further necessity, and/or depreciated during the lives of the contracts.

Under the foregoing circumstances and certifications, would you be willing, upon the filing with you of an appropriate application by the manufacturers, to negotiate a closing agreement, for the purposes of the Vinson-Trammell Act, in advance of the entering into of new contracts, definitely allowing the manufacturers the percentage for which they apply and I certify, but in no event in excess of 50 per cent of the original cost of the new machinery, equipment, et cetera.

P

The understanding is that the balance of the original cost of the aforesaid machinery, equipment, et cetera, which may be allowed as cost of performing the contracts, is to be determined in accordance with the relevant rulings and regulations under the Vinson Trammell Act.

Very truly yours,

/s/ Charles Edison

Acting Secretary of the Navy

The Honorable,
The Secretary of the Treasury.

JUL 19 1939

My dear Mr. Edison:

I have your letter of July 19, 1939.

The Treasury Department is willing to negotiate a closing agreement with the representatives of the manufacturers in question along the lines set forth in your letter.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary.

Honorable Charles Edison
Acting Secretary of the Navy
Washington, D. C.

OSC:wdh
7-19-39

File to Mr. Thompson

By hand

THE WHITE HOUSE
WASHINGTON

Wm. P.

UK to set up in Texas

Latin Am. Finance

Div. Toll & limits

50,000 00

F.M.

Statement of Secretary Morgenthau Before the
Committee on Banking and Currency of the
House of Representatives, July 19, 1939.

I am appearing before you in support of
H. R. 7120, the Self-liquidating Projects Act
of 1939.

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

- 2 -

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

- 3 -

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

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

- 4 -

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

The Self-liquidating Projects Act authorizes the following productive investments:

1. 750 million dollars for self-liquidating highway improvements;
2. 350 million dollars for non-federal public works;
3. 500 million dollars for the lease of railroad rolling stock and shop equipment;

- 5 -

4. 460 million dollars (plus 40 million dollars already appropriated) for rural electrification projects;
5. 500 million dollars (plus not more than 100 million dollars already appropriated) for facilities for farm tenants, share croppers and farm laborers;
6. 100 million dollars (plus 100 million dollars already appropriated) for the financing of foreign trade.

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

- 6 -

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

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

- 7 -

Specifically the Bill is designed to achieve four important objectives:

1. To give employment in private industry to at least one-half million persons;
2. To stimulate private enterprise;
3. To increase the real wealth of the nation;
4. To provide additional investment opportunities.

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

At the same time the national income will be increased and the number of persons who need to be supported out of public funds will be reduced.

The principle embodied in the Bill, therefore, constitutes a real advance toward the goal of bringing our governmental expenditures within our receipts.

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

- 9 -

The fiscal aspects of the program do not represent a new departure. Continuously in the last six years we have employed the device of guaranteed loans to protect the credit structure and to promote productive enterprise. The results have been highly beneficial and highly encouraging. Through this method we have saved farms and homes from foreclosure and lowered interest rates enough to make the great difference between solvency and insolvency. Through it we have given assistance to railroads, banks and a wide range of private industry.

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

What is proposed now is an extension of this proved method to a somewhat broader field. The extension, however, is important. It may well turn out to mark a transition point in the public finances.

- 11 -

If we can substitute self-liquidating investments in place of outright Government expenditures we shall have made a great step toward bridging the gap between revenue and expenditures.

This distinction between self-liquidating investments and non-recoverable expenditures is not merely a bookkeeping one, but is very soundly based. In the case of non-recoverable expenditures the servicing of the debts created to finance them must be met out of general tax revenues. However, in the case of self-liquidating loans such as are proposed in this Bill, the interest and amortization payments are met out of the earnings on the investment.

- 12 -

Only if the revenues yielded by the investments are insufficient to meet loan costs is the Government called upon to make good any deficiency out of general revenues. The Bill imposes upon the Reconstruction Finance Corporation as well as upon each operating agency the duty to undertake only such projects and to make only such loans as may reasonably be expected to repay the full amount invested plus interest sufficient to reimburse the Government for the cost of borrowing.

I do not wish to predict that the Government will suffer no loss on any of the various features of this program but I know that these projects have been selected with the intention of choosing sound investments which have a high probability of repayment.

- 13 -

Projects totalling billions of dollars were eliminated in preliminary studies because they were not self-liquidating.

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

This Bill embodies another distinctive principle.

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

The interest rate on long-term loans and investments plays a very important role in modern economic life.

There are factors in the present situation, however, which make it impossible for changes in the interest rate to operate automatically and with complete effect.

The disturbed world situation increases economic uncertainty to the point where investors are reluctant to place a large amount of their funds in long term investments at the low rates of interest justified by the fundamental economic forces of supply and demand.

In times like the present it therefore becomes the Government's function to act as a catalytic agent to bring together investors who are willing to lend their savings at rates of interest low enough and borrowers who are able and willing to employ funds for productive purposes.

This Administration has made great progress in bringing the market rates of interest down to reasonable levels. The most important successes have been in connection with loans to farmers and to home owners and for purposes of residential and business construction and non-federal public works.

This progress, however, has not been enough and it is my opinion that the time has now come to take the next step forward, that of selecting specific investments which should be given the advantage of the low interest rates which the Government can obtain.

- 17 -

A low rate of interest if effectively utilized constitutes one of the most potent weapons our economic system has developed for stimulating business activity. It seems to me that it is time for the Government to make full use of that instrument rather than to depend on grants and subsidies as heretofore.

It is this principle of low interest rates which is utilized in the Bill before you. The Government is bringing together idle funds and borrowers who are unable to borrow under existing circumstances. It does more than that.

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It creates the additional incentive for the lenders to lend and for the borrowers to borrow by giving the stamp of approval and administrative assistance to useful and paying enterprises which otherwise would not be undertaken at this time. Thus men and capital now unemployed are put to work.

It is an economic loss to permit investment funds to lie unused when they could be used in productive effort. But that loss is trivial in comparison with the permanent and irreparable economic loss of allowing men of many skills to be idle when there is useful work that they could be doing.

July 19, 1939
9:09 a.m.

75

Operator: Go ahead.

HMJr: Hello. Hello.

Outside
Operator: Hello. Secretary of the Treasury?

O: Operator, put Dr. Magill on?

Roswell
Magill: Hello.

HMJr: Hello.

M: Hello, good morning.

HMJr: Good morning.

M: Good morning, Henry, how are you?

HMJr: I'm fine.

M: Well, I -- I guess I'm getting you right off the bat
this morning.

HMJr: How's that?

M: I -- I -- didn't you just get in, or have you been in
for half an hour?

HMJr: What's that to you?

M: (Laughs) Well, I'm glad you're feeling happy anyhow.

HMJr: O. K.

M: I've been going over this T.D. with.....

HMJr: Yes.

M:-- Harold Graves asked me to look over.

HMJr: Yes.

M: And Ralph Reed is here in my office with it.

HMJr: Yeah.

- 2 -

- M: There -- there are only a couple of things in it that I think that I would change.
- HMJr: Yes.
- M: The principal one is this: Over on the -- I've given them to Reed, but I'll just mention them to you.
- HMJr: Yeah.
- M: Over at the last of the thing, there is this paragraph which says that this information obtained respecting these corporations is to be transmitted to the department and there, that -- in order that the officers of the department and interested committees of Congress may be kept appropriately informed.
- HMJr: Yeah.
- M: Now while I, of course, agree that the interested committees of Congress should be kept informed.....
- HMJr: Yeah.
- M:I doubt if that ought to be in this T.D.
- HMJr: I agree with you.
- M: In other words.....
- HMJr: I agree with you.
- M:you're -- you're running the department, and not the committees of Congress.
- HMJr: Well, sometimes I have doubts about it, but that's all right.
- M: Well, I'd -- I'd -- as I said to Reed, I, personally, feel very strongly on that point.
- HMJr: Read Arthur Krock today and you'll see who put through the Tax Bill.
- M: Yeah, I noticed that. I -- I was delighted to hear it. (Laughs) I was particularly glad to see the same -- the origin of these same ideas respecting taxation.
- HMJr: I know.

- 3 -

- M: Well that's what -- I would take that out. Then.....
- HMJr: All right.
- M:there's another thing that is not so important, but I don't think that it's very well stated.
- HMJr: Yes.
- M: One of the tests of these corporations which are to be reported is corporations which have invested earnings in unlisted securities, and so forth.
- HMJr: Yeah. Well, I didn't understand that.
- M: I don't -- that doesn't seem to me to be the correct test. I see what he's shooting at, but I don't know that it should make any difference if they've invested earnings in General Motors.
- HMJr: Well, that's the one thing I challenged them on. I didn't understand that.
- M: Yeah. Well, I would be inclined to take that out. I don't think.....
- HMJr: Out she goes.
- M: I don't think that does any good.
- HMJr: Out.
- M: Now, of course, as I've said to Ralph Reed, a great deal is going to depend on the way that this thing is administered by the boys in the field.
- HMJr: Right.
- M: I should -- I should think, in the ordinary Internal Revenue agent district that the great run of corporations that have any earnings at all will have -- will fall within one of these five groups.
- HMJr: Yeah.
- M: That is, in some year they won't distribute 70 per cent, or they may have made a loan to an officer, and so forth. And it will depend a lot -- if the thing was applied foolishly, the result would be that the boys wouldn't do anything else but make these reports.

HMJr: Yeah.

M: So I think it's very important that Harold Graves, or somebody, should get up a scheme of cards or something to make these reports in some shorthand way so they can be quickly disposed of.

HMJr: Yeah.

M: Because you don't want to bog the whole thing down on account of this stuff.

HMJr: But -- but now, let's just go back to the beginning.

M: Yeah.

HMJr: In the first place, Graves is going to make this in the form of a -- just -- oh, instructions.

M: Yeah.

HMJr: And it was I who suggested making it a T.D.....

M: Yeah.

HMJr:in order that the corporations and the accountants and lawyers would have a way of finding out about it.

M: Yeah.

HMJr: Now, do you agree on that?

M: Well, I'm inclined to, yes; and I'd put in another reason. The -- as I get it, the gentleman across the street has shot at you more -- shot at us more or less with respect to this kind of thing, as regards the ordinary business corporation. Now, I think it would be just as well to get out a _____ to indicate that you're going to put the screws down a little.

HMJr: Well.....

M: And I -- of course, I think your idea of fairness is very good.

HMJr: But I mean if -- I think -- well, I mean -- you mean, by making it public?

M: Yeah.

HMJr: That's what I think.

M: I think that's very good. I -- of course, I think -- I think your publicity on the thing will probably be adverse. They -- I mean, the papers will probably say that you got rid of the U.P. tax and now you start in on this, but I -- I think that's all right. I think it's very well to inform people what standards you are going to apply. Maybe you could get out a statement, or Graves could get out a statement indicating that you have proposed to do this with some reasonableness.

HMJr: Well, I tell you what I think I'll do, talking to you. I think I'm going to show it to Harrison and Doughton before it goes out.

M: Well, I think that would be a good idea. I think particularly Pat might have some thoughts on the subject, because he would have some sympathy for the people to whom this would apply.

HMJr: Yeah, I -- I think I'll do that.

M: I've always found that -- as I'm sure -- know you have, that in actually applying this section, it's a good thing to keep Mr. Doughton and the Senator informed as to what you're doing.

HMJr: Tell Reed when he leaves you to phone Graves and tell you what corrections you've made and what I've agreed to so that -- I may want to do this this afternoon, you see?

M: Yeah. Well, I'll tell Reed to phone Harold right away.

HMJr: Right.

M: Anything else?

HMJr: Now let me just think a minute. You're satisfied that seventy thirty is the dividing line?

M: Well that, I think, is the dividing which we -- has usually been used.

HMJr: I see.

M: I -- I'm not sure. We had some statistics at one point, I remember, when I was there as to what the -- the average distribution of American corporations

had been over a period of years. I think -- my recollection is it runs a little higher than seventy per cent. I think it's perhaps more nearly seventy-five.

HMJr: What, that they retain?

M: No, that they distribute.

HMJr: I mean that they distribute. So that.....

M: Now -- but I think that probably Blough or -- could dig you up something on that. I know at the time of that 1937 affair, I had some figures -- I -- they would probably appear in those hearings in 1937, as to the percentage of earnings which were distributed over a ten or twenty year period by American corporations generally.

HMJr: Well.....

M: But it -- but I'm.....

HMJr: Well, tell.....

M: I think that the seventy percent is the figure which has usually been used as the yardstick in this kind of a case.

HMJr: Well, tell Reed that -- to follow through that so that when I can say, "Well, we're using seventy but the corporations over the last twenty years have distributed seventy-five so it's perfectly fair to say seventy."

M: Yeah.

HMJr: Tell Reed to follow through on that.

M: Yeah. I'll -- I'll speak to him about that.

HMJr: Now, who got this Revised 102 through on the Hill? Who fathered that?

M: Sir?

HMJr: Who fathered the -- this Section 102? The 1938 one?

M: Well, the '38 -- the '38 amendment was Senator Harrison's amendment.

HMJr: It was?

M: Yeah. Yeah, he wanted it -- he had in mind getting in something like this for the better enforcement of 102 as a substitute for the undistributed profits.

HMJr: Well, then, all the more reason I should show it to him.

M: I would think so, yeah.

HMJr: All right.

M: Yeah.

HMJr: Okey-doke.

M: Well, as I said to Harold, if there's anything of this kind I can do for you anytime, why let me know because

HMJr: Well.....

M:this summer is comparatively easy going.

HMJr: Well, I -- it's useful to me and I think you're glad to see those things while they're in the flood.

M: Oh, I am. Yeah.

HMJr: Yeah.

M: Well, I hope I'll be seeing you one of these days.

HMJr: I hope so too.

M: When are you going away on your vacation?

HMJr: August 2nd.

M: Well, I -- I probably will get down to Washington before then and I'll give you a ring.

HMJr: Do that, and come in and have lunch.

M: Thanks a lot, Henry.

HMJr: Goodbye.

M: Bye bye.

GROUP MEETING

July 19, 1939.
9:30 A. M.

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

H.M.Jr: What have you got, Herbert?

Gaston: I haven't anything.

H.M.Jr: Wonderful.

Bell: May I clear this, Mr. Secretary. Pat Evans just telephoned and said that he's been requested to appear before the Banking and Currency Committee also at 10:30, and I assume that's on S. 2759 - that's the number of this bill, isn't it?

Foley: They requested to be allowed to testify, Dan. I heard Wagner say that last night.

Bell: Oh, really?

Foley: Yes. He said Eccles and Pat Evans were going to be down this morning.

H.M.Jr: Pat Evans is Farm Credit.

Bell: Yes, General Counsel.

Foley: I think they're going to talk about that interest rate.

Bell: He says, "Am I correct in my understanding that sub-section 5 of section 4 of that bill is not intended to duplicate the activities of the Farm Credit Administration, but to supplement its program by providing for a class of borrowers who cannot be reached by the institutions operating under its supervision? I'd like to have you talk to the Secretary about this before you call me back."

I take it that's right.

- 2 -

Foley: That's absolutely correct.

Gaston: It's the work that Farm Security is now doing.

Foley: It's a different class of work from what Farm Credit has done in the past.

Bell: And it's no different from what Farm Security is now doing.

Foley: That's right, merely supplementing their present program under the Jones-Bankhead Act, and expanding it. And it isn't changing the powers they have under the Jones-Bankhead Act at all.

Bell: Well, I'd like to telephone him, if I may; like to telephone Allan Sproul.

H.M.Jr: Righto.

Foley: And ask them, Danny, not to attack the interest rate provision.

(Bell leaves)

Duffield: Nothing.

H.M.Jr: Now, what I hope to get is - and we'll have Lubin come in here - is, I want this mimeographed statement of the total compilation of the number of people, plus the work, and the amount of materials - I think if we have it mimeographed, then the boys can use it.

Duffield: That's what I thought - either that way, or if you're going to transmit it as a letter to Senator Barkley, I thought we could mimeograph it for him and let him give it out. Whichever way....

H.M.Jr: Anyway, it's got to be in writing for the newspaper men to be able to handle it.

I thought last night's papers were all right.

Duffield: This morning's not so good.

H.M.Jr: They just killed it.

- 3 -

Gaston: Didn't give space to it.

H.M.Jr: No, it was old. And the neutrality stuff....
Did you get my stuff out to the various people?

Duffield: Yes.

H.M.Jr: How many are there?

Duffield: I've got a list of them, Mr. Secretary. I don't know.

H.M.Jr: On this list of the amount of materials involved, and so forth - I want that to go to the various trade journals involved - copper, steel - various trade journals. Will you remember that?

Duffield: Uh-huh. That's all.

Foley: Do you want the same people from the outside down there this morning?

H.M.Jr: Sure. Good crowd. Didn't they have a good time?

Foley: Sure they did.

H.M.Jr: Let them come again.

Foley: I wondered if this Lubin business was going to alter your plan at all.

H.M.Jr: No. Those people should be there.

Foley: Here's a letter from Tom K. Smith, with a copy of a letter he wrote to the Comptroller. He says very definite progress is being made, and he's satisfied.

H.M.Jr: Who is this letter from?

Foley: Tom K. Smith to Preston Delano.

H.M.Jr: Can I have this for my file?

Foley: Sure.

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I gather on the Navy there isn't anything to do but wait and see what happens.

H.M.Jr: You're handling that as well as McReynolds, aren't you? J

McR: Yes.

H.M.Jr: I had this phone conversation with Edison and I sent him (Foley) a copy of it, so you'd know what was going on.

Foley: I got that.

H.M.Jr: Yes, we're waiting now on that.

Foley: Ralph Dwan is back from his vacation and I have him outside, if you'd like to see him after the meeting.

H.M.Jr: I do.

Foley: All right.

H.M.Jr: Anything else?

Foley: That's all.

H.M.Jr: George?

Haas: I have nothing, except I checked up on that cotton barter deal with Robbins over there, and I checked up with Milo Perkins on the food stamp arrangement. I'll give you a memo on each of those.

H.M.Jr: Let me see if I can give it to you the way Wallace just gave it to me. He said the President talked to him, said he was thinking for next fall, next January, of three alternative plans in connection with relief, and the last one - four alternatives - this is the one which I think he has in mind. I can't remember all the others, but the last one was a combination of food stamps, work relief, and self-help co-ops. See? And to combine the three, you see. That's the result of my talk with him Monday at lunch. And he wanted Wallace to think about it and Wallace wanted to talk to me about it.

So I said, "I'm ready. It's up to you and Carmody."

- 5 -

He said, "Why is Carmody in it?"

I said, "Carmody happens to have WPA under him. That's work relief and co-ops too."

He's going to have Milo Perkins get in touch with you. Inasmuch as Edna Lonigan is one of your most able and loyal assistants, she can assist you in her usual manner. And of course, if you have any trouble, Mac will write out the rules and regulations, procedure.

- Haas: O. K. Perkins is very much - he's very much interested in the stamp plan, in pushing it. He told me he appreciated your help on it; otherwise he wouldn't be as far as he is on it.
- McR: Maybe he wouldn't have been started on it.
- Foley: Absolutely. He wouldn't have been started.
- H.M.Jr: But now, I think the combination of food stamps and self-help co-op and work relief makes a perfect set-up.
- McR: The Morgenthau program.
- H.M.Jr: And I said, "I'm ready now on the financing." I don't know who saw Bell, but they thought they'd leave the Board of Directors of Commodity Credit the way it is this week, so they can certify to the finances; and then if they are going to do it, do it next week.
- O. K., George?
- Haas: Fine.
- Lochhead: At the Export-Import Bank meeting yesterday the question of the Spanish cotton credit was brought in - not for any full discussion. Judge Moore said he understood they didn't have any constitution over there just now, and Pierson said, well, they thought they were working out some formula - it was a little different than what the Secretary of the Treasury, or rather, the Treasury had agreed on. But they'd been told the theory, and were going back to the White House to get something done.

- 6 -

Then he said that there had been some comment - apparently, he said, Judge Moore was being held up as one of the ones that had a better view of this than a lot of the other people. Then, pausing with a smile, he said, "I wish you fellows over at the Treasury wouldn't be putting so much publicity on this."

I said I didn't know - I thought any publicity was coming out of the Export-Import Bank.

But, on the other hand, I got this this morning, and I accused Ed Foley of using his Masonic connections. That's an interesting one. I don't know where that....

H.M.Jr: I'll read this. Thanks.

Why, I didn't even know that Walton Moore wasn't for the thing.

Lochhead: Moore was - well no, himself - I think Walton Moore himself is withstanding the pressure pretty well.

(Mrs. Klotz comes in)

Klotz: Good morning.

H.M.Jr: Don't tell me Warren Pierson thought we had anything to do with that Drew Pearson story yesterday.

Lochhead: Didn't mention any names. Seemed to think it was somebody over here.

H.M.Jr: In fact, I was amazed to hear Walton Moore had doubts about the cotton loan. Did you go to the meeting too?

Lochhead: Yes.

H.M.Jr: Did the question come up that Spain is in default to the extent of \$46,000?

Lochhead: No, that didn't come up.

H.M.Jr: That's all?

Lochhead: Yes.

- 7 -

H.M.Jr: Harold, for you - this is really important - not that that also isn't important, but this is important for you. Ros Magill called me up and he made two suggestions, both of which I think are good. And I told him to have Ralph Green....

Graves: He's the man I sent to see him.

H.M.Jr: One of them was to leave out this thing that whatever information we get is for Congress. He thinks that's a mistake.

The other thing was the point I raised about investing this surplus thing in other stocks.

Graves: Unlisted securities.

H.M.Jr: Yes. He thought it was pretty far afield.

Graves: Mr. Blough said the same thing about it.

H.M.Jr: The important thing I got from Magill - before we give this out, I thought it would be very good ball to ask Pat Harrison and Doughton to look at it, see?

Foley: (Nods approval).

H.M.Jr: Now, I think I'll call up Harrison and Doughton. Suppose they want Stam to look at it?

Graves: I have no idea.

H.M.Jr: I think I'll call up both Senator Harrison and Doughton.

(On phone) Senator and Harrison and after that Congressman Robert Doughton.

See? It was Harrison that got through this so-called improved section 102.

Graves: Yes.

H.M.Jr: Now, Magill thinks we should make it a Treasury decision. He also thinks if it gets down to the

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application of it, unless you use a lot of common sense, he says, you're going to tie up every corporation in America on this. He also said that Roy Blough could give some figures that over a period of twenty years - (to Duffield) want to get this - he said the average disbursement of corporations is in excess of 70 percent. See, we're making a rule that if they don't disburse seventy, then they'll come under this thing. I think it would be very nice if we could have some of those figures to show "Now, we're so fair; over 20 years the average is seventy-two, seventy-three, and all we're requiring is seventy."

(On phone) Hello. (Conversation with Senator Harrison follows:)

July 19, 1939
9:47 a.m.

HMJr: Hello.

Operator: Senator Harrison.

HMJr: Hello.

Pat
Harrison: Yeah. Hi, Henry.

HMJr: How are you?

H: Pretty good.

HMJr: Pat, you remember Section 102, which I think that you
fathered and got through Congress.

H: Yeah.

HMJr: Well now, we're about to get out a Treasury Decision,
a ruling on how that should apply to 1938. Hello?

H: Yeah.

HMJr: It's all written, and before I get it out I'd like to
show it, in confidence, to you and to Bob Doughton.

H: Yeah.

HMJr: Now, what would be your pleasure in the matter?

H: Well, Henry, we're just in this Social Security
conference. We're going to be in it today and tomorrow
and we're working even in the morning, afternoon and
night. You see?

HMJr: Yeah.

H: So why can't we do it right after we get through with
that, about day after tomorrow?

HMJr: That's all right. Now will.....

H: Is that too late?

HMJr: I did want to kind of this week, but I -- I don't
want to -- a day or two wouldn't make an awful lot
of difference.

H: Well that -- I think that that's -- of course, I'd be glad to do/any time.....

it

HMJr: No.

H:but we just -- that's.....

HMJr: Well, shall we.....

H:the situation.

HMJr: Shall we get together Monday morning?

H: Well suppose I give -- give you a ring?

HMJr: All right.

H: All right, Henry.

HMJr: But I -- I'd like you to take a look at it. Would you like somebody to see it -- Stam, or somebody in the meantime?

H: Yes, we can draw Stam in on it.

HMJr: Well I -- well I -- shall.....

H: I'd like for him to be -- it'd be quite all right.

HMJr: What's that?

H: Why can't he be called in on it before we have our conference?

HMJr: He could. He can.

H: Well, if you'll send it down to me I'll give it to him in confidence.

HMJr: All right. And does he work for Doughton too?

H: Oh yes, he works for the Committee and we've changed the chairmanship of the Committee every other year, you see?

HMJr: I see. Well, who's chairman this year?

H: He's -- Doughton will be chairman this year.

HMJr: Oh, you're not chairman this year?

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H: No.

HMJr: Well, I'll send you up a copy.....

H: All right.

HMJr:by hand, and then if you could have -- in confidence let Stam look it over.

H: That's right.

HMJr: And then at your pleasure.....

H: I'll let you know just as soon as we get through with this Social Security.

HMJr: Thank you so much.

H: All right, Henry.

HMJr: Goodbye.

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H.M.Jr: I'm glad I thought of that, you know. Will you (Graves) take care of getting the copy to him?

Graves: (Nods yes).

H.M.Jr: But, you see, he said he'd give it to Stam. I mean that won't be so cumbersome. Because, you know, this is dynamite, this statement.

Incidentally - I don't know whether you've ever thought of it - it's very bullish, too. Have you thought of that, George?

Haas: I didn't know anything about this, but as I listen to it, it is.

Gaston: Like the undistributed profits tax.

H.M.Jr: Oh yes, only more so. This is bullish. But, as the President said, he's neither long nor short on stocks, so I'm talking purely philosophically, straight.

Graves: Now, as I understand it, you'd like to wait until you revise this in the light of Mr. Magill's suggestions.

H.M.Jr: When you get back to your office, you'll find that this fellow has phoned you. I told him to phone you what Magill's suggestions were. And Magill's suggestions are just what I said. Why should we ask an income tax payer to give us information which we say we want to turn over to Congress? See?

Graves: Of course, we had no idea of turning anything over to Congress, except the statistical....

H.M.Jr: Immediately all the papers would go to work. And we're going to get a bad enough press on this as it is. That's why I want support from the Hill. But I - what's this fellow's name?

Graves: Ralph Green.

H.M.Jr: You'll find he's trying to get you the minute you get back. In the meantime, we'll hear what Doughton says. But you're to get the thing up to Harrison.

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Graves: I'll do it today.

H.M.Jr: I think it ought to go over my signature.

Graves: I'll prepare a letter for your signature, send it to Mrs. Klotz.

H.M.Jr: Yes.

Anything else?

Graves: I wrote Mr. Baillie yesterday. I was just wondering if you'd like me to give you any report about that. It's all straightened out.

H.M.Jr: No. Do these people - you might let me see a copy of the letter.

Graves: Very well.

H.M.Jr: All right.

Graves: We're submitting to Mr. McReynolds this morning our report on this man Greenlee.

H.M.Jr: I hear he's good.

Graves: Very good.

H.M.Jr: I hear, thanks to the tip-off, we may put him in jail.

Graves: Well, I think he's eligible.

H.M.Jr: Well, it's just a toss-up - making him Collector of Internal Revenue for Indiana or putting him in jail.

McR: That's the place he was incarcerated.

H.M.Jr: Why not let McNutt decide?

Graves: I think he may know a whole lot. This fellow was McNutt's secretary for four years.

H.M.Jr: No!

Gaston: Yes.

H.M.Jr: No, no!

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Gaston: The "Two and a Half Percent Club." He got his training in the "Two and a Half Percent Club."

H.M.Jr: I've got to have a laugh once in a while. Life is so serious. This is really funny.

(On phone) Hello.

Operator: Congressman Doughton is on his way to a conferees' meeting. He'll call you as soon as he gets there.

H.M.Jr: Whew!

McR: Minton has a request in to see a copy of that report so he can refute the charges.

H.M.Jr: We don't go in for that sort of thing. Just send it over to the White House.

McR: White House - let them do it.

H.M.Jr: Harold, send it over to McReynolds at the White House.

McR: Got a letter prepared for your signature addressed to the President.

H.M.Jr: That's all right - "Attention McReynolds at the White House."

Gaston: There's likely to be confusion between these two McReynoldses. We ought to have different names for them - the one that's over at the White House and the one that's here.

H.M.Jr: What would you call the one over at the White House? I know what we call him here. He's "our Mac." But what do you call him when he's over at the White House?

Klotz: We'll see.

H.M.Jr: Oh boy, oh boy, oh boy. I see, according to the papers, Woodring can give you one of his offices. He got six out of the eight over at the new building.

What have you got, Mac?

McR: Nothing but a travel order for Spiegel down to Venezuela. I have it in two forms. One is giving

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him an extra five dollars to bring him up to the State Department rate that the President approved - thirteen dollars a day for expenses and the additional compensation made possible by law. The other one does not put on the extra five.

H.M.Jr: Which do you recommend?

McR: Well, State Department people are given the extra. What it amounts to is thirteen dollars a day in lieu of subsistence.

H.M.Jr: Mac, which do you recommend?

McR: I think we ought to treat him as well they treat their people.

H.M.Jr: All right.

McR: I already told Harry White we wouldn't do that. Somebody fixed it up that way. I didn't have the heart to turn it down.

H.M.Jr: (To Graves) Take it for granted we'll handle the Doughton matter the same way we handled the Harrison matter.

Graves: I think probably the better thing to do would be to send this to Doughton, who is Chairman, as the Senator just told you, of the Joint Committee, at this time, and send perhaps a copy to Senator Harrison.

H.M.Jr: Oh, I'd make them both originals.

Graves: Oh.

H.M.Jr: I'd simply say something like this: "My dear Mr. Doughton: I am sending you a copy in confidence. I am also sending Senator Harrison a copy. At the pleasure of you two gentlemen, I would like to get your advice, and if you so feel, I'd be glad to get any suggestions that you have to make." You see? Then to Harrison - "I am sending it to you, plus a copy to Doughton."

No, I wouldn't - I'd send it to each one. I think it's worth while, because this is - I just smell trouble. And inasmuch as it is Harrison's bill,

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you see, if we get his backing, it makes all the difference in the world. A day or two won't make any difference.

Graves: No.

July 19, 1939
9:59 a.m.

Robert
Doughton: Hello, Mr. Secretary.

HMJr: How are you?

D: Fine! How are you?

HMJr: Very well.

D: All right.

HMJr: Bob, you remember that Section 102 which we got through in regard to surpluses of corporations.

D: Yes.

HMJr: Well, we have a draft now of a Treasury Decision on this which would be applicable to 1938 earnings, and before I put it into effect I'd like to show it to you and Senator Harrison, in confidence.

D: All right.

HMJr: And get your advice.

D: All right. When do you want to do it?

HMJr: Well, I called up Pat and Pat said to give him a day or two until he can get rid of Social Security.

D: Well.....

HMJr: But he said the minute he's out from under it's all right. Now, I don't see any reason why Stam shouldn't be looking at it, you see? If you want him to.

D: Why I don't either.

HMJr: But we think it's all right, but I want to be sure it's agreeable to you and Pat.

D: You don't see any reason why Stam shouldn't look at it?

HMJr: It's all right with me if he looks at it.

D: How's that? Well, that's what I think. He's our.....

HMJr: Yes.

D: Well now, any time that you can arrange it I.....

HMJr: Well, the next move will be up to you and Pat. I'm available any time.

D: Well, I'll talk to him about it today.

HMJr: Will you do that?

D: I certainly will.

HMJr: And I'll send this up to you, but I'd like to keep it quiet.

D: Well, I'll keep it under cover.

HMJr: Because -- well, I think ^{for} these people -- I want to be sure it's right and I don't want any leaks on it, see?

D: Well, I'll not let any leak get out from me.

HMJr: O. K.

D: Say, you knew we got your bond bill fixed all right.

HMJr: Wonderful!

D: Yeah. Well, you can always depend on us. If we know too much we won't neglect.

HMJr: O. K.

D: All right.

HMJr: Ever so much obliged.

D: You're welcome. Goodbye. Glad to cooperate and help always.

HMJr: Thanks.

D: Goodbye.

July 19, 1939
9:27 a.m.

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HMJr: Hello.

Operator: Secretary Wallace.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

Henry Wallace: Hello, Henry?

HMJr: Yeah.

W: When I was with the President yesterday, Henry, he brought up the matter of -- he said he sort of wanted to put a new face on Relief next year.

HMJr: Yeah.

W: And on W.P.A.

HMJr: Yeah.

W: And he said he had four alternatives.

HMJr: Yeah.

W: One.....

HMJr: I thought you could only have two.

W: Well, I think that is right with regard to alternatives. Four options, shall we say?

HMJr: It's all right with me.

W: I'm glad to see that your old editorial instincts are at work.

HMJr: Well, I was called on it in Social Security when I spoke of four alternatives.

W: Yes. Well, I think you're quite right.

HMJr: O. K.

W: We're -- we must be purists, we new dealers, above all else, mustn't we?

HMJr: Well, at least in English anyway.

W: (Laughs)

HMJr: We can slip in other places.

W: That's right. However, I think I'd be inclined to even -- to argue on the alternative. (Laughs)

HMJr: All right.

W: (Laughs) Because I think you could have a road that -- each one of which would operate from the other. (Laughs)

HMJr: Yeah.

W: Why -- one was W.P.A. as it is, that is, work relief. Two is work relief plus the -- what he called the Rochester plan.

HMJr: Yes.

W: Four was work relief plus self-help co-ops.

HMJr: Yes.

W: Or three was. And four was work relief plus Rochester plan plus self-help co-ops.

HMJr: Yeah.

W: And he asked/^{me}to do some thinking about it. Well, it seemed to me that -- that it would be best if we were thinking -- if some of our people were thinking with your people, rather than thinking separately.

HMJr: It's all right with me. But how about Carmody and Harrington? After all, they've got a lot to do about this.

W: Yeah.

HMJr: Ah.....

W: Let's see, where would Carmody come in?

HMJr: Well, he's got the W.P.A. under him.

W: Oh, sure, sure, sure, sure.

HMJr: And that's where the W.P.A. and the self-help co-op., would be under him. But -- what -- what have you got in mind, Henry.

W: Well, I was just feeling that -- I hesitated to start any of our folks doing any thinking along this line unless the folks in -- unless some of the other folks involved were in on it.

HMJr: Yes. Well, it seems to me that it rests between you and Carmody and Harrington.

W: Well, you have such a very great interest in this self-help co-op thing.

HMJr: That's right. I have, and I expressed it.....

W: And you also have such a great interest in the.....

HMJr: Food.

W: stamp plan, and you've taken a very great interest in the relief thing generally, I thought possibly before.....

HMJr: Well, if.....

W:we approached these other people it might be that some of your people and our people could do a little preliminary exploring, I didn't know.

HMJr: Well, Haas is available.

W: You think Haas would be the best man, do you?

HMJr: Well, he's the only person besides myself. I mean -- I -- I'm vitally interested myself.

W: Uh-huh.

HMJr: And before I go away I'd be delighted to sit down and talk about it, but I wish the -- I wish the President would have a meeting at the White House on it, it's so important.

- W: Yeah. I don't know exactly what he had in mind. It seemed to me like he was thinking about next January, and....
- HMJr: Yeah.
- W:of having a somewhat different approach.
- HMJr: Well, if you want to call some people together either Haas or I, or both of us, are available.
- W: Well suppose -- how would this appeal to you? That we have Haas and Milo Perkins do a little exploring.
- HMJr: Good.
- W: And after they've done some exploring, maybe you and I could sit in with them.
- HMJr: O. K. Suits me. Now.....
- W: On that -- I was present when the President called you yesterday on that other matter.
- HMJr: Yeah. I -- I sensed that.
- W: Ah.....
- HMJr: We've turned it all over to the Budget within the hour.
- W: Uh-huh.
- HMJr: We -- we told the Budget about it and the thing is now -- and told them what the President said, and the whole thing is in the hands of the Director of the Budget. I mean, it's up to him to get up an executive order and do it.
- W: Yeah. Well now, I was just wondering who would ascertain -- who would be the ex officio members from the Treas -- well, you would ascertain from Treasury, but from R.F.C. Could you handle that?
- HMJr: No. You better handle that.
- W: You think I'd better handle that. Allright, I'll.....
- HMJr: It's your show.
- W: Yes. All right.

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HMJr:from now on. Now, your man was over here -- Robbins, is that his name?

W: Robbins, yes.

HMJr: And he had a talk with Bell and I gathered that they were going to go ahead this week.

W: I see.

HMJr: But I think you'd better inform yourself of it if you haven't done so.

W: I haven't had a talk with Robbins since he's had the conversation with Bell.

HMJr: Uh-huh. Because it's -- it's.....

W: I'll look into it at once.

HMJr: There's two hundred million dollars involved and there's -- and somebody is going to have to certify to us to go ahead.

W: Yeah. I'll have.....

HMJr: And.....

W:Perkins call Haas then.

HMJr: Yes, but on this financing, which is a matter -- has to be decided today and tomorrow.

W: I see.

HMJr: And we -- we've got to get a Board of Directors to certify this thing.

W: Now, which board shall we have do that?

HMJr: Well, I -- Bell is sitting here. (Talks aside: What does Robbins suggest?) Bell says that he and Robbins agreed that there shouldn't be any change this week until -- so that they could get this thing through, but that's entirely up to you. I -- I.....

W: Well, that's -- I think it's a -- rather a formal matter.

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HMJr: Yeah. And -- well you see, you've got to have a board resolution.

W: No.

HMJr: Well, it's -- it just -- I mean, it's your show. Just so that you or your Board of Directors will direct and instruct the Treasury what you want us to do in regard to raising two hundred million dollars, that's the point.

W: All right. I'll get in touch with Robbins at once.

HMJr: And Allan Sproul is down today from the Federal Reserve with our fiscal agents in this matter. He's coming in at three.

W: Um-hm.

HMJr: So if I -- between now and three I could get a clearance from you as to what you'd like, then I can tell Sproul if -- if you want us to go ahead.

W: Well, of course, we will.

HMJr: So between now and three could you -- could your.....

W: I'll get the word to you between now and three.

HMJr: Thank you.

W: All right.

July 19, 1939
10:05 a.m.

HMJr: Hello.

Operator: Mr. Welles.

HMJr: Hello.

Sumner
Welles: Good morning, Henry.

HMJr: How are you?

W: Fine, thank you. I hope you are.

HMJr: Very well. Sumner, I think it was Monday that I talked with the President about -- oh, Latin America and helping them. See?

W: Yes.

HMJr: And that I felt that we just weren't getting anywhere, and gave him my reasons why, and he asked me to talk to you about and say the same thing to you. Now, when would you like to talk to me about it?

W: Well, I'll be happy to talk to you at any time, Henry. Will you hold the wire a minute and I'll find out how soon I'm free. I'll get out my engagement book, please.

(Brief pause.)

Would Friday morning be convenient for you?

HMJr: No, I'm going up Thursday to say goodbye to my parents, so it would either be this afternoon or Monday.

W: I'm afraid I'll have to make it Monday, Henry, because I'm full until late.

HMJr: All right.

W: Shall I drop in at your office say about nine-thirty Monday?

HMJr: We have staff at nine-thirty. Ten would be all right.

W: Ten o'clock?

HMJr: Yes.

W: I'll drop in to your office at ten.

HMJr: Ten.

W: On Monday.

HMJr: Right.

W: Before you ring off, let me make this suggestion to you.

HMJr: Yes.

W: I spoke to the President myself a little while ago on the same issue.

HMJr: Yeah.

W: And it was soon after the difficulty had arisen with regard to the inability, as you had explained it, of the Treasury Department to lend some of its people for temporary service.

HMJr: Yeah.

W: And the President agreed with me at the time that the way to settle that difficulty would be for you to set up, in the Treasury Department, a division say, of not more than eight to ten people.....

HMJr: Yeah.

W:in order to act as a division to handle this kind of work. And he said that far from being opposed to it he was enthusiastically in favor of it.

HMJr: Well, that's very nice of the President, but he won't give me any money.

W: On the contrary, he said for that he would be entirely willing to have the necessary appropriation made. What he had objected to is the giving of an appropriation for the services of these people in the other countries when the other departments were able to do without it. But he said that for the creation of a division in your department, to handle the relations with the other American Republics, he was entirely in accord.

HMJr: Well, of course I asked for it for all the countries because I didn't want to be piggish.

W: Yes.

HMJr: And then when we presented it, Mr. Hull spoke up and said he thought the other departments had enough, that it should be just for the Treasury. And then the President got quite sarcastic and said, oh we had enough money, and -- if the other departments had, why didn't we. And I said, "Well, Mr. Bell says we haven't, and I go by what Mr. Bell tells me."

W: Yeah.

HMJr: And he said, "Oh, you can find it." And I said, "Mr. President, I can't and I want to say now as far as we're concerned it's a dead horse."

W: Yeah. Well, this was, you see, an entirely different angle. It was the idea of the creation of a new division in your department of say, eight people to handle this kind of work. Some of those then would be available to take these technical special trips of short duration to the other Republics.

HMJr: Well, no one would be more delighted than I am. I'll have -- I'll send in a memorandum to this effect direct to the Budget and see if he can clear it with the President.

W: Wouldn't it be wise if we had the opportunity, you and I, of talking the whole thing out on Monday?

HMJr: Well, how are you going to get it through Congress, Sumner?

W: Well, you can still get it through in the special -- in the last deficiency, can't you?

HMJr: Yeah, but the -- the time is -- if my guess is right, Congress will go home the night of the 29th.

W: Well, I'm going over to the White House at twelve, and I'll have the opportunity of reminding the President if you want to go ahead before we meet, of course. That's.....

HMJr: Well, I -- I -- I'm just trying to be practical.

W: Yes, that's what I'm trying to be.

HMJr: And if we will wait until next Monday.....

W: All right.

HMJr: Now, I tell you, as for the drawing it up and the kind of memorandum, I can have Joe Cotton come over and see you, who is handling that stuff for me.

W: Well, I don't -- I don't think that's in the slightest degree necessary, Henry. You know what -- what you need and how you want it done.

HMJr: Sure.

W: But all I had in mind was that since you and I were meeting on this subject, we could make a joint recommendation to the President that would cover it. But since you feel the time element is important, I'll speak to him today at noon and remind him of what he said to me.

HMJr: And.....

W: I'll tell him that you're going to do it.

HMJr: All right, and do you want me to -- well, supposing -- I'll tell you what we'll do, we'll have a memorandum drawn up and I'll hold it until I hear from you, until after you've seen the President at noon.

W: All right, let me call you back this afternoon then.

HMJr: Yes. Now, but what I'd like you -- is if you'd ask the President to send me over one of his -- his chit on this thing, giving me something.

W: I'll be glad to do that.

HMJr: Because he turned me down flater than a pancake the last time and I -- I.....

W: I'll be glad to do that.

HMJr: And so if he'd send me over -- your word is good, but -- of course, but he did turn me down flat.....

W: Naturally you want specific authorization.

HMJr: That's.....

W: I'll ask him to do that, Henry.

HMJr: Because the Director of the Budget isn't going to act on it.

W: Sure. I'll be glad to do that.

HMJr: And then that'll give.....

W: You'd have to give me an idea -- or give him an idea as to what the cost would be.

HMJr: Well, I.....

W: I told him that a new division that we had set up here with about the same number of people ran to about fifty thousand a year.

HMJr: Well, let's say -- let's say fifty thousand.

W: All right.

HMJr: Let's say fifty thousand.

W: All right. Well, I'll -- I'll speak to him about it at noon.

HMJr: And he -- let him send me a chit, "I approve setting up a bureau in the Treasury to do so and so and so and so for fifty thousand dollars."

W: All right, Henry.

HMJr: Because otherwise I can't get it through.

W: I'll be glad to do it and I'll call you back this afternoon.

HMJr: You'll be amused when I see you to tell you who called me up two or three nights ago wondering why I -- I was no longer interested in South America.

W: Who was that?

HMJr: I'll tell you when I see you.

W: Well, don't hold me up until Monday on that.

HMJr: I've got to.
W: (Laughs) All right.
HMJr: I didn't know that you had taken in these new allies.
W: I don't know whom you are talking about.
HMJr: Well, you wait. I -- I was just amazed! I was surprised!
W: I haven't talked to anyone on the subject.....
HMJr: Well, I'll tell you when I see you.
W:except the President.
HMJr: I'll tell you when I see you.
W: All right.
HMJr: Called me up over the White House phone.
W: I haven't any idea.
HMJr: O. K.
W: All right, Henry.
HMJr: Goodbye.
W: Goodbye.

July 19, 1939
6:25 p.m.

111

HMJr: Hello. Hello.

Joe
Starnes: All right.

O: Go ahead.

HMJr: Yes?

S: Hello, Mr. Secretary.

HMJr: Talking.

S: This is Joe Starnes of Alabama speaking.

HMJr: Yes, sir.

S: How are you getting along, sir?

HMJr: Pretty well.

S: You seem to have been pretty busy on the Hill today.
(Laughs) A group of us boys on the Hill, the same
identical group who talked to the President last
Friday with reference to a P.W.A. program involved
in the spending-lending program and in my bill, wanted
a conference with you. And I can tell you who the boys
are.

HMJr: Yeah.

S: Boland, the majority whip.....

HMJr: Yeah.

S:who is a member of Ways and Means.

HMJr: Yeah.

S: Dingell of Michigan, a member of Ways and Means;
McCormack of Massachusetts, Ways and Means;
Leavy of Washington, of the Appropriations Committee;
Tom Ford, Democrat -- all these, of course, of the
Banking and Currency Committee. He's from California.
Mr. Beam -- Harry Beam of Illinois on Agriculture;
Delaney of New York and Dempsey of New Mexico, both
members of Rules Committee; and Thomason of Texas and
myself. Thomason is on Military Affairs. Now, every
one of these boys have nothing in the world at heart

except the interests of the country and the interests of the Party, and every bloomin' one of us are as loyal to the boss as anybody could be.

HMJr: Yeah.

S: But we feel like that -- that it would be worth while if we could sit down and have an exchange of views with you.

HMJr: Well, I -- I -- how can I refuse you?

S: (Laughs) Well, you're mighty kind, and we could come down Friday. It would please us very much.

HMJr: I won't -- I -- I don't expect to be here Friday. I'm going up to see my parents.

S: Yes. Well now, when could we -- could.....

HMJr: Well, I was going to leave tomorrow at eleven o'clock.

S: Yes.

HMJr: So.....

S: Um-hm.

HMJr: Ah.....

S: When would you be back, Mr. Secretary?

HMJr: I'll be back Monday morning.

S: Monday morning. Let's see, I go to Rules Committee myself at ten -- there's a Rules Committee meeting at ten-thirty and then I'm down with the Civil Service Commission with the President -- with a bill -- that Veterans' Preference Bill. It looks like we're finally going to give them a bill -- at eleven o'clock, and it would have to be rather early.

HMJr: Well, I did have a dentist appointment at eight-thirty.

S: Well, I -- I presume it would be impossible for me to notify these boys and -- and get to your until Monday. I.....

HMJr: What -- what.....

S: What I mean is this.

HMJr: How about -- how about -- how about ten-thirty Monday?

S: Ten-thirty Monday will be fine, and time is the essence of course, with all of us.

HMJr: Yeah.

S: Those -- on all of it, and -- say we make it ten-thirty Monday and I'll notify the boys.

HMJr: Will you do that?

S: Yeah.

HMJr: I -- and I'll look forward to seeing you at ten-thirty Monday.

S: Fine. I will then -- I will then notify these boys and I'll send down to you so -- for your secretary's convenience there and your own, a confirmation that we're coming down and with a list of the members.

HMJr: Thank you so much.

S: You're quite welcome, Mr. Secretary. Goodbye.

HMJr: Goodbye.

GROUP MEETING

July 20, 1939
9:45 A. M.

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

H.M.Jr: I see that Coast Guard is buying four more Drummonds, according to the newspapers. Do you (Gibbons) know about it?

Gibbons: Four more?

H.M.Jr: Yes.

Gibbons: They just got the first one delivered in July.

H.M.Jr: I didn't know they had accepted them. The papers say four more. That makes seven. I wondered if they were all right.

Gaston: Is that a new type Drummond or is that the same old....

H.M.Jr: No - twin motors.

Gaston: It's a new twin-motor.

H.M.Jr: But they sent word to me they didn't want me to fly in them.

Gibbons: Until they get it....

H.M.Jr: Not even then. It lands at terrific speed - drops at a 60-degree angle, then flattens out. It may be all right.

Gibbons: May be, but I doubt it.

H.M.Jr: Well, I just didn't know anything about it.

Mac?

McR: (Nods nothing).

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H.M.Jr: You stay behind. I want to ask you about something.

Bell?

Bell: On this Commodity Credit financing, in your talk over the telephone with New York you'll probably run into the same arguments that we ran into at the time we did the Home Owners Loan - the difference of one-eighth - because one-half is a little thin and five-eighths is a little thick. Now, we did five-eighths on the Home Owners Loan, for the same term, and I think probably we'll have that same problem of taking the last ounce of flesh. Just bear that in mind.

H.M.Jr: Is it two years for Home Owners Loan?

Bell: Yes - five-eighths.

H.M.Jr: How long ago?

Bell: In June - June 1.

H.M.Jr: What do you recommend now?

Bell: Right at the time I think I recommend five-eighths, two years. A half would be a little thin at the present market, I think. New York will recommend a half, but I think it's a little thin.

H.M.Jr: Well, I'll talk to you about it.

Bell: When we get down below one percent, I don't think we ought to quarrel much about one-eighth.

H.M.Jr: I'll talk to you about it again tomorrow.

Bell: All right.

H.M.Jr: Steve?

Gibbons: Nothing.

Bell: The other thing I'd like to mention is the Home Owners Loan sale of one and a halves. We've sold 59 million and a half, about - still 40 million to go. The bonds that are coming due on August 1

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will not come in on that day. They are largely like the Liberties, and they'll drag out over months. So I'd like to just continue it - if we don't sell the 40 million, just continue on and commit the Treasury to furnish whatever funds are necessary to redeem those bonds, if it is necessary.

H.M.Jr: If it is necessary.

Bell: I don't think it will be, but....

H.M.Jr: Well, what I would do - any time there are orders and bids, I'd let them have them.

Bell: That's right, but we would tell the banks to redeem the bonds just as though the funds were in the Treasury. We'd commit ourselves.

H.M.Jr: Haven't they got enough?

Bell: It's very thin right now. They've got 220 million dollars to redeem and they've only got about 180 or 190 of cash.

H.M.Jr: Well, we'll lend them the money.

Bell: I'll write you a memorandum for the files.

H.M.Jr: Please.

Anything else?

Bell: That's all.

Harold?

Graves: Nothing.

H.M.Jr: I signed those letters. They'll go up this morning.

Graves: I had just given Mr. Foley the copy which would be submitted for your signature. That will be ready, I take it, any time you wish to have it.

H.M.Jr: Well, we'll wait until we hear from Harrison and Doughton.

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Graves: Yes.

H.M.Jr: And I sent over your letter that you wrote for me to the President on Greenlee. Some guy.

Graves: Quite a fellow. We're not proceeding with any further investigation of that man until we have your sanction.

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

Graves: Very well.

H.M.Jr:to go the limit.

Graves: Yes, sir.

H.M.Jr: To go the limit. In the report it said it was going to continue.

Graves: I know that, but I asked them....

H.M.Jr: Well, I direct you to go the limit. I think you're going to find a lot of rottenness if you follow all the leads there.

Graves: Yes, sir.

H.M.Jr: I'd go the limit.

McR: That's one case where I read all the report.

H.M.Jr: Well, I read it, too, this morning. I was simply shocked.

Lochhead: Nothing.

White: There was a report that you're going to appear before a committee Monday on public works.

H.M.Jr: They're appearing before me, at 10:30. This Congressman from Alabama - what's his name?

Foley: Starnes.

H.M.Jr: He and a gang tried to come in this morning. But he was busy and I was busy - I managed to postpone it until Monday at 10:30. About ten of them are coming down - also Pat Boland.

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Bell: Starnes is a talker, huh?

H.M.Jr: At 10:30.

White: Last week, you remember, you....

H.M.Jr: I mean by Monday the thing will be settled one way or the other.

White: Last week you were considering the letter to the President with respect to expansion of the counter-vailing duty act. There were two phases of it, and we were going to reconsider one. The Executive Committee of the Commercial Policy Committee has appointed a sub-committee. I was appointed Chairman of that. We're meeting tomorrow, and the report will unquestionably be adverse to the second portion. So you can either wait until that report comes to you, which will be by next Monday, and then you can shape your letter accordingly, or you can answer the letter sooner, if you don't want to include an adverse report.

H.M.Jr: I'll take your suggestion and I'll wait until Monday.

While I have you, just between you, want to tell me what happened after I left?

White: I think Lubin made a very, very effective statement. Unfortunately, everybody left except Crawford and one other who was talking to the Chairman. I think Luce was there for a while, too, who was pushing him. But his statement was quite effective. They kept him there for over an hour, and Crawford went into the matter of the multiplier again and again.

Luce said it seemed to him that what was being recommended, or what Lubin was saying in defense of the program, was no different from what the Townsendites said in defense of the Townsend Plan, and wanted to know what the difference was, and Lubin explained, though Luce didn't appear to be satisfied.

But I think all in all it is very unfortunate that he didn't make his statement earlier.

H.M.Jr: Somebody told me that you gave Crawford a perfectly

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good explanation of the multiplier but that he didn't realize it.

White:

No, I tried to keep away from making him think I was explaining the multiplier. I didn't realize - I was trying to dodge the question. I spoke to him afterwards and told him I thought some of the questions he asked were quite acute and indicated an interest in the subject, so on and so on. He said, well, he had to get at the bottom of this, but the bill looked better and better to him. I said, "Does that mean that you are favorably inclined to it?" He said, "Yes, I think so."

I said, "Does that mean you're going to support it on the floor, or are you going to vote against it?"

So he said, well, he didn't know; he felt a lot more favorable toward it than he did before. He said he wouldn't be surprised - maybe he would support it. But I don't know what he meant by that.

H.M.Jr:

Well, if it hadn't been for Foley and White and Bell, I'd have been even more collapsed than I was. Bell and I admit we were all in. I don't know about the rest of you fellows.

Bell:

I was worn out, I'll have to admit.

H.M.Jr:

What? You said it was the worst you'd ever been through.

Bell:

Yes. I was ready to quit.

H.M.Jr:

None of that table got in the paper.

Duffield:

No.

H.M.Jr:

Isn't there some way of getting that in the hands of Barkley so that he can get it in?

Duffield:

Well, it seems to me we never did answer his request for this material to be put in the Senate Record.

H.M.Jr:

Ed, will you see that it gets to Barkley?

Foley:

Sure. I don't know exactly what it is. What table is it?

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- Duffield: I'll give it to you.
- H.M.Jr: Lubin's stuff. Lubin's.
- Duffield: I'm borrowing from the Department of Commerce their trade journal mailing list for all of those materials.
- H.M.Jr: Wonderful.
- Duffield: And I'm going to send it to all of them today.
- H.M.Jr: Wonderful.
- Anything else, Harry?
- White: No. Steagall told Ed something that he'll probably tell you, which he thought - about its being very....
- H.M.Jr: What's that?
- Foley: Steagall thought Lubin's stuff was awful good, tremendously helpful. He was quite regretful that it didn't come earlier in the day, as you had urged, when other members of the Committee could have heard it, because that was the stuff they could use out on the floor.
- H.M.Jr: I went down on my knees.
- Foley: He said he was powerless, couldn't do it - couldn't shut off Crawford without antagonizing the rest of his Committee.
- H.M.Jr: Why, he offered to stop. It was ridiculous. I've never appeared before a weaker Chairman in my life than that man Steagall. But I mean Crawford offered to stop.
- Foley: Crawford pitched right in again after the lady got through, when I thought that you had it fixed up for Lubin to go on. I think that Steagall is a pretty good Chairman.
- H.M.Jr: You and I don't agree on that, but that makes horse races. He could have opened the meeting after lunch with Lubin.

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- White: That he could have easily done.
- H.M.Jr: Surely. He could have said, "Now we will hear from Mr. Lubin."
- Well, anyway, the thing went all right, so what the....
- Foley: He says that he's going to put Jones on this morning and Carmody this afternoon, and he's going to try to end up the hearings today. There are fourteen Democrats and eleven Republicans on that Committee, so he's only got a three-vote margin. And two Democrats are away. Patman is in Texas and Evans is up in New York. So if he loses more than a single Democratic vote, he'll have to haul Evans and Patman back. And the sooner he finds out where he stands, he says, the better off he's going to be. Then he can make his plans about getting the other two back here.
- H.M.Jr: Well, I spoke to the President here this morning and I told him I was leaving before noon, and he said, fine, he was leaving this afternoon.
- (On phone) Mr. Early - Steve Early, whenever he is available.
- Well now, what happens, do you gentlemen go up this morning?
- White: They've left it uncertain. One of them asked us to be up.
- Foley: Crawford wanted to know if you (Bell) and I were going to be back.
- Bell: Be available, he said.
- H.M.Jr: Is it true that Carmody has been sitting there for ten days?
- Duffield: His assistant told me he had.
- Foley: I don't think it's been ten days.
- H.M.Jr: Well, who asked him to come there yesterday? He marched up there and bellowed this stuff out after

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I was trying politely to get Lubin on. Was he sorry that I was putting Lubin on?

Foley:

No, he was trying to be helpful. He thought Crawford was filibustering and you were saying that you had been there all day and you were indulgent, that you wanted Lubin to testify, these were important people, so he wanted to put in his two cents and say that he was important too and he had been up there waiting and waiting and hadn't been put on.

H.M.Jr:

Well, believe me, when I want some help from him, I'll give it to him in writing, and that day I'll have my arm in a sling.

White:

Any use in finding out who the doubtful Democratic members on that Committee are?

Foley:

He doesn't think there are any doubtful ones, but he isn't sure. He thinks he isn't going to lose a single vote on the Democratic side. But he's only got twelve Democrats there and eleven Republicans there.

H.M.Jr:

Well, Ed, when I get up - if I go up, and they say I can go - to Bar Harbor, I'll call in, this evening, see, when I get in there; and I'll call again tomorrow morning. Lieutenant McKay will let you know approximately when I get there. He'll be watching the flight. As soon as I get to my father's house, I'll call the office. The sun is shining everywhere but Washington.

Bell:

It is a little foggy here.

I thought the Secretary won the lady Republican vote.

White:

I think so. You said her explanation was perfect.

H.M.Jr:

I said it.

White:

That's the only way to have answered that. To say it was perfect was the only answer to that.

Bell:

If he had said anything....

White:

If you said anything else, it would have been bad. An explanation of the business cycle - "Blow more bonds out and blow some more in."

McR: Harry, can't you get more women on that Committee?

Klotz: Who's being run down, the woman or the Secretary?

White: It was a perfect answer to that. Now, I don't know whether the Secretary had that in mind. If he didn't, then he's being run down. It was a ridiculous interpretation of what happened, but I think that was the only way to answer it, because otherwise you would have become involved, with no way out. She responded very nicely. I understand she can raise "Cain" when she wants to.

Klotz: I'm sure she can.

White: Certainly won her over in a big way. Don't know whether you got her vote or not.

H.M.Jr: Time will tell.

White: We'll find out.

Foley: I don't think any of the Republicans will vote for this bill; it will be a straight party vote.

H.M.Jr: After all, you remember what we're up there for - to win votes.

White: That's right.

H.M.Jr: Well, see, both in the Senate and the House the Republicans are taking a caucus. Well, you check up. I wouldn't send somebody up on the Hill unless they say they really want them, this morning. Just to have them sit there is too much. I mean I'd make sure they want them. I think, if I might make a suggestion, I'd say this way: "Now, nobody's coming up from the Treasury this morning, is that correct?" You see? Now, if they want somebody, all right.

How did they get along on marking up the bill in the Senate?

Foley: They have got a Committee print, and they didn't consider the Committee print in executive session yesterday; they just talked generally in executive session. And they're going to get together this morning. Barkley had a Committee print with changes prepared, showing what the old bill was and what the changes are.

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- H.M.Jr: well, you continue to use your judgment, and you're in charge as far as I'm concerned, and - but continue to carry out the White House orders in this matter.
- Foley: (Laughs)
- Gaston: According to the morning papers, that is the White House.
- H.M.Jr: But, oh, boy - Ed's got one foot in the Passamaquoddy and the other in the Florida ship canal.
- McR: I wondered how he got his feet wet.
- H.M.Jr: His feet are wet; see if you can keep the rest of you dry.
- Gibbons: Where's he got the other foot? The Passamaquoddy is one.
- H.M.Jr: One foot is in the Passamaquoddy, the other in the Florida canal.
- McR: Pretty good feet.
- Gibbons: Need a pair of hip boots.
- H.M.Jr: As Danny Bell's Congressman said, "it sure is catalytic." That's what she said.
- (Hearty laughter)
- White: She didn't mean to be funny, though, I don't think.
- (Heartier laughter)
- H.M.Jr: Oh boy, that was good. Getting better and better. Is she Congressman from your (Bell) district?
- Bell: No, I think she's a Congressman from some Chicago district.
- H.M.Jr: I thought she was from down-state.
- Bell: Oh, down-state. I don't know what section she comes from.
- H.M.Jr: All right.

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Maas: I have nothing this morning.

Foley: (Nods nothing)

Duffield: Will you have a press conference before you go?

H.M.Jr: Oh, I'm just sitting here waiting for one. 10:30, isn't it?

Duffield: Yes.

Bell: In that case, don't you want to say something about the Commodity Credit?

H.M.Jr: Oh, do I?

Bell: Don't you want to say that we're going to have a \$200,000,000 issue, announcement will be made on Monday?

H.M.Jr: Commodity Credit, two hundred million Monday.

Bell: For August 1.

H.M.Jr: For August 1. And what's the purpose of it? You better be here at 10:30. I can't learn my lesson.

Bell: I don't know how much you want to give. Don't want to give out it's going to be a short-term?

H.M.Jr: No.

Bell: I think that's enough.

Duffield: They'll ask what it's for, though.

H.M.Jr: You better be here 10:30.

Now, Gene, I'd like you to check up on this fellow Graves, see? He's starting for me an information bureau in every one of his field offices, see, and just as soon as he lets me know he's got one there, you send somebody there with dark glasses on and a brown derby, and see whether he can find out how to pay his income tax, et cetera, see how good he is.

Duffield: Can you get him to start one here in the Bureau? We need one here.

Graves: well, I didn't understand what you told me the other day. I had already had somebody designated to put the dark glasses on.

H.M.Jr: I know, but we want to check on him.

Graves: Want to check too.

White: Counter-espionage.

Graves: we've already sent out instructions to the field, precisely in line with your suggestion.

H.M.Jr: But this is a matter of public relations, and I want Gene to check your fellow, too. Where can he go, right here in the Bureau? Now about putting up the "Information" sign?

Graves: Well, I think as a matter of fact we have the sign.

Duffield: It's what's behind the sign that worries me.

H.M.Jr: Well, supposing you start right here in Washington. Just send somebody over there. Who else will there be?

Graves: We have issued this instruction to sixty-four Collectors and thirty-eight Internal Revenue Agents in Charge.

H.M.Jr: How much head start do you want?

Graves: Well, very little. I think that we ought to have compliance with this thing in a week.

H.M.Jr: Any time after the first of August, begin.

Graves: Yes, that's all right.

H.M.Jr: Any time after the first of August.

Graves: I didn't do anything about the Bureau here, because, of course, we're trying to have our taxpayers accommodated in the field and not here any longer.

H.M.Jr: Ah na! All right.

Is that true - I saw that the "Patfinder" has changed hands.

Graves: Yes - Hurja got it.

H.M.Jr: Does that make any difference to your boy?

Graves: I think it should. I've recommended to him that he look for another job.

H.M.Jr: Well, haven't they - they were going well, weren't they?

Graves: Yes.

Gaston: The real owner of that institution for some time has been the International Paper Company - probably still are.

H.M.Jr: Did you know Harold's boy is one of the editors?

Gaston: Yes, I know him quite well.

H.M.Jr: Anything else?

Duffield: No.

H.M.Jr: Herbert?

Gaston: No, I have nothing.

H.M.Jr: I just wanted to say that on Monday night for the 9:30 staff I'd like to invite you to the house; I'm going to give a double-barreled party. Mrs. Klotz is going away; and also for McReynolds. So if the 9:30 staff and their wives will come to the house at 7:30 Monday night, we'll give Mrs. Klotz and McReynolds a send-off.

Klotz: I'm going to be in on his going away.

H.M.Jr: And will you (Foley) bring your sister?

Foley: (Nods yes)

H.M.Jr: Did you hear what he (McReynolds) said?

Klotz: Said it's a compliment.

H.M.Jr: 7:30 Monday night.

McR: I suppose you got disappointed that I didn't go.

H.M.Jr: Yes. Why didn't you give us a party?

Klotz: Very good.

H.M.Jr: How's that?

Duffield: That's wonderful.

H.M.Jr: How's that for a turn-around?

McR: Pronto.

H.M.Jr: And you (Klotz) better count noses and find how many will be there.

O.K.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE July 20, 1939

TO Secretary Morgenthau
FROM Mr. Haas *JA*
Subject: Commodity Credit Corporation Financing

I. Amount of Financing

Net new cash requirements of the Commodity Credit Corporation are estimated by Mr. John D. Goodloe, Vice-President and General Counsel, at about \$320 millions between now and the end of the calendar year. It is expected that about two-thirds of this amount will be required before November 1, and the remainder thereafter.

About \$120 millions of the Corporation's cash requirements will be met from an appropriation for the restoration of its capital impairment now under consideration by the House Appropriations Committee, if the President's recommendation for such appropriation is enacted. Early and favorable action on this recommendation is not certain. Hence, it would appear that the Corporation should raise \$200 millions in the August 1 financing.

If the Congressional appropriation is subsequently made, the Corporation's public financing for the remainder of the calendar year would probably be confined to the refunding of its \$206 millions note issue maturing November 2, 1939. If Congress fails to act favorably upon the proposed appropriation during this session, the November refunding operation could be accompanied by a suitable amount of new money financing.

II. Maturity and Coupon

Although the Corporation, with the approval of the Secretary of the Treasury, is not limited by law in the choice of maturities, several considerations suggest that these be relatively short-term:

Secretary Morgenthau - 2

(a) Nominally at least, the loans made or underwritten by the Commodity Credit Corporation usually run between about 7 and 11 months in maturity, and average about 8 months.

(b) Even though a large part of the Corporation's loans is in fact frozen, for the time being, it would seem unwise to finance even such loans by long-term obligations, because their frozen character is the result of a price situation which is capable of significant change within a relatively short period.

(c) The Corporation's life as an agency of the United States expires on June 30, 1941, unless further extended by Congress or earlier terminated by the President. Without questioning the legal power to do so, it would seem undesirable to extend maturities much beyond the present authorized life of the Corporation as an agency of the United States because the Administration and Congress may wish to change the present method of handling certain agricultural price problems through this Corporation.

A 1-year note would have the advantage of the extremely low interest rate of $3/8$ percent. Such an issue, on the basis of Thursday's (July 20) closing prices, should command a premium of about $5/32$. The chief disadvantage of such a maturity is the great probability that it would have to be refunded a year later.

A 2-year note, with a coupon of $5/8$ percent, would, on the basis of Thursday's market, command a premium of about $12/32$.

A 2-year note, though attractive on other grounds, would add to the great concentration of direct and guaranteed maturities already scheduled between May 15 and August 1, 1941:

Secretary Morgenthau - 3

(Maturity)	(Millions)	
8/1/41	\$ 834	3-1/4% Treasury bonds (probably to be refinanced as of 6/15/41)
6/15/41	504	1-3/8% Treasury notes
5/15/41	192	5/8% HCLC bonds
7/20/41	211	7/8% RFC notes

However, it is altogether likely that all of the foregoing issues except the RFC maturity of July 20, 1941, will be taken care of in May and June of that year, thus permitting several weeks to elapse before it became necessary to refinance the July maturity of the RFC or the proposed August 1 maturity of the CCC. Hence, the proposed maturity would be altogether manageable.

An 18-month note would avoid the difficulty just cited. Such an issue, with a coupon rate of 1/2 percent, would command a premium, on the basis of Thursday's market, of about 5/32. It is not believed, however, that the concentration of maturities in the summer of 1941 is sufficiently objectionable to warrant the use of an 18-month maturity in place of a 2-year maturity.

A 3-year note, carrying a coupon of 3/4 percent, would command a premium in the neighborhood of 12/32, on the basis of Thursday's market. Such an issue would create a maturity 13 months longer than the present life of the Commodity Credit Corporation as an agency of the United States. It is also open to the objection that in a period as long as 3 years, a major war or other developments may do much for the price of cotton, the commodity responsible for the bulk of the Corporation's frozen loans. It may also be noted that, whereas the probable premium with a 3/4 percent coupon might be considered rather slim, a 7/8 percent coupon would produce an overgenerous probable premium of about 24/32.

III. Conclusion

A 2-year note issue, with a coupon rate of 5/8 percent, would be our first choice.

July 20, 1939
10:15 a.m.

Operator: Go ahead.

HMJr: Hello.

Compton I.
White: Hello, Mr. Secretary. Congressman White.

HMJr: How are you?

W: My compliments.

HMJr: Same.....

W: And we still have the question of silver on our minds. Say, Mr. Secretary, can I run up there and see you just a minute? I've got a long telegram here from the State of Idaho Mining Association on the price just before in that interim you know -- I mean about.....

HMJr: Now, I -- I'm leaving here in fifteen minutes, but.....

W: Well, maybe I could talk to you on the phone about it. Can't you do something for the relief of those small mines that went ahead. They -- things were so -- in such an uncertain condition and you prescribed the rule that there must be certain certificates sent in. Well, the mines couldn't stop, you know, mines are run -- they have to pump water and everything, and they went ahead and produced and it's working a pretty much of a hardship if they don't get some price above the world price from the 15th of June down to the -- July. Are you -- have you taken any consideration of that situation?

HMJr: On domestically mined?

W: Yes, domestically mined.

HMJr: Well, they get -- they get the -- they get the 64 $\frac{1}{2}$ cents up to June 30th.

W: Well.....

HMJr: On anything that they deliver.

W: Well, there's something in that rule that you put out.

HMJr: Well, I tell you what you do, if you want to, would you see my General Counsel, Mr. Foley?

W: Well say, would you give him a ring and tell him I'm coming down today. I'd like to put something out to these fellows in answer to their telegram. It would put a feather in my hat in Idaho, and you can help me on it. I can't see you -- you say you're leaving in 15 minutes. When are you going to come back?

HMJr: I'll be back Monday morning. But Foley can take care of you and I'll tell him that.....

W: Well, give Mr. Foley a ring and tell him I'm coming down.

HMJr: I'll tell him to -- when you come down to see you and to do whatever he can.

W: All right. Fine.

HMJr: And still stay within the law.

W: Well say, Mr. Secretary, would you indicate to Mr. Foley in talking to him -- I'm awful sorry to -- I can't get up there in time to see you -- something about this 64.64 price up to June the 30th? Will you -- will you get -- so he won't be in any doubt about it when I come over there?

HMJr: Well, I'll tell him what you're coming about, but as to the legal -- legality of it, I don't know. I couldn't give you a ruling off-hand.

W: Yeah.

HMJr: But -- but he'll know about it by the time you get down.

W: Oh, fine. Thank you ever so much.

HMJr: Thank you.

File
July 20, 1939

To: The Secretary
From: Miss Lonigan ^{EL}

I have a letter from Mr. Carmody saying that Colonel Harrington would necessarily be slow to take on a new enterprise in the midst of the confusion that had grown out of the new legislation. He said that a start on self-help made under those circumstances would be a disadvantage for self-help. He added, "I have heard that patience is sometimes rewarded".

That coincides with my suggestion to Mrs. Morgenthau that in view, not only of the work, but of the emotional tension due to the WPA strikes and the lay-offs, we shall gain more than we lose by proceeding slowly.

It is my estimate that we shall not be able to get action for four or perhaps six weeks.

During the waiting period it is my suggestion that I spend the time as follows:

1. Work out further details of a national self-help program, and finish correspondence with interested people, many of whom have been suggested

- 2 -

by Mrs. Morgenthau. These people will be part of our public support.

2. Visit existing exchanges in the West, to check administrative procedures planned for these exchanges and for new exchanges in States with similar problems.

For example, Texas might be an excellent State in which to work out self-help for rural families migrating to the cities, a group in which Mrs. Morgenthau is particularly interested. I have friends there since my visit in 1938. In Utah the Mormons are working out interesting ideas.

Since this trip would be necessary anyhow, it would save time after the national organization was formally started.

Will you let me have authorization to travel if this meets with your approval?

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 20, 1939

130

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Details of cotton-rubber barter plan.

The agreement between the United States and Great Britain for the exchange of cotton for rubber includes the following essential provisions:

(1) The United States Government will deliver to the British Government, on board ship at selected Gulf and Atlantic ports, 600,000 bales of cotton, of grades and staples to be specified by the British Government. The cotton will be inspected and accepted by experts appointed by that government.

Such cotton is to be made available from stocks held by the United States as security for over-due loans to growers, for which purpose the Government must take title to the cotton.

(2) The price basis will be the average spot price at New Orleans for 7/8-inch cotton during the period January 1 to June 23, with adjustments for grade and staple differences, plus 0.24 cent a pound for cost of compression and delivery aboard ship.

(3) An additional amount, estimated roughly at 60,000 bales, must be delivered to the British Government to make adjustment for the export subsidy, adopted after signing of the agreement. The exact amount will depend on the average subsidy.

(4) The British Government agrees to deliver to the United States Government, on board ship at Singapore or other acceptable ports, rubber equivalent in value to that of the cotton supplied by the United States, of grades to be specified by the United States Government. The rubber will be inspected and accepted by experts appointed by this government.

It is understood that the British Government has arranged with the International Rubber Control Committee to purchase the rubber at an agreed price, the rubber to be supplied by raising current export quotas by an equivalent amount.

(5) The price basis will be the average price for No. 1 ribbed smoked sheets for spot delivery at Singapore during the period January 1 to June 23, 1939, with adjustments for grade differences, plus 0.25 Straits Settlement cent per pound for baling and delivery on board ship.

In determining equivalent values, the rate of exchange between Straits Settlement dollars and United States dollars will be the average noon buying rate at New York during the period January 1 to June 23, 1939.

(6) The intention is to hold these stocks as reserves against a war emergency. Accordingly, each government agrees not to dispose of its stock, except in the case of a war emergency, for a period of at least seven years. Stocks may be replaced to avoid deterioration, and the intention apparently is to renew the stocks of rubber every eighteen months. After seven years, liquidation may be accomplished if steps are taken to avoid undue disturbance of the markets, after consulting with the other government as to means to be employed.

Comments on the plan

In its financial aspects to the United States Government, the plan involves merely a substitution on the books of the Commodity Credit Corporation of the value of the rubber for the value of the cotton released. The cotton is now being carried at the market value as of March 31, 1939, on which date the assets of the Commodity Credit Corporation were re-appraised. This value is somewhat lower than that at which the transfer will be made. The barter price basis averages 8.87 cents, which compares with a New Orleans price of 8.59 cents on March 31, 1939.

The gain in value, amounting to about \$350,000, will be much more than offset by the value of the additional cotton which must be given the British Government to compensate for the effects of the export subsidy. A rough estimate of 60,000 bales, based on an assumed subsidy of 1.5 cents a pound, would be valued at approximately \$2,700,000.

The total value of the 600,000 bales of cotton at 8.87 cents a pound would be about \$27,000,000. The British are specifying cotton of better grade and staple than middling 7/8, however, which will raise the average price by approximately 1/2 cent, according to Mr. Rathell of the Commodity Credit Corporation.

Secretary Morgenthau - 3

The agreement was ratified by the Senate on June 29. Enabling legislation, which would permit the Government to dispose of loan cotton at less than the amount loaned (now prohibited) passed the Senate on July 6 (S. 2697) and is now pending in the Committee on Banking and Currency of the House. The bill is being held up in that Committee by opposition from interior warehouse interests.

The bill (S. 2697) contains the provision that the reserve stocks of rubber shall be stored on military or naval reservations, or in other locations approved by the Secretary of War and the Secretary of the Navy. This would mean a substantial reduction in carrying charges to the CCC, since the storage of 600,000 bales of cotton in private warehouses is costing roughly \$2,400,000 a year.

The bill contains an authorization for appropriation of "such additional sums as may be required to carry out the provisions of this Act", interpreted by Mr. Rathell as referring to administrative expenses only.

Mr. Robbins of the AAA told me that they had a verbal understanding with the War Department that it would push for a transfer of the rubber to that Department, and for an additional appropriation to reimburse the CCC. He felt skeptical, however, of the appropriation being made.

Mr. Robbins said that no more barter deals were in prospect. The amount of cotton involved in the cotton-rubber agreement had been reduced from the 1,000,000 bales first proposed, and an attempt to negotiate with Holland for tin on a similar basis had failed, because the Netherlands Government had previously turned down Germany on a proposed barter plan and was therefore unwilling to accept a similar plan from another country.

76TH CONGRESS
1ST SESSION

S. 2697

IN THE HOUSE OF REPRESENTATIVES

JULY 11, 1939

Referred to the Committee on Banking and Currency

AN ACT

To facilitate the execution of arrangements for the exchange of surplus agricultural commodities produced in the United States for reserve stocks of strategic and critical materials produced abroad.

- 1 *Be it enacted by the Senate and House of Representa-*
- 2 *tives of the United States of America in Congress assembled,*
- 3 That, notwithstanding any other provision of law, whenever
- 4 the President, by and with the advice and consent of the
- 5 Senate, has concluded a treaty involving the exchange
- 6 of surplus agricultural commodities produced in the United
- 7 States which are held under loans made or made avail-
- 8 able by the Commodity Credit Corporation for stocks of
- 9 strategic and critical materials produced abroad, the Com-

1 Commodity Credit Corporation is authorized, upon terms and
2 conditions prescribed by the Secretary of Agriculture, to
3 accept such strategic and critical materials in exchange for
4 such surplus agricultural commodities; and for the purpose
5 of such exchange the Secretary of War, the Secretary of
6 the Navy, and the Secretary of the Interior acting jointly
7 through the agency of the Army and Navy Munitions Board
8 shall determine which materials are strategic and critical
9 and the quantity and quality of such materials. In order
10 to carry out the provisions of this Act, the Commodity
11 Credit Corporation is authorized, upon terms and conditions
12 prescribed by the Secretary of Agriculture, to procure, con-
13 vey, transport, handle, store, maintain, or rotate such sur-
14 plus agricultural commodities, and such reserve stocks of
15 strategic and critical materials, as may be necessary to
16 accomplish the purposes of this Act. Such reserve stocks of
17 strategic and critical materials shall be stored on military or
18 naval reservations or in other locations approved by the
19 Secretary of War and the Secretary of the Navy. The
20 Commodity Credit Corporation is authorized to transfer such
21 reserve stocks of strategic and critical materials, upon such
22 terms and conditions as the Secretary of Agriculture shall
23 approve, to any other governmental agency. Such reserve
24 stocks of strategic and critical materials shall be made avail-

1 able or disposed of by the Commodity Credit Corporation
2 or other governmental agency only upon order of the Presi-
3 dent in accordance with the terms of the applicable treaty;
4 when necessary to prevent deterioration, the Commodity
5 Credit Corporation or other governmental agency is author-
6 ized to replace those quantities of the reserve stocks of such
7 strategic and critical materials subject to deterioration with
8 equivalent quantities of the same materials. The funds now
9 or hereafter made available to the Commodity Credit Cor-
10 poration are hereby made available to carry out the pur-
11 poses of this Act. There is hereby authorized to be appro-
12 priated such additional sums as may be required to carry
13 out the provisions of this Act. All funds for carrying out
14 the provisions of this Act shall be available for allotment
15 to bureaus and offices of the Department of Agriculture,
16 and for transfer to such other agencies of the Federal Gov-
17 ernment as the Secretary of Agriculture may request to
18 cooperate or assist in carrying out the provisions of this
19 Act.

Passed the Senate July 6, 1939.

Attest:

EDWIN A. HALSEY,
Secretary.

AN ACT

To facilitate the execution of arrangements for the exchange of surplus agricultural commodities produced in the United States for reserve stocks of strategic and critical materials produced abroad.

JULY 11, 1939

Referred to the Committee on Banking and Currency



Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

145
Farm

DATE July 20, 1939.

TO Secretary Morgenthau

FROM Mr. Haas *HA*

Subject: Progress in the "Stamp Plan" surplus food distribution, as reported to Mr. Haas by Mr. Milo Perkins, President of the Federal Surplus Commodities Corp.

The "Stamp Plan" system is now in operation in three cities -- Rochester, New York, Dayton, Ohio, and Seattle, Washington -- and will be started in Birmingham, Alabama, on August 1, 1939.

Mr. Perkins explained to me that when the plan was started in Rochester, there was a public announcement that the "Stamp Plan" was being attempted as an experiment and would be first conducted in a few cities, and if a study of the experiment indicated the results were satisfactory it would be initiated on a wide scale. He informs me that the studies of the operations in the first cities are now in progress but have not as yet been completed. However, preliminary analyses indicate that the final conclusions of the studies will favor further expansion of the "Stamp Plan".

Mr. Perkins explained at some length the preliminary work which is necessary to be done in each city before the plan is to be put into operation. This involves selling the idea to the various groups in the cities -- grocers, bankers, etc. This, he pointed out, takes considerable time, but it is absolutely essential that it be done as the plan is operated almost wholly by the local people, the Government merely supplying the food and making final redemption of the stamps.

Mr. Perkins stated that he hoped it would be possible to have thirty cities operating under the plan by January 1, 1940, and one hundred cities by July 1, 1940. He was careful to add, however, that this was not something that he would underwrite but rather a tentative program toward which he was working. Under these circumstances he felt that any estimate of the amount of money involved under the plan would be just a mere guess.

Secretary Morgenthau -2-

I asked Mr. Perkins what their present program was for the utilization of the \$203 millions made available to them by Congress under Section 32. (This appropriation is made up of \$90 millions, which represents their permanent allotment of 30 percent of customs receipts, and \$113 millions added by Congress at this session.) Mr. Perkins stated that they estimate \$120 millions will be utilized for domestic disposal of agricultural surpluses, this item including the "Stamp Plan" disposal method and the direct surplus disposal, and \$80 millions will be used for the cotton, wheat, and wheat flour export subsidies and for domestic diversion of products such as surplus peanuts into peanut oil, etc. These estimates are, of course, very rough approximations. Some funds will have to be available for administrative expenses, etc.

July 20, 1939.

Dear Harriner:

Thank you for your letter of July 19th. I am glad that you approved of my statement before the Senate Banking and Currency Committee. I also was most interested to read your own statement as presented to the Committee. I am glad that you feel your hearing was a satisfactory one.

With all good wishes,

Sincerely,

Henry

Honorable Harriner S. Eccles,
Chairman, Board of Governors of the
Federal Reserve System,
Washington, D. C.

CKF/abs

July 30, 1939.

Dear Harriner:

Thank you for your letter of July 19th. I am glad that you approved of my statement before the Senate Banking and Currency Committee. I also was most interested to read your own statement as presented to the Committee. I am glad that you feel your hearing was a satisfactory one.

With all good wishes,

Sincerely,

Henry

Honorable Harriner S. Hoopes,
Chairman, Board of Governors of the
Federal Reserve System,
Washington, D. C.

GHF/dbs



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ack rec. 145
M. S. Ray
OFFICE OF THE CHAIRMAN

July 19, 1939.

Dear Henry:

I wish to thank you for sending me a copy of your statement of yesterday before the Senate Banking and Currency Committee. I read it yesterday with much interest and am in full accord with everything you say in it.

I am enclosing a copy of the statement I made this morning before the same Committee. The Committee discussed with me the various features of the bill for about one and one-half hours after I read the statement. I personally feel the reception I got from the Committee was satisfactory and their response on the whole was favorable.

Sincerely yours,

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

enclosure

R-505

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

July 19, 1939

For Immediate Release

Statement by Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System, and Member of the Advisory Board on Fiscal and Monetary Policy before the Banking and Currency Committee of the United States Senate.

STATEMENT OF M. S. ECCLES BEFORE THE SENATE COMMITTEE
ON BANKING AND CURRENCY S-2759

In appearing here this morning I wish to make it clear that I testify not in my capacity as Chairman of the Board of Governors of the Federal Reserve System, but as a member of the Fiscal and Monetary Advisory Board which was consulted by the President when the program underlying this bill was formulated.

I should like to state very briefly my views as to the nature of our economic difficulties that make it necessary to undertake a program along the lines proposed in this bill at this time.

I am convinced on the basis of observation and a great deal of study that has been given to the problem that the present unsatisfactory economic condition of the country, with its large volume of unemployment, is not a passing stage in the so-called business cycle but has fundamental underlying causes that need to be remedied before we can hope to achieve a sustained adequate volume of employment, a reasonably satisfactory national income, and a reasonably stable degree of prosperity. The fundamental adjustment in our economic mechanism that is required is the establishment of a better equilibrium between the capacity of the country to consume goods and services and its capacity to produce them. In the 1920's we had a fair degree of adjustment between consumption and production, but this adjustment was achieved through the existence of many outlets for investment which no longer exist at present. The automobile industry was rapidly expanding; States and municipalities were expending nearly a billion a year, in excess

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of tax receipts, much of it on roads, highways, and schools. There was a billion spent a year on commercial buildings, stores, offices, and hotels. Universities, hospitals, country clubs and other non-profit institutions were spending between one-half billion and a billion a year. A similar amount was annually lent abroad. There was a rapid growth of installment selling which increased the annual spending of the people in later Twenties by nearly a billion a year. And, in addition to all this, we had a tremendous bull market in securities, which resulted in a large volume of luxury spending of profits made in the market.

Many of these factors, which helped to produce a consumer demand for goods that was sufficient to consume the products of industry, are not at present at work or in prospect. The rate of population growth is about one-half now of what it was in the Twenties. This drastic slowing up in population growth, together with declines of property values, have resulted in a decline in State and municipal expenditures so that tax revenues have, since 1932, exceeded expenditures, thus resulting in an addition to funds available for investment instead of providing an outlet for such funds. There is no disposition to make private foreign loans at this time. Commercial and office buildings are still available in excess of the demand. Churches, clubs, and universities have reduced their capital outlays to a small figure. The automobile industry is no longer in the stage of rapid expansion. There is no prospect of the kind of source of spending power as grew out of the stock market boom. And even residential construction, notwithstanding indispensable help from the Government, is below the level of the Twenties.

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The magnitude of the problem facing us is clear. From 1923 to 1929, outlays of the type that absorb capital funds averaged more than \$15 billions a year. Allowing for the increase in population as well as for technological advances that have taken place in the last decade, it would appear that comparable outlays today to insure reasonably full employment would have to be more than \$18 billions a year, provided there is no material change in the present division of the national income between consumption and new investment.

In view of our changed conditions one of three alternatives faces the country: (1) either an unforeseen and unforeseeable very large outlet for investment must develop in new or in old industries, or (2) a very considerable increase must be brought about in the proportion of the national income that goes into consumption, or (3) the Government must provide an outlet for idle funds through deficit financing of work relief, public works, armaments, etc., or, as far as possible, through a program such as proposed in this bill for socially and economically desirable, non-profit making but largely self-liquidating investments. Unless some or all of these developments take place, we cannot escape continuous depression with its accompanying great unemployment. We can remove all the so-called deterrents to business and provide all the stimulus to business that we can contrive, and yet we shall still fall far short of the objective of full production and employment. It is only as adequate outlets are provided for our savings that the national income can rise to a satisfactory level, and it is only as the national income increases that tax revenue adequate to balance the budget can be achieved.

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Of the solutions just indicated - the first is unpredictable, and we cannot wait in the hope that it will materialize sometime, somehow, although much more can and should be done to stimulate private activity in the field of housing to reach a much larger percentage of our population. The second, - a larger proportion of the national income going into consumption - should be a major part of public policy, but it appears to be a slow process, and in the meantime, as an immediate approach, increased investment operations of the Government are the only direct, immediate, and feasible plan at our disposal for the achievement of badly needed improvement.

The present bill constitutes in part an attempt to develop a program of public investment of a self-liquidating nature. It is, I think, indispensable, in view of the proposed greatly reduced employment in WPA and PWA. I am, however, forced to say that the annual expenditures that can be achieved under this program will make only a small contribution toward the solution of our basic problem. My own personal view is that the self-liquidating program, excellent as it is so far as it goes, should be supplemented by a continuing public works program.

Even more basic, however, is the necessity of increasing the proportion of the national income that goes into consumption. The line of progress in this field is clear. It has been traveled ahead of us by many of the older countries. Old-age security provisions in European countries have been so designed as to increase consumption relative to income. In England only sixty per cent of the cost of a national old-age pension scheme

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is met by payroll taxes; in Sweden only twenty-two per cent. In our country, however, we will have, in the three years ending next December, taken out of consumption in the form of payroll taxes \$1.7 billion more than has been returned in old-age benefit payments. Payments under the old-age assistance part of the program have constituted only a minor offset to this withdrawal. In addition, we have increased national saving and decreased consumption through the operation of our unemployment insurance program. The changes in our old-age security program now pending will alleviate this situation slightly. Even if pending amendments are passed, however, we will collect some three to four hundred million dollars more than we pay out in benefits next year. These provisions will have to be further revised. We shall also have to reconsider our entire tax structure, with a view to decreasing taxes on consumption and increasing taxes on income that would otherwise add to unused investment funds.

It is idle money, hoarded money in cash or in deposits, that obstructs the flow of the national income. Money that is saved and invested continues to function, and we must find means both of increasing the proportion of the national income that is consumed and of providing investment outlets for the money that is saved. There is no other way to keep the economy going in a satisfactory manner.

This, then, is the situation in which the present bill must be viewed. If the various items in the bill are approved, and if the resulting programs are prosecuted with vigor, investment outlets for an additional portion of the mounting savings of the community will have been provided in

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useful self-liquidating projects which will not entail any charge on the budget nor any increase in the public debt. There is little financial risk involved as compared with the social and economic gain. The present extremely low level of interest rates makes it possible to utilize a part of our vast volume of idle funds, to make some of them available to borrowers who could not afford to use them if the rates were higher, and thus to diminish the number of idle men.

The provision of certain transportation facilities on a toll basis will permit the construction of certain by-passes, tunnels, bridges, etc., whose cost should properly be borne by the user. The rural security loans will enable hundreds of thousands of farmers who now cannot support themselves and are a continuing charge on relief funds to become self-supporting. Such an investment is one of the most desirable our country could possibly undertake. The rural electrification loans will bring the benefits of electricity to thousands of farmers and will provide markets for the private power companies and for the makers of appliances.

It is, however, of the section relating to railway equipment that I wish to speak particularly. I think the Committee will be interested in the considerations that led to its inclusion in this program. We have, on the one hand, in the railroad equipment industry, one of the most depressed of all our capital goods industries. On the other hand, we have the railroads, with the supply of rolling stock rapidly declining in quantity and deteriorating in quality. Our supply of freight cars is back to the level of 1905. Well over 40 per cent of the freight cars are twenty years of age or

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older. Over 70 per cent of the locomotives are 20 years of age or older and only 3 per cent are under ten years of age. Some 13,000 steam locomotives of American railroads were built before 1910. Most of the machine shop equipment of American railroads is universally acknowledged to be obsolete and in poor condition. Consequently, repair costs are high, both because of the age of the rolling stock and because of the character of the equipment of the machine shops. In no field, I believe, from the point of view of economy, recovery or national defense, could the Government's credit be better used than in enabling the roads to modernize their equipment.

The success of this program depends upon low interest rates, long maturities and no down payments so that railroads can acquire new equipment at annual costs no greater and in some cases less than those arising out of the operation and maintenance of some of the present aged and obsolete equipment. The bill contemplates that the interest charged will be no higher than the cost of the money to the RFC on like maturities and in no case more than the highest rate on long term Government obligations.

The present bill proposes that to the existing loaning powers of the RFC which have been used to a relatively small extent by the railroads for new equipment, the railroads should be permitted to acquire equipment on a leasing basis. The Government will then be in a position to meet the needs of every type of railroad for every type of equipment. Many railroads will doubtless prefer to acquire equipment through the customary form of equipment trust certificates. Others, however, who are reluctant to increase their debt, will prefer to acquire equipment on the very favorable

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terms that will be possible through a leasing arrangement.

In fact, in certain cases, the leasing arrangement will make expenditures possible that would otherwise not be undertaken. Thus it will now become possible for the Government to finance a major rebuilding program, should this prove the economical thing for any railroad to undertake. The RFC will be in a position to contract to purchase older equipment, to have it rebuilt in the shops of the railroad in question, and lease this equipment back to the railroad. Again, the purchase of machine shop equipment can be facilitated through a leasing arrangement, and the cash resources of railroads can be saved for urgently needed improvements on way and structures. Finally, the scrapping of obsolete equipment and the sale of used rolling stock to certain foreign countries that are badly in need of cheap equipment can be facilitated.

I have found in discussing this proposal with various men in the industry in recent days that a good deal of confusion and misunderstanding exists as to the nature of the leasing arrangement. Since it is proposed that the leasing arrangement should be used merely as a means of enabling railroads to acquire equipment, and that the RFC should not purchase any equipment except upon the agreement to lease and upon the specifications of individual roads, I suggest that this be made perfectly clear through a re-phrasing of paragraphs (b) and (c), under Section 8.

I should also favor making this additional \$500 million available for loans as well as leases, as the existing loaning power of the RFC for railroad equipment is limited. Paragraph (a) could well be deleted, pro-

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viding the specifications submitted by individual roads for rolling stock to be constructed and leased to them should be subject to the approval of the RFC. If these changes were made, they would meet the only objections that I, personally, have heard raised to this part of the Self-Liquidating Bill.

JUL 20 1939

My dear Senator:

I am attaching a statement and five tables which have been prepared under the direction of Isador Labin, Commissioner of Labor Statistics, Labor Department, in response to your request that I furnish for the record statistics on the employment and use of materials which will grow out of the enactment of S. 2759, the Self-Liquidating Program now under consideration by your Committee.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Honorable Alben W. Barkley,

United States Senate.

Attachments : Mimeographed copy of "Estimates of the Amount of Labor Created by Federal Loans or Expenditures for Construction Projects.
Tables I to V, inclusive prepared in Bureau of Labor Statistics, Division of Construction and Public Employment.

HHF:skm 7-20-39

Mr. Foley

Estimates of the Amount of Labor Created by Federal Loans or Expenditures
for Construction Projects

The construction of public works has long been a first line of defense against unemployment in periods of depression. In judging the effectiveness of any program of public works as a means of reemployment, several groups of workers must be considered. First, there are the men who work on the job itself. They are carpenters, bricklayers, stone masons, ditch diggers, cement finishers, and a host of other skilled, semi-skilled and unskilled men who work with them. Second, there are the men in the factories who provide the brick, cement, lumber, and steel to be used on the job. Back of them are the miners, the loggers, and others who supply the raw materials for the factories; and last, there are the men on transportation systems which carry the materials to the factories and later to the job.

Employment of these secondary groups of workers is just as important in any reemployment program as the employment of men at the site of construction. For a great many types of public works the materials, man-hours, and transportation men are numerically more important than the men working at the site of the construction projects.

The vast majority of contractors and subcontractors working on construction projects financed in whole or in part by Federal funds send monthly reports to the Bureau of Labor Statistics showing the number of employees, amounts of pay rolls, and man-hours worked at the site of each construction project. Each contractor also notifies the Bureau of the type and value of materials which he purchases for these projects as well as the source of his supplies. This provides a record of the total value of materials used in relation to the cost of the job and to the size of the site pay roll.

On the basis of the information furnished by the suppliers of these materials, the Bureau makes estimates of the number of man-hours of labor required in the manufacture and fabrication of these materials.

Beyond this labor consumed in the manufacturing of these products purchased by the contractor is other labor used in making the raw materials that went into their production. For steel, cement, lumber, brick, plumbing and heating supplies, electrical products, and sand and gravel, the Bureau has traced the record far back along the line to the original supplies of raw materials. Mines, railroads, factories, and shipping lines opened their records for the personal inspection of the agents of the Bureau so that these facts could be obtained.

The studies of the Bureau of Labor Statistics have now segregated the benefits to industry and employment arising from each major type of public works construction. They show what happens to men and machines when various types of public works construction projects are undertaken.

With the material from these surveys, it is possible to forecast with a reasonable degree of accuracy, the results which might be expected from new construction programs. For example, for each \$100,000,000 spent for non-Federal public works of the sort that were constructed under P.W.A., the Bureau estimates that there will be 34,400,000 hours of labor created at the construction site, and that 65,700,000 hours of work will be created in mines, forests, factories, and on transportation systems. See Table 1.

In addition to the number of hours of employment created in fabricating the materials, the Bureau's studies also show the dollar value of orders which factories may expect from different types of programs. For example, in a

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\$100,000,000 building construction program, iron and steel mills may expect orders valued at \$15,000,000; lumber and millwork firms, orders in the amount of \$5,300,000; brick and tile plants, orders in the amount of \$4,200,000, etc.

For every \$100,000,000 spent for self-liquidating transportation projects, approximately 47,500,000 hours will be created at the construction site and 66,900,000 hours in mines, forests, factories, and on transportation systems. See Table 2.

A Rural Electrification program of \$100,000,000 will create approximately 34,000,000 hours at the site and approximately 47,000,000 hours in mines, forests, factories, and on transportation systems. See Table 3.

The program would provide for the installation of approximately 460,000 miles of line. This would involve among other things the purchase of 9,200,000 poles, 1,150,000 meters, 1,000,000 transformers, 400 million pounds of copper, aluminum and steel. The program would serve a minimum of 1,150,000 rural families.

In addition to the foregoing the construction of these new lines would, during the first six months they were energized, result in the installation of approximately \$115,000,000 of home wiring and the purchase of over \$230,000,000 of home electrical appliances purchased by the families receiving electric service for the first time. Since approximately one-half of the cost of wiring represents labor (including that of the contractor) and one-half represents the cost of wiring materials, a market will be created by this program of over \$230,000,000

- 4 -

for appliances and approximately \$57,500,000 of wiring materials such as insulated copper conductor, outlets and switches. The figure on appliances is low; purchases during the second six month period would raise the total perhaps as much as 25 percent.

Included in the appliances purchased during the first six months of service would be approximately the following totals:

1,000,000	radios
950,000	hand irons
550,000	washing machines
300,000	refrigerators
275,000	toasters
200,000	water pumps
200,000	vacuum cleaners
100,000	small motors

So far we have been talking about the benefits the durable goods manufacturers receive from public works construction. The manufacturers and vendors of consumers' goods and services also benefit by public works expenditures. From its studies of family expenditures, the Bureau has determined approximately how wage earner families spend their earnings. It is estimated that a \$100,000,000 non-Federal construction program will show expenditures by wage earners of \$21,700,000 for food; \$10,700,000 for housing; and \$7,300,000 for clothing, etc. See Table 4.

The railway equipment program would create over 400,000,000 man hours of employment, one-fourth of which would be in the car shops. The bulk of the employment involved in car building would be of a skilled and semi-skilled nature. A rough estimate of the amounts of material involved in the program (assuming that one-fourth of the construction

- 5 -

will be of locomotives) is 400 million man hours in which one-fourth will be in the car plants and the remainder outside of the car plants. Over 30 million tons of steel would be employed, over 10 million tons of coal, 780,000 tons of lumber, 15,000 tons of paint, 60,000 tons of refractories. In addition to these there are a large number of machine tools, small tools, electrical equipment which would be needed.

The preliminary estimates of the Farm Security Administration indicate that about one-half of the sum allotted in this bill would be used for loans to individual tenants and to tenant purchase associations to finance the purchase and improvement of farms. The remaining \$300,000,000 would be used for rehabilitation loans, minor farm improvements, and water facilities -- particularly irrigation wells, small dams, ditches, pipe lines, and livestock watering facilities.

HD:lrs
7/19/39

TABLE I

Prepared in the Bureau of Labor Statistics
Division of Construction and Public Employment

AN ESTIMATE OF THE EFFECT OF \$100,000,000 OF CONSTRUCTION-CONTRACTS AWARDED
FOR P.W.A. BUILDING CONSTRUCTION PROJECTS

NON-RESIDENTIAL

(Subject to revision)

Expenditures for:	
Labor at site	\$29,300,000...29.3%
Material	54,100,000...54.1%
Other expenses and profit	16,600,000...16.6%
Man-hours worked:	
At the construction site	34,400,000
In mines, forests, factories, transportation, and in administration	65,700,000
Value of material orders placed:	
ALL MATERIALS	\$54,100,000
Iron and steel products, not elsewhere classified	15,000,000
Lumber and millwork	5,300,000
Brick and hollow tile	4,200,000
Cement ^{1/}	3,900,000
Heating and ventilating materials	3,600,000
Sand, gravel, and crushed stone ^{2/}	3,100,000
Plumbing materials	2,800,000
Electric wiring and fixtures	2,700,000
Marble, granite, slate, and other stone products	2,200,000
Electrical machinery, apparatus, and supplies	1,400,000
Wall plaster, wall board, and insulating board	1,100,000
Roofing materials, not elsewhere classified	900,000
Non-ferrous metals and their products	800,000
Tiling, floor and wall, and terrazzo	600,000
Paints and varnishes	400,000
Other materials	6,100,000

^{1/} Includes cement in concrete products.

^{2/} Includes sand and gravel in concrete products.

TABLE II

Prepared in the Bureau of Labor Statistics
Division of Construction and Public Employment

AN ESTIMATE OF THE EFFECT OF \$100,000,000 OF CONSTRUCTION-CONTRACTS
AWARDED FOR A HIGHWAY CONSTRUCTION PROGRAM

Expenditures for:

Labor at site	\$29,500,000	29.5%
Material	48,200,000	48.2%
Other expenses and profits	22,300,000	22.3%

Man-hours worked:

At the construction site	47,500,000
In mines, forests, factories, transportation and in administration	66,870,000

Value of material orders placed:

ALL MATERIALS	\$48,200,000
Iron and steel products	12,200,000
Sand and gravel	10,960,000
Cement	10,040,000
Paving materials and mixtures	4,800,000
Lumber and timber products	2,400,000
Stone and clay products, not elsewhere classified	1,300,000
Other materials	6,500,000

TABLE III

Prepared in the Bureau of Labor Statistics
Division of Construction and Public Employment

AN ESTIMATE OF THE EFFECT OF \$100,000,000 OF CONSTRUCTION-CONTRACTS AWARDED
FOR RURAL ELECTRIFICATION PROJECTS

Expenditures for:

Labor at site	\$18,200,000
Material	65,500,000
Other expenses and profits	16,300,000

Man-hours worked:

At the site	34,019,000
In mines, forests, factories, transportation, and in administration	46,800,000

Value of material orders placed:

ALL MATERIALS	\$55,500,000
Poles	12,600,000
Meters	3,000,000
Transformers	12,800,000
Conductors	21,700,000
Other materials	15,400,000

TABLE IV

Prepared in the Bureau of Labor Statistics
Division of Construction and Public Employment

HOW WAGES RECEIVED ON \$100,000,000 P.W.A. BUILDING CONSTRUCTION PROGRAM
WILL BE SPENT

Total	\$67,472,000
Food	21,726,000
Clothing	7,287,000
Housing	10,728,000
Household operation	7,759,000
Furnishings and equipment	2,969,000
Transportation	6,140,000
Recreation	3,643,000
Medical care	2,834,000
Other items	4,386,000

Prepared in the Bureau of Labor Statistics
Division of Construction and Public Employment

AN ESTIMATE OF THE EFFECT OF \$100,000,000 OF CONTRACTS FOR
THE MANUFACTURE OF FREIGHT CARS

(Subject to revision)

Man-hours worked:

In car-building plants	23,840,000
In mines, forests, factories (other than car building & transportation)	66,940,000

Number of man-hours worked in mines, forests, factories
(other than car building), transportation and in
administration:

ALL MATERIALS	66,940,000
Steel products	53,295,000
Coal	6,692,000
Journal box waste (dry)	38,000
Lumber	6,400,000
Paint	68,000
Refractories	447,000

REB

PLAIN

London

Dated July 20, 1939

Rec'd 2:43 p. m.

Secretary of State,
Washington.

1032, July 20, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

1. The Bank of England return shows that the increase in the note circulation is checked. There was a decline in public deposits of pounds 1.0 million, while an increase in bankers' deposits of pounds 8.4 million due in part to "special" purchases of treasury bills reflected in an increase in government securities in the banking department of pounds 4.8 million, and an increase of other securities of pounds 2 million, indicate official steps to ease the credit position.

2. No silver was invoiced today. The price hardened slightly to 15 13/16 for spot and 16 5/16 for forward. The turnover was small with selling from the United States, Indian buying, and bear covering, all on a small scale.

3. The general atmosphere in the city today has been rather pessimistic in its interpretation of the international situation. Indications of nervousness are the demand for coin,

REB

2-1032, From London, July 20, 6p.m.

coin, gold dollars being bid to 7S 2 7/8 and sovereigns to 35S 2D., and renewed gold hoarding. The British fund gave over 120 bars of gold at the fixing when 125 bars were dealt in, 2 of which were married, the demand being practically all for hoarding, the price being fixed at 1D premium. The foreign exchange market was affected by rumours of trouble in Poland, and the dollar sterling rate fluctuated, being rather bid most of the day. The British fund is believed to have operated in a small way in the forward market, offering the three months dollar at 1 5/8 - 9/16.

KENNEDY

CSB

RECEIVED

 JUL 21 1952
 TREASURY DEPARTMENT
 Office of the Secretary
 UNITED STATES DEPARTMENT OF THE TREASURY

REB

GRAY

Paris

Dated July 20, 1939

Rec'd 3:30 p. m.

Secretary of State,
Washington.

1341, July 20, 6 p. m.

FOR TREASURY.

The exchange market was very slow today the pound remaining 176.72 with no purchases by the fund. The dollar was more in demand and the forward franc more offered. The belga was stronger and the florin active and erratic. The Swiss franc was little bid. Securities were down slightly rentes losing fifteen to twenty-six centimes.

The markets were a little more pessimistic as evidenced by a resumption of hoarding through purchases of gold coins. The gold dollar which three weeks ago was quoted at 63.35 or practically the melting point is now up about one percent to 64.05. Similarly gold sovereigns have risen from 308 to 311 3/4.

The bank of France statement dated July 13 issued today shows little change. Commercial advances were up 6,300,000 francs and 30 day advances up 29,600,000. Note circulation

REB

2-#1341, From Paris, Jul. 20, 6p.m.

circulation was down 154,000,000 and deposits up 65 million.
Ratio of gold cover increased slightly from 64.14 to 64.18.

(END SECTION ONE)

BULLITT

CSB

ML

GRAY

171

Paris

Dated July 20, 1939

Rec'd 3:25 p.m.

RECEIVED
JUL 21 1939
U.S. DEPT. OF STATE
TELETYPE UNIT

Secretary of State
Washington

1341, July 20, 6 p.m. (SECTION TWO).

It is stated in today's financial press that judgment in the case of the Spanish gold held by the Bank of France will be rendered by the Paris court in seven days.

AGENCE ECONOMIQUE carries a Fournier message from London to the effect that the ~~Italian~~ Government is considering a credit of three million pounds (sterling) to Yugoslavia for the purchase of Italian products.

Despatches from Berlin describe satisfaction expressed in the German press at the recent extension for one year of the Franco-German Commercial Agreement. Special mention is made of the provision that France will make "normal" deliveries of such raw materials as iron ore and coke and that commercial exchanges with Moravia and Bohemia will be resumed under the arrangement. The despatches confirm relation in Berlin that provision is made for the release of Czechoslovak holdings blocked in France totaling about twenty million francs (please see telegram No. 968 of May 19) as well as of holdings of certain German insurance companies in France seized under the Treaty of Versailles.

(END MESSAGE).

BULLITT

KLP

HRE

GRAY

LONDON

Dated July 20, 1939

Rec'd 10:30 p.m.

Secretary of State

Washington

1033, July 20, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

One. The Anglo-Polish financial negotiations are still deadlocked. The Poles wish to use the proposed £8,000,000 Anglo-French cash loan, referred to in my 964 of July 10, 6 p.m. mainly for purchases in third countries, particularly the United States. The British are unwilling to place this additional drain on their gold resources and wish the Poles to devalue the zloty and amend their banknote act so that the Anglo-French cash credit could serve for a further expansion of their note issue and thus ease their somewhat acute budgetary situation. The press has not obtained information about devaluation but has published varying accounts of some of the difficulties which have arisen in the discussions. Presumably this is an attempt by the Poles to force the British Government's hand through an indirect appeal to its public opinion.

Two. Through the British Embassy in Ankara, the Turks have put up a request for Anglo-French assistance totaling £60,000,000 of which £15,000,000 is desired in gold.

The

HRE

2-#1033 From London July 20, 6 p.m.

The British Treasury has no present intention of meeting any such proposal and the French have called the attention of the British to the fact that they have just ceded Hatay to Turkey, which the British countered by pointing out that it was not French territory. The British Treasury is prepared to increase the £16,000,000 it gave Turkey last year by means of further export credits. It hopes to postpone any discussions of cash until after Parliament recesses, at which time it can plead its inability to act without parliamentary approval.

Three. New Zealand is to be given export credits totaling £9,000,000, £5,000,000 of which are long term and £4,000,000 of which are short term facilities to tide over the New Zealand Ministry of Finance until the wool clip comes in. Nash has also finally been able to arrange for conversions of the £16,000,000 of New Zealand Government bonds maturing at the end of the year.

Four. I venture to reiterate again that with the recent expansion in the British arms program entailing borrowing during the current fiscal year of £500,000,000 and the granting of such cash and export credits as are referred to above, Great Britain is approaching the point at which fiscal measures are no longer merely a function of the national income and financial position conducted along the usual

HRE

3-#1033 From London July 20, 6 p.m.

usual lines of least political resistance. The fiscal problem is now reaching the dimensions of an economic problem and measures will have to be taken to ensure forced saving if a real adjustment in the value of money in terms of both goods and services is to be avoided.

Five. Wohlthat who is avowedly in London as German delegate to the International Whaling Conference is also having talks with the British Treasury as envisaged in my 1,000, July 14, 7 p.m.

KENNEDY

EMB:NPL

RECEIVED

JUL 21 1953

TREASURY DEPARTMENT
U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: July 21, 1939, 6 p.m.

NO.: 1350

FOR THE TREASURY.

The exchange market was very dull and inactive today, the fund gaining about one hundred thousand pounds sterling at around 176.72. The forward franc was slightly more offered; the Swiss franc and belga were both unchanged with the latter a little more in demand. The florin continued strong. The securities market was equally stagnant with rentes unchanged to 5 to 10 centimes down.

Rueff of the Finance Ministry and Matthews of the Embassy had lunch together. Rueff told Matthews that the borrowing requirements of the Treasury for the rest of the calendar year amount to about 16 billion francs - it would appear that this figure is unduly low. The French Treasury plans to cover this solely by short term borrowing and issues in the name of the railways and the Credit Foncier.

Armament bond subscriptions are coming in at the rate of a little more than 100 million francs a day, which is a satisfactory rate. Since November, 1938, gold repatriation

- 2 -

repatriation has been well over the 25 billion mark. Rueff told Matthews that the fund "had never been as high as today". The French Government does not contemplate any long-term borrowing. Rueff explained that in May the 40-year loan had been issued with the object of bringing in bank notes which, after the Czech crisis of last March, were being hoarded in the provinces.

The impasse reached in the Polish loan negotiations in London seems to have depressed Rueff. However, he criticized the financial policy of Poland, which he called "fantastic". He upheld the British view that the zloty should be devalued.

The hope was expressed by Rueff that it would be possible for the Export-Import Bank of Washington to "cooperate" with the French "private" cotton mission which is now in the United States. The French Financial Attaché in Washington has been instructed to "assist" this mission.

END SECTIONS ONE, TWO AND THREE.

BULLITT.

EA:LWW

CJ

GRAY

PARIS

Dated July 21, 1939

Rec'd 3:47 p.m.

Secretary of State,
Washington.

1350, July 21, 6 p.m. (SECTION FOUR).

Following press reports from Berlin relating to the renewal of the Franco-German Commercial Agreement (please see telegram No. 1341 of July 20) the French Minister of Finance announced today that the arrangement concluded modifies the basic agreement in some important respects including reductions in a certain number of import quotas granted to the Reich. As concerns financial questions the communique states that "a definitive settlement on the existing basis has been concluded regarding the service of the Dawes and Young loans and the guaranteed Austrian loans. Furthermore, the transfer fund for private credits has been increased so as to permit more regular service in these credits."

BULLITT

KLP

PARAPHRASE, SECTION FIVE, NO. 1350 OF JULY 21, 1939
FROM THE AMERICAN EMBASSY, PARIS.

Denial is made of rumors that an agreement was reached regarding trade between France and Czechoslovakia but it is admitted that "unilateral measures have been taken enabling French commerce to regain its position in the Czech market and to insure recovery of French commercial credits which have been blocked for several months".

No mention is made in the communique of blocked Czech assets which are held in France. So far as he knew, Rueff said, no release had been definitely agreed upon; Rueff said his expert was due back from Berlin this morning. Rueff however did not deny that consideration had been given to the matter.

END OF MESSAGE.

BULLITT.

EA:LWW

CJ

GRAY

LONDON

Dated July 21, 1939

Rec'd 2:45 p.m.

Secretary of State,
Washington.

1049, July 21, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

One. No silver was invoiced today and dealings were very small with the spot price unchanged 16 13/16 while the forward price rose 1/16 to 16 3/8.

Two. The official steps to ease the credit position noted in the first section of my number 1032, July 20, 6 p.m., are reflected in a slight decline in the Treasury bill rate which was today 14 shillings 8.61 pence as compared with 15 shillings 8.99 pence last week.

Three. Though stock exchange prices were slightly better today with war loan closing up 1/8 at 92½, gold hoarding continues. The fixing price was again at one pence premium and 97 bars, 2 of which were married, were dealt in with 84 supplied by the British fund. Buyers were prorated at 50%. Gold dollars were bid 7 shillings 3 pence and sovereigns 35 shillings 2½ pence. Sterling remained steady

-2- #1049, July 21, 6 p.m., from London

steady with no apparent operations by the British fund
in the spot or forward dollar.

JOHNSON

KLP

RECEIVED

JUL 22 1950
TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON, D.C.

Mr. Lochhead

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE
CONFIDENTIAL FILES

DATE July 21, 1939

TO _____
FROM J. W. McKeon

SUBJECT: TELEPHONE CONVERSATION WITH
BANQUE DE FRANCE 20F

At 10 am today I telephoned Mr. Cariguel and in his absence spoke with Mr. Kogan. Mr. Cariguel expects to return to the Bank on August 15. Exchanges had been very quiet in Paris, with francs very steady. Kogan had bought small amounts of dollars on balance during the early part of the week, but had done nothing in the last few days. The franc was wanted. I told Kogan that exchanges here had also been extremely quiet, with the franc steady and the guilder up a trifle today.

JWHICK/BOC

RECEIVED
JUL 25 1939
TREASURY DEPARTMENT
Office of the Secretary
Federal Reserve Bank of New York

SEVENTY-SIXTH CONGRESS

JAMES B. BORDENHAM, NEV., CHAIRMAN
WILLIAM I. SIROVICH, N. Y., SECRETARY
FRY P. BEAN, ILL.
SAMUEL CANNON, MDL.
WALTER CROCKER, TENN.
WALTER CROCKER, OHIO
WALL DOXEY, MISS.
CHARLES S. FORD, PA.
AND JOHNSTON, DELA.
MARTIN JONES, TEX.
CHARLES KENNEDY, CALIF.
WILLIAM W. LAMARQUE, IND.
JOHN W. MCCORMACK, MASS.
ANDREW M. SMITH, VA.
WILSON C. TAYLOR, GA.

Congress of the United States
Democratic Steering Committee
House of Representatives
Washington, D. C.

EX OFFICIO MEMBERS
WILLIAM B. BARKER, ALA.,
SPEAKER
SAM RAYBURN, TEX.,
FLOROR LEADER
JOHN W. MCCORMACK, MASS.,
CHAIRMAN, CAUCUS
ROBERT L. DUNNITON, N. C.,
CHAIRMAN,
WAYS AND MEANS COMMITTEE
EDWARD T. TAYLOR, CALIF.,
CHAIRMAN,
APPROPRIATIONS COMMITTEE
A. J. SHERWIN, ILL.,
CHAIRMAN, RULES COMMITTEE
PATRICK J. BULAH, PA.,
WSP

182

July 21, 1939.

Hon. Henry Morgenthau,
Secretary of the Treasury,
Treasury Department,
Washington, D.C.

My dear Mr. Morgenthau:

I have been requested by Governor Scrugham, Chairman of the Democratic Steering Committee of the House of Representatives, which is the policy forming committee of the House, to request you to be kind enough to appear before our committee on Tuesday, July 25th at 2 P.M., in the Rules Committee Room of the House.

We desire to discuss with you the "lending-spending" plans of the Administration, with the view of helping to stem the tide of opposition to the measure.

You may bring with you any of your subordinates who can help this Committee secure the information it seeks.

With every good and kind wish, I am

Very sincerely yours,

William I. Sirovich

William I. Sirovich
Secretary
Democratic Steering Committee.

*Telephone Log
taken
arrangement made
for Mr. J.
Wed. July 26
2:15 PM*

TREASURY DEPARTMENT

183

INTER OFFICE COMMUNICATION

DATE JUL 21 1939

TO Secretary Morgenthau
FROM Joseph P. Cotton, Jr.

Re: Latin America and the
Export-Import Bank.

I. Status of Cooperation.

The United States has entered into arrangements for financial and economic cooperation with Brazil, Haiti, Nicaragua, Paraguay and Venezuela, in all of which cases except the last credits from the Export-Import Bank are involved. The Bank is also committed to make available substantial credits to Uruguay for purchases in the United States. In the case of these countries debt problems, vis-a-vis United States nationals, either did not exist, or, as in the case of Haiti and of Uruguay, settlements have been entered into and approved by the State Department and the Foreign Bondholders Protective Council, Inc., and, in the case of Brazil, a settlement is contemplated as a part of the arrangement for financial and economic cooperation. It is anticipated that a representative of the Council will shortly go to Rio to discuss debts and it is known that the British Council has already been invited to send a representative.

At the present time requests for cooperation are pending from Chile, Colombia, Ecuador, Panama and Peru, in all of which cases credits will probably be solicited. Debt problems exist in the cases of all of these countries.

II. Condition of the Bank.

The Export-Import Bank as of July 8, 1939, had total loans outstanding of over \$53 millions and active commitments of over \$56 millions, which, \$109 millions in the aggregate, somewhat exceeds the existing \$100 millions limitation on the amount of loans which it may have outstanding. Past experience of the Bank is to the effect that approximately 40% of the amount of commitments assumed were canceled due to failure of American interests to get the business or to meet the Bank's conditions. Although a greater percentage of the Bank's resources are becoming tied up in special situations involving arrangements with foreign governments, this experience undoubtedly justifies the present excess of loans and commitments over the loan limitation and gives some leeway.

- 2 -

Assuming a 40% cancellation in future and anticipated repayments during 1939, the Bank could undertake some \$27 millions in new business at a maximum, but in fact would not be justified in going anywhere near so far. Moreover, it should be noted that the Bank does not carry on its books as commitments the amounts discussed for long-term credits to Brazil - \$50 millions, Nicaragua - \$2 millions, and Paraguay - \$3 millions.

III. Immediate Problems.

The above picture indicates a degree of optimism as to resources available in connection with the program of cooperation with Latin America, which is likely to prove distinctly embarrassing to the State Department if the existing loan limitation upon the Bank should not be raised. If the loan limitation should not be raised, immediate problems arise -

- (1) As to how far the Bank is justified in carrying loans and commitments in excess of the \$100 millions loan limitation; and
- (2) As to what objectives should be given precedence in the use of such uncommitted resources of the Bank as may be deemed available.

J.P.C.H.

July 22, 1959

185

MEMORANDUM FOR THE SECRETARY'S DIARY

Secretary Morgenthau called Mr. Foley at 11:55 a.m. on Saturday, July 22, and said that he had given considerable thought to the language of section 17 inserted in the Leading Bill yesterday by the Senate Banking and Currency Committee in executive session, and the more he thought about it the more concerned he became. The Secretary said he had called the President and read the language which Mr. Foley had given him over the telephone earlier in the morning. The President said that the language would completely kill the bill, and Foley should get in touch with Senator Byrnes at once and point this out to him. Secretary Morgenthau pointed out to the President that it would be more effective for the President to call Senator Byrnes direct. The President said he would rather have Foley do it, but that Foley might tell Senator Byrnes the President would be glad to talk to him if Senator Byrnes wanted to call him at Hyde Park.

Foley called Senator Byrnes out of the executive session of the Senate Banking and Currency Committee and gave him the President's message. Foley told Senator Byrnes that the language would invite lawyers to sue and would tie up the whole program in the courts. Foley pointed out that a loan to the University of South Carolina for dormitories could not be made under this language since the boarding house operators in the town could enjoin FWA. Senator Byrnes said that he did not agree, and that if he were a Federal judge he would not so hold. Foley said

that such a ruling would come two or three years from now and in the meantime no one would be put to work. Foley pointed out that the language would prevent PWA from making a loan for a project like the San Francisco-Oakland Bay Bridge because the bridge would compete with the ferry companies. Senator Byrnes agreed that this case was more in point, and that the proposed language would enable the ferry companies to enjoin PWA from making such a loan. Foley also pointed out that new land which would be brought into production under the reclamation amendment adopted yesterday by the Committee would be in competition with existing farm land, and to that extent this phase of the program would be hampered by section 17. Senator Byrnes did not agree that agriculture was an industry or enterprise.

Then Senator Byrnes wanted to know if the President desired to have the whole section removed or the language clarified? Foley said that the President would like to have section 17 taken out entirely or, if this was impossible, innocuous language inserted in its place. Senator Byrnes pointed out that an amendment similar to section 17 had been offered to the PWA legislation last year but an exchange of letters with the President prevented the adoption of the language. This year, Senator Byrnes said, the Senate would insist upon some such language being written in the bill, and it was merely a question of getting a satisfactory substitute for section 17 which he admitted was too broad.

Foley read Senator Byrnes the language which he had proposed to Senator Wagner and Senator Barkley in lieu of section 17:

"No loan or expenditure shall be made under this Act which shall enable any state, municipality or other public body to compete substantially with any factory or mill."

- 3 -

Senator Byrnes pointed out that this was not broad enough since it would not prevent construction of competing power plants. Then Foley said that if power plants were what he was aiming at he should name them. This, Senator Byrnes was unwilling to do.

Senator Byrnes then got a little disagreeable and said if the bill Foley had sent down was adopted the way it had been written, the program surely would be tied up in the courts. Foley told him if that was what he wanted to leave in section 17. With this, Senator Byrnes said he had to get back to the Committee meeting where the amendment undoubtedly would be debated at some length.

Senator Byrnes did not promise to call the President.



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
RA

July 22, 1939

My dear Mr. Secretary:

The American Embassy at Bogotá reports that during a long conversation which was largely concerned with the negotiations for adjustment of dollar bonds of the Republic of Colombia which the Colombian Ambassador at Washington is now conducting with the Foreign Bondholders Protective Council, the Colombian Minister of Finance referred to previous suggestions as to the possibility of a gold bullion loan, and to the possibility of obtaining dollar availabilities against gold collateral. The Minister inquired whether once the debt was adjusted and Colombia had returned to free exchange (maintaining, however, restrictions on trade with compensation countries) it would be possible for the Banco de la Republica to obtain such a loan from the Federal Reserve Bank of New York. The Minister said that such dollar facilities would

The Honorable

Henry Morgenthau, Jr.,
Secretary of the Treasury.

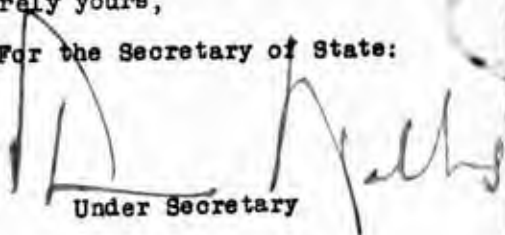
-2-

would perhaps be little used but their mere existence would insure exchange stability.

The Department will wish to instruct the Ambassador in view of this informal inquiry from the Ministry of Finance, and would appreciate any suggestion which you may wish to make in the premises. Although the Minister's inquiry relates to conditions which may not come into existence in the immediate future, the Department would like to put the American Ambassador in a position to make some reply to the inquiry as soon as may be possible.

Sincerely yours,

For the Secretary of State:



Under Secretary

File

E 190

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 22, 1939

TO Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: Recent Financial Developments in the United States
and Great Britain

SUMMARY

- (1) The domestic high-grade security market showed little change in the past two weeks.
- (2) The week ended July 22 saw a sharp pick up in new corporate financing. Two of the largest issues -- debentures of the Shell Union Oil Corporation and of the Southern Bell Telephone Company -- have been rather sticky, however. This may be accounted for in part by overgenerous prices paid to the issuers, due to the current struggle over the comparative merits of competitive bidding vs. private negotiation as a means of selecting underwriting firms.
- (3) Fluctuations in holdings of United States Government securities by banks outside of New York City have been within a very narrow range in the past several years -- much less than in the case of banks in New York City -- and there has been little uniformity of policy between individual banks (Chart I).
- (4) The yield differentials between long- and short-term British Government securities, which had been largely wiped out by the sharp decline in the market at the time of the Czech crisis, have now been more than fully reestablished, so that the short-term securities have gained on the long-term ones as a net result of the decline and subsequent (incomplete) recovery (Chart II).
British Government securities have been moderately weak during the past two weeks (Chart III).

Domestic Bond Market

There has been very little change in the Government bond market during the past two weeks. The average yield on long-term Treasury bonds declined by .02 percent to 2.15 percent on July 22. Shorter maturities have been a little stronger. There has been practically no change in the high-grade corporation bond market during this period.

New Corporate Issues

The week ended July 22 saw a sharp pick-up in new corporate financing. The largest items were \$30,000,000 of 4-1/2 percent preferred stock of the West Penn Power Company offered at 110 to yield 4.09 percent; \$85,000,000 of 15 year 2-1/2 percent debentures of the Shell Union Oil Corporation offered at 97-3/4 to yield 2.68 percent; and \$25,000,000 of 40 year 3 percent debentures of the Southern Bell Telephone and Telegraph Company offered at 107-1/2 to yield 2.69 percent.

The entire proceeds of the West Penn Power issue are to be applied to the retirement of the Company's presently outstanding 6 percent and 7 percent preferred stock, and the holders of the old stock were given a preferred subscription privilege for the new stock. The Shell Union Oil issue was also entirely for refunding purposes, while the proceeds of the Southern Bell Telephone issue are to be devoted principally to repaying advances from the American Telephone and Telegraph Company, but are to be used in a relatively small amount (about \$6,000,000) for "other corporate purposes", including capital expenditures.

The West Penn Power issue was very successful, and was absorbed almost in its entirety by holders of the old preferred stock. It is now (Friday) quoted at a premium of more than 3 points over its offering price.

The Southern Bell Telephone issue again served to focus public attention on the matter of competitive bidding for corporate securities, particularly those of public service enterprises. This controversy was brought into the limelight recently by the successful campaign of Mr. R. R. Young, Chairman of the Alleghany Corporation, to force the Terminal Railroad Association of St. Louis to agree to submit its forthcoming (not yet offered) issue of refunding bonds to competitive bidding rather than sell them privately (although presumably for subsequent public reoffering) to Morgan,

Secretary Morgenthau - 3

Stanley and Company. The campaign was marked by the publication of the rather acrimonious letters of Mr. Young and of Mr. Stanley to the President of the Company.

Mr. Young had been successful in a similar campaign in February of this year to force the Cincinnati Union Terminal Company to submit a refunding issue to competitive bidding, and had also been largely instrumental in causing the Chesapeake and Ohio Railway Company to submit a major issue to competitive bidding in December 1938. In each of these instances the prices realized by the companies appeared to be higher than would likely have been secured by private negotiation.

The same controversy recurred with respect to the Southern Bell debentures. In this case, however, the Company, which had made tentative arrangements to sell the securities to Morgan, Stanley and Company without competitive bidding, went through with the arrangements, despite protests from the public utility commissions of three of the States* in which it operates and from a minority stockholders' committee. The utility commissions, according to press dispatches, would have had power to have forced competitive bidding had the issue been secured by a mortgage, but were without power to force such action for the unsecured debentures actually offered.

Morgan, Stanley and Company also headed the syndicate which offered the Shell Union Oil bonds. Possibly as a result of the agitation for competitive bidding which had placed them somewhat on the defensive, the underwriting spread on each of these new issues was only 1-1/2 points instead of the 2 or, occasionally, 1-3/4 points previously customary on long-term high-grade issues. More important, the prices paid to the issuers may also have been overgenerous to a degree greater than offset by the reduction in the underwriting spread.

In any event the issues seem to have been overpriced, and both have been sticky. Bonds of both issues are still in the hands of the syndicates, and are reported to be obtainable (Friday) for guaranteed investment at a discount of one point below the offering price for the Shell Union bonds and three-quarters of a point for the Telephone bonds. These discounts are, of course, very substantial when compared with the gross spread of only one and a half points.

* Louisiana, Kentucky, and Tennessee.

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United States Government Securities Held by Banks
Outside of New York City

The amount of United States Government securities held by each of nine selected banks -- which are, with one exception, the nine largest outside of New York City -- is compared in Chart I with the total amount held by all weekly reporting member banks outside of New York City. The dates used in the chart are December 31, 1936, when the holdings of weekly reporting member banks outside of New York City were at approximately their all-time high; June 30, 1938, when such holdings were at approximately their low subsequent to this high; and December 31, 1938, March 31, 1939, and June 30, 1939.

It is interesting to note: (1) The peak in the Government security holdings of reporting member banks outside of New York City came six months later and the low point nine months later than for the New York City banks. (2) The holdings of banks outside of New York City have fluctuated very much less than have those of the New York City banks. (3) As of June 30, 1939, the holdings of banks outside of New York City were only 2 percent less than at their previous high at the end of 1936, whereas the holdings of the New York City banks were 7 percent lower than at their peak in June 1936. (4) There has been practically no change in the amount of holdings of banks outside of New York City since December 1938, whereas the holdings of New York City banks have increased 16 percent since that date.

The United States Government securities held by the nine selected banks constituted 37 percent of those held by all weekly reporting member banks outside of New York City on June 30, 1939. The holdings of these individual banks, in general, have not followed the pattern laid out by the group of which they are a part.

Four of the banks -- Continental Illinois, the National Bank of Detroit, the Philadelphia National Bank, and the Cleveland Trust Company -- held more United States securities on June 30 than at the time when the group as a whole made its all-time high; while four -- the Bank of America, the National Bank of Detroit, the Security-First National Bank of Los Angeles, and the First National Bank of Boston -- held fewer Governments on June 30 than at the time when the entire group made its low. The National Bank of Detroit, it will be noted, appears in both groups. Its present holdings are higher than when the composite group made its high, but lower than when the composite made its low! The Chicago banks and the Mellon Bank of Pittsburgh are the only banks

whose holdings follow reasonably closely the movement of the entire group. It should be emphasized, however, that all of these fluctuations are within a very much narrower range than that characteristic of the New York City banks.

British Government Securities

Chart II compares the yields of British Government securities as of three dates, March 10, 1939, just before the Czechoslovakian crisis; April 19, the bottom of the decline resulting from the crisis; and July 5. During the sharp decline at the time of the crisis, all issues longer than 1941 suffered about an equal decline in price, irrespective of maturity. The two shorter bonds, while declining less in price, showed very sharp increases in yield.

As a result of these movements, the yields of short- and medium-term securities increased to about the same level as the yields on long-term securities -- thereby making the yield curve as of April 19 almost a flat line, except for the very short maturities. Previously, the curve had shown a steady rise as maturities became longer. For example, on March 10, the yield on the short-term 4-1/2 percent Conversion bonds of 1940-44 was only 1.91 percent, while that on the perpetual 2-1/2 percent Consols was 3.54 percent. As of April 19, the yield on the short-term Conversions had increased to 3.61 percent, while that on the perpetual Consols had only increased to 3.87 percent.

As of July 5, a large part of the crisis loss had been recovered in the case of the short and medium maturities. The recovery in the longer maturities, however, was only sufficient to reduce their yields from about one-third to one-half of the previous increases. The net result of the crisis weakness and the subsequent recovery was to improve the position of the shorter maturities relative to the longer ones -- that is, the yield curve on July 5 was sharper than it had been on March 10 before the crisis.

Since July 5, British Government securities have been moderately weak. The yield on the 2-1/2 percent Consols increased from 3.70 percent on July 5 to 3.75 percent on Friday, July 21, increasing the spread between the yield on Consols and long-term United States Treasuries to 1.59 percent as of the latter date (Chart III).

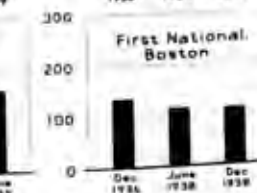
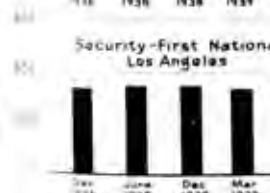
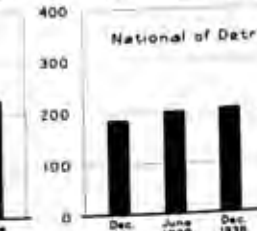
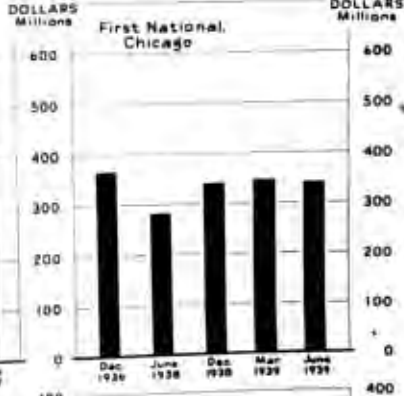
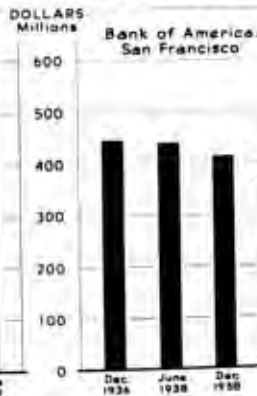
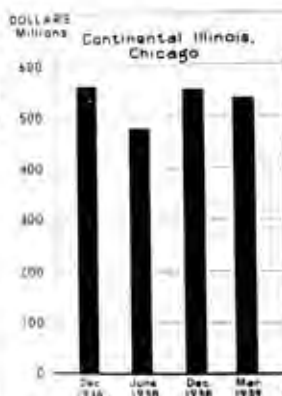
Attachments.

Chart I

HOLDINGS OF U.S. SECURITIES
BY BANKS OUTSIDE OF NEW YORK CITY
Including Guaranteed Obligations



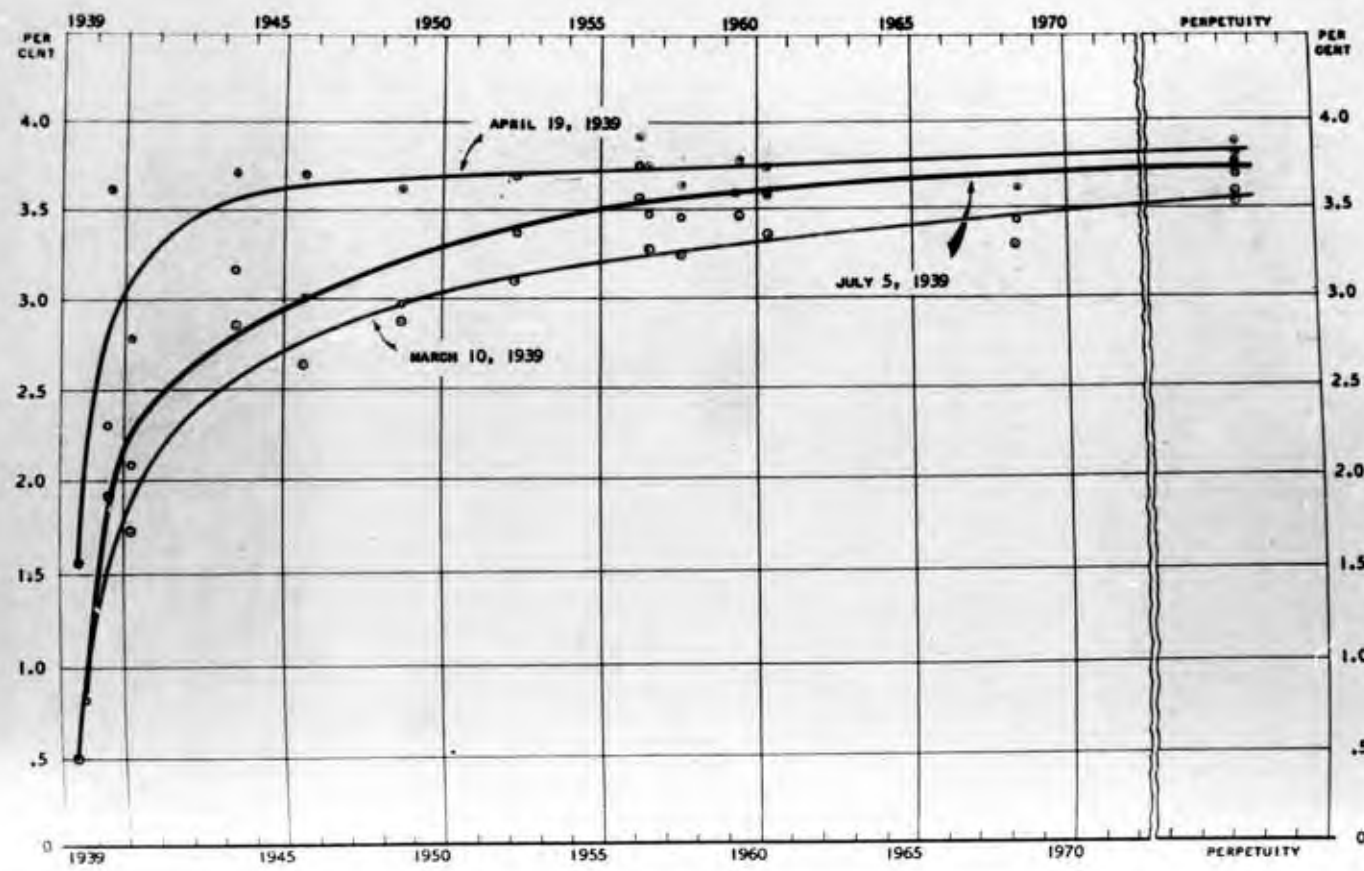
Selected Banks



NOTE: Figures are in end of month intervals

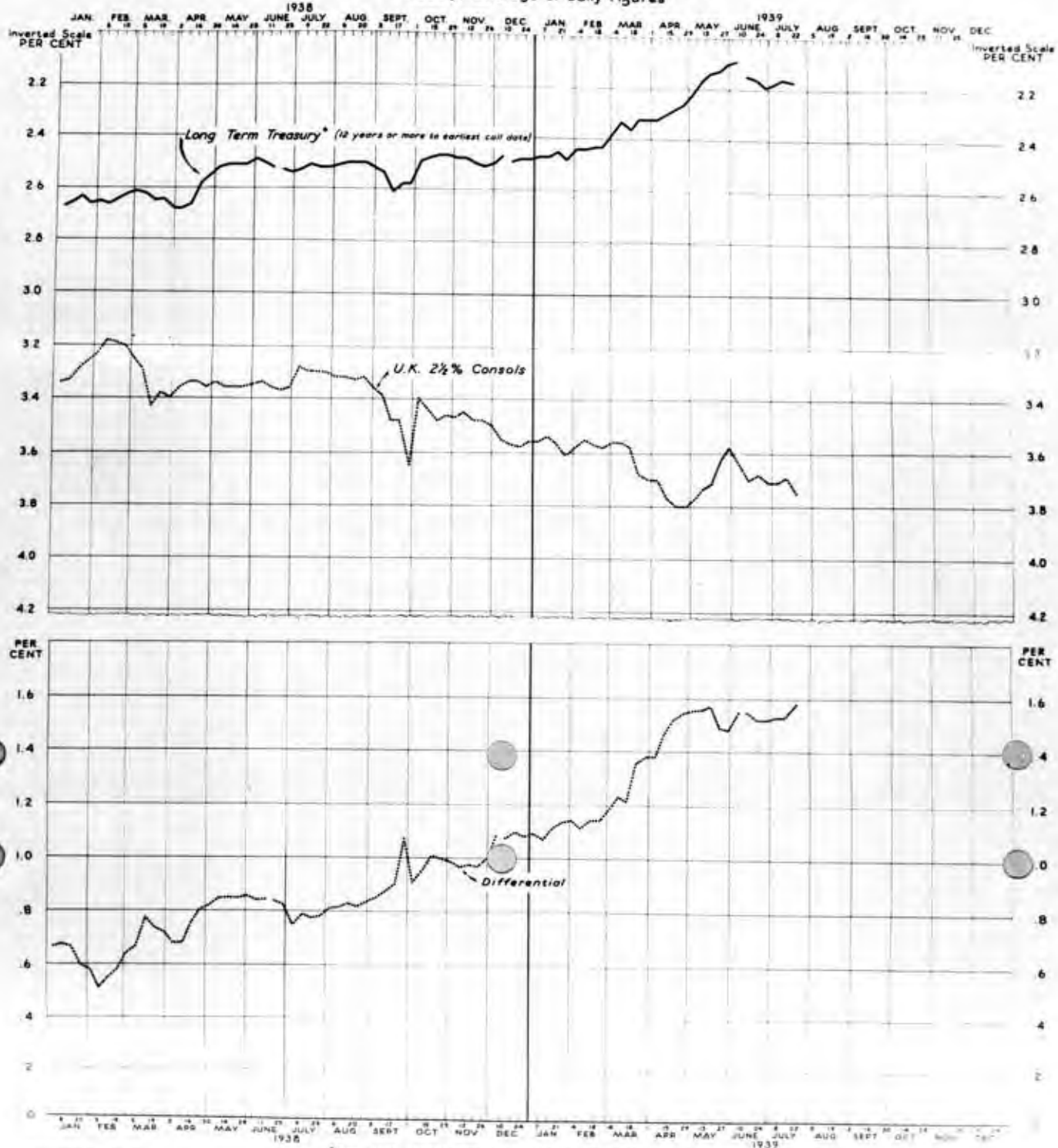
Chart II

YIELDS OF BRITISH GOVERNMENT SECURITIES March 10, April 19, and July 5, 1939



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Chart III COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY BONDS AND U.K. 2½% CONSOLS Weekly, Average of Daily Figures



Office of the Secretary of the Treasury
Division of Research and Statistics

*Break in line indicates change in composition of long term Treasury average.
Note: latest figures shown are for July 20, 1939.

1939-128

Calendar No. 936

70TH CONGRESS }
1st Session }

SENATE

{ REPORT
No. 896 }

WORKS FINANCING ACT OF 1939

JULY 22, 1939.—Ordered to be printed

Mr. BARKLEY, from the Committee on Banking and Currency, submitted the following

REPORT

[To accompany S. 2864]

The Committee on Banking and Currency, to whom was referred the bill (S. 2759) to provide for the construction and financing of self-liquidating projects, and for other purposes, report in lieu thereof the bill (S. 2864) to provide for the financing of a program of recoverable expenditures, and for other purposes, and recommend that such bill be passed.

PURPOSE OF THE BILL

The purpose of this bill is to provide for the financing of a program of recoverable expenditures in order that employment be increased without burdening the national taxing power. The program will consist of the following:

1. \$350,000,000 for non-Federal public works;
2. \$500,000,000 for loans for rural electrification;
3. \$800,000,000 for loans to farm tenants, sharecroppers, and farm laborers for the purchase of farms, livestock, feed, seed, farm implements, and other necessary equipment of which at least \$300,000,000 shall be available under title I of the Bankhead-Jones Farm Tenant Act, and the remainder for rural rehabilitation;
4. \$350,000,000 for financing through loan, lease, or otherwise (1) the purchase or construction of new railroad equipment by carriers and the acquisition of such equipment; (2) the purchase, rebuilding, repair, or disposition of old railroad equipment;
5. \$500,000,000 for construction of bridges, tunnels, bypasses, express highways, and acquisition in cooperation with States of rights-of-ways and lands necessary or convenient for such purposes;

6. \$90,000,000 for continuation or completion of the construction of reclamation projects; and

7. \$100,000,000 for the financing of foreign trade through the Export-Import Bank of Washington.

This bill is designed to put men to work, to stimulate further capital investment in private industry, to raise the level of business activity, and to yield permanent benefits to the people of this Nation. It is designed to bring together idle men, idle equipment, and unused savings for the purpose of increasing employment and the national income.

We still have in this country many millions of unemployed, and each year brings to the labor market more than a half million net additional persons seeking work. We still have excess capacity in almost every industry in the United States. Our mines and farms are capable of producing much greater quantities of raw materials. Finally, we have in this country a volume of available savings which under present circumstances is in excess of the profitable outlets for such savings.

Certain changes have taken place since the twenties which have contributed greatly to the existence of idle capital, unemployment, and excess capacity. The profitable outlets for capital have diminished, while the proportion of the national income saved is no less. States and municipalities have decreased their expenditures so that the tax revenues of State and municipal governments have exceeded their expenditures. Instead of providing an outlet for savings of a billion dollars a year, as they did in the twenties, they have actually added to the funds available for investment. Foreign loans, which in the twenties absorbed an average of a half billion dollars a year, have virtually ceased, nor is there any prospect of their being renewed in the near future. Capital outlays by churches, universities, clubs, and other non-profitable organizations, which used to take up a half billion more of capital, have been cut in half. The automobile industry is no longer in a stage of rapid expansion. There is still a surplus of commercial structures, the construction of which in the twenties used up a billion dollars a year, and even residential construction, notwithstanding the essential aid from the Government, is far below the level of the twenties.

Many factors which then helped to produce a consumer demand for goods that was sufficient to consume the products of industry are not now as effective. The rate of population growth prevailing in the 1920's has been cut in half; installment purchasing is not increasing as it was in the twenties, and there does not seem to be any near prospect of a repetition of the luxury buying spree of the late 1920's.

These changes which operate to reduce the demand for funds are aggravated by the international political uncertainty which has prevailed during the past few years. As the Secretary of the Treasury stated in hearings before our committee:

We must not forget that we are in a period which is most unusual in world history. The world has neither peace nor war. It is a period of international political uncertainty characterized by stupendous expenditures for unproductive military purposes. International economic relationships are disorganized by the lack of free exchange with which to conduct normal world commerce; our trade suffers from the lack of purchasing power on the part of the people

of the world with which to buy the products the United States could export. Business in this country suffers from the general distortion of the world's economic systems, caused by the fear and expectancy of a world cataclysm.

The country is faced with the prospect of continued high unemployment, unless the Government helps to promote an outlet for idle funds. To quote again from the Secretary of the Treasury's statement:

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

In a country with enormous potentialities and with the population rapidly marching toward the one-hundred-and-fifty-million mark there is ample possibility for the Federal Government to supplement private enterprise by promoting investment in self-liquidating projects. In contrast with some other important nations of the world we are still in the fortunate position of having the opportunity of utilizing the Government credit for constructive purposes instead of devoting billions to unproductive military expenditures.

So long as funds are saved and not put to work, so long will it be impossible to attain the high national income which the United States is capable of producing. Thrift is desirable; saving is a necessary and sound practice but it must be accompanied by profitable outlets for savings. This bill is designed to tap the annual stream of savings so that more of it will go into productive use and thereby put idle men and idle equipment to work turning out useful goods for the Nation. We can move toward our objective of a high national income by helping to provide adequate outlets for our savings so that the money which is saved shall go directly toward increasing the national income, toward increasing the real wealth of the Nation.

This bill is a step in that direction. It provides an outlet for \$2,000,000,000 of funds which would otherwise remain unused. It puts such funds to work, thereby increasing the national income, increasing the number of men employed, increasing the profits of business, adding to the real wealth of the Nation, and increasing the aggregate income of all those who have savings to invest.

It cannot be emphasized too strongly that when capital is employed in productive self-liquidating works—works whose self-liquidating character is evidenced by the fact that it yields an economic return sufficient to pay the interest and principal—there are still left abundant funds available for any new and sound enterprise that might be planned. The interest received by institutions or individuals who purchase the bonds of the Reconstruction Finance Corporation with funds that otherwise would remain unused will constitute added earnings. Were this program not to be undertaken their investments would be less and hence their earnings also less. More than that, these projects will in turn stimulate other investments and other expenditures. The carrying out of the provisions contained in this bill will still further increase the demand for capital on the part of private industry and thus still further increase the aggregate return to both workers and savers.

The principle embodied in this program helps bring about a higher national income and lessens the need for expenditures on relief and work projects, and thereby constitutes an important approach to a balance between Federal expenditures and revenue. This principle

is sound. There are no fiscal disadvantages. It does not increase the public debt, yet does increase the national income, and thereby strengthens the tax-revenue-yielding power of the present tax structure.

It is entirely correct and by no means a misuse of words to say that this program involves no increase in the public debt. The money which will be put to work in this program is not expended by the Government, but rather invested. The investment yields returns which are used to liquidate the outstanding obligations. Against the obligations of the Reconstruction Finance Corporation there will be revenue-producing assets.

METHOD OF FINANCING THE PROGRAM

The bill would authorize and direct the Reconstruction Finance Corporation upon the direction of the President to issue its notes, bonds, or other obligations, guaranteed by the United States, to provide funds for the Department of Agriculture, Public Roads Administration, Public Works Administration, the Rural Electrification Administration, Department of the Interior, and the Reconstruction Finance Corporation to carry out their respective functions.

All the expenditures and loans authorized under this act are for the purpose of constructing projects which will return to the Reconstruction Finance Corporation the amounts expended.

This bill permits the Reconstruction Finance Corporation more flexibility in the term of its obligations. Existing law limits maturity on Reconstruction Finance Corporation notes to 5 years. This bill would permit the Reconstruction Finance Corporation to issue obligations for as long a term as 30 years. The amount of obligations which the Reconstruction Finance Corporation may have outstanding is increased in this bill by an amount not to exceed \$2,390,000,000. This legislation provides for \$140,000,000 already appropriated to the Department of Agriculture and to the Rural Electrification Administration to revert to the general funds of the Treasury.

The Department of Agriculture, Public Roads Administration, Public Works Administration, the Rural Electrification Administration, and the Corporation are directed to exercise their powers under this act with a view to recovering the cost of the works projects or undertakings carried out under this act with interest. The Bureau of Reclamation of the Department of the Interior will be governed in this respect by the general reclamation laws.

INTEREST RATES

The bill provides that the maximum interest rate that shall be charged for any of the loans or charged to any project undertaken shall not be more than the yield on the longest term Government security outstanding.

A principle embodied in the bill is to provide funds to borrowers at the approximate cost to the Government of obtaining such funds. It is regarded as an essential part of the program that the interest rates charged be low in order that a large number of projects which would not be attempted if a high interest rate were charged can be undertaken.

The Secretary of the Treasury pointed out the present need for low interest rates in his testimony before this committee when he said:

The interest rate on long-term loans and investments plays a very important role in modern economic life. There are factors in the present situation, however, which make it impossible for changes in the interest rate to operate automatically and with complete effect. The disturbed world situation increases economic uncertainty to the point where investors are reluctant to place a large amount of their funds in long-term investments at the low rates of interest justified by the fundamental economic forces of supply and demand.

In times like the present it therefore becomes the Government's function to act as a catalytic agent to bring together investors who are willing to lend their savings at rates of interest low enough and borrowers who are able and willing to employ funds for productive purposes. * * *

* * * A low rate of interest if effectively utilized constitutes one of the most potent weapons our economic system has developed for stimulating business activity. It seems to me that it is time for the Government to make full use of that instrument rather than to depend upon grants and subsidies as heretofore.

PUBLIC WORKS ADMINISTRATION

Under this bill \$350,000,000 would be made available to the Public Works Administration for loans for non-Federal public works. No provisions are made for grants in this bill whereas in the past the Public Works Administration has made grants to States, municipalities, and other public bodies of from 30 percent of the cost of labor and the materials employed on a project to 45 percent of the cost of approved projects. All funds provided under this section are to be expended in the form of loans which the Public Works Administration is authorized to make under existing laws.

To date the Public Works Administration has financed non-Federal projects of a total estimated cost of about \$4,000,000,000. Without the enactment of this or similar legislation there will be no further funds available for the Public Works Administration to lend for construction. Its present construction program reaches its peak in August of this year and will recede sharply. Virtually all of the authorized construction will be completed before midsummer of next year. There is ample evidence that new funds will be needed to insure profitable employment for idle industrial capacity and for skilled men eager to work.

It is estimated that a \$350,000,000 program of non-Federal public works would provide a market for construction materials costing approximately \$200,000,000 and will provide approximately 420,000,000 man-hours of employment. Skilled and unskilled laborers at the construction sites will obtain 120,000,000 man-hours and 300,000,000 man-hours will be provided in producing, manufacturing, and transporting construction materials.

The prudence of the Public Works Administration in making most of its loans has been reflected in a favorable financial record. Over \$500,000,000 of securities it acquired have been sold at a profit of \$13,461,000 while the total amount of principal and interest delinquent on securities held is \$5,800,000, or less than 1 percent of the total value of the securities acquired under the program, notwithstanding the fact that the interest rate charged public bodies was 4 percent.

Senate Document No. 25, Seventy-sixth Congress, first session, listed 5,807 applications for the Public Works Administration funds

for projects with an estimated total cost of over \$1,775,000,000. There is therefore a vast reservoir of useful public works which, if undertaken, will increase employment quickly and at the same time add to the real wealth of the Nation.

The present bill does not follow the practice of giving outright grants to States and municipalities for the construction of public works. Very low interest rates and long amortization periods will replace Federal subsidies. Instead of giving an outright grant to the local authorities of 30 to 45 percent it is intended that the agencies charged with the responsibility of administering the program will make the interest rates low enough and the amortization period long enough to induce local governments to undertake needed public works and at the same time enable those local communities to pay the interest and principal without imposing an undue burden on their local taxpayers.

For example, a 30-year amortized loan of the character the Public Works Administration has been making with principal repayments so distributed as to have a 15-year average maturity ought, under the bill, to be made at 2½ percent interest. As compared with a loan at the Public Works Administration interest rate of 4 percent, this is equivalent to an effective capital grant of about 19 percent. If the loan were amortized over the maximum period of 40 years, with an average maturity of 20 years, based on present market prices the interest rate would be 2¾ percent; this would equal an effective capital grant of about 22 percent. Tables showing the effective capital grants for loans of selected maturities provided by reduced interest rates are contained in the record of the hearings on the bill.

The funds made available under this act should constitute the bridge over which the Government can pass from grants and subsidies to recoverable investments. For the Federal Government, the change means a reduction in deficits and a reduction in the Federal tax burden—it means a step toward closing the gap between revenue and expenditure; for the local governments the change means more public works at low cost, obtained without the aid of subsidies from the Federal Government.

RURAL ELECTRIFICATION ADMINISTRATION

For the past 3 years the Rural Electrification Administration has been lending funds for rural electrification projects. This program has proven very popular with farmers who for many years have sought unsuccessfully to secure electric service. The demand for loans for new rural electric lines has constantly exceeded the funds authorized by the Rural Electrification Act of 1936.

Applications now under examination by the Rural Electrification Administration exceed the total amount available for the current fiscal year. It is estimated that more than \$100,000,000 could be allotted during this fiscal year and that disbursements by the Treasury for this year under the proposed program will exceed \$20,000,000.

At the present time only one American farm in five has electric service. It is estimated that even after the investment of \$300,000,000 authorized to be loaned for rural electrification, over half of America's farms will still be without central station electric service.

It is estimated that the lending of this amount will provide a market of about \$325,000,000 for line-construction materials and 180,000,000 man-hours of direct labor.

This lending would provide electric service for 1,250,000 farm families now without electric service. Detailed surveys show that these families in wiring their homes and farms and in acquiring new electric appliances would spend from their own funds over \$125,000,000 for home wiring and over \$250,000,000 for electric appliances. This sum is in addition to the expenditure of \$325,000,000 for line-construction materials indicated above.

While it is too early to determine the degree of ultimate success of all of these new rural electric projects, their record of repayment to date is favorable. The Rural Electrification Administration's borrowers have paid 100 percent of the total due as of May 31, 1939, on wiring-loan contracts and 95 percent of the total due as of that date on loan contracts for rural-line construction. There is every reason to believe that these loans will be repaid.

The experience of the Rural Electrification Administration has been that private utilities have found a large market for electric power which they did not formerly have and that this program has been a stimulus to the expansion of the private-utility facilities.

DEPARTMENT OF AGRICULTURE

The bill would provide to the Department of Agriculture \$600,000,000, withdraws the sum of \$100,000,000 of the unobligated balances now available to the Farm Security Administration from appropriations for the current fiscal year which the bill covers into miscellaneous receipts of the Treasury.

The testimony of the Secretary of Agriculture before the committee indicated that approximately half of the \$600,000,000 would be used for an extension of the tenant-purchase program now conducted under title I of the Bankhead-Jones Farm Tenant Act and the bill so provides. Under this legislation of the Farm Security Administration has made loans during the last 2 fiscal years to nearly 7,000 tenant families, who could not obtain adequate credit from any other source, to enable them to purchase farms of their own.

Repayments on these loans demonstrate that the Tenant Purchase Program has been established on a sound basis. As of March 31, 1939, repayments amounted to 135 percent of the maturities. Installments due totaled \$103,033, and \$138,878 already had been repaid, because many borrowers not only were meeting the installments on the date due, but were making substantial payments in advance. Only one loan has been defaulted, and in that case the obligation was immediately assumed by another tenant borrower, without loss to the Government.

Such an excellent repayment record has been made possible by the fact that in the great majority of cases the annual amortization payments, plus taxes and insurance, amount to less than the tenant formerly paid in rent on the same farm. Every loan is secured by a first mortgage on real estate, appraised both by Government appraisers and by a county committee of three farmers who are familiar with local conditions and land values.

The committee was advised that this activity can be expanded rapidly and efficiently, since the necessary organization already is in operation, and about 20 applications have been received for every loan which the Farm Security Administration has been able to make. Moreover, applications have been accepted only for brief periods in about one-fourth of the Nation's agricultural counties.

The bill also would make possible an expansion of the rural rehabilitation program which has been conducted by the Farm Security Administration for the last 4 years. Under this program small loans are made to needy farm families to enable them to buy the seed, tools, livestock, canning equipment, and other supplies needed to get a new start on the land. Such loans are made only to families which cannot obtain adequate credit elsewhere. Advances of this type have been made to more than 750,000 needy farm families, of which about 87,000 have paid off their obligations in full, although loans normally are made for a 5-year period and the program has been in operation for only four years.

The Secretary of Agriculture testified that collections on rehabilitation loans already made were expected to total at least 80 percent, and that losses on similar loans which would be made under the proposed legislation should be "almost entirely eliminated," for the following reasons:

1. The great majority of past defaults have been in those areas of the Great Plains which have suffered from an unprecedented series of severe droughts. Under normal weather conditions no such losses would occur.

2. None of the so-called "emergency rehabilitation loans" to victims of floods, drought, hail, or other natural catastrophes would be made from the funds provided by this bill. This would eliminate the loans involving considerable risk, on which most of the delinquencies have been experienced. The Farm Security Administration would continue to make such loans, however, from funds provided by the Emergency Relief Appropriation Act of 1939.

3. Under the present rehabilitation program loans have been made at 5-percent interest. The lower interest rate contemplated by this bill should make it far easier for borrowers to meet their repayments on schedule.

Testimony presented to the committee indicated that nearly 400,000 needy farm families were refused rehabilitation loans during the last fiscal year because funds were not available, and that approximately 4,000,000 farm people are trying to exist on incomes of about \$1 a week, including all food and other goods produced for home use. Concerning this group of our population, the Secretary of Agriculture said:

The great majority of these families already are dependent to some extent on relief, or are in danger of being forced on the relief rolls in the near future. Most of them could be restored to decent living conditions and a productive, independent status through rehabilitation loans.

If we continue to refuse aid to these needy families, many of them inevitably will drift into the cities in an effort to get some kind of help there. The cost of supporting them on relief obviously will be far greater than the sum necessary to help them get a new start on the land.

The past experience of the Farm Security Administration demonstrates that rehabilitation loans not only have enabled these families to escape from the relief rolls but also to make marked gains

in their living standards and net worth. It was estimated that the proposed legislation would enable the Farm Security Administration to reach about 600,000 needy farm families, and that an increase in their net worth and purchasing power of about \$84,000,000 might be expected during the first year after they receive loans.

An additional stimulus to recovery might be expected from the fact that a large percentage of the money which would be loaned would be used for construction and repair of farm buildings, small water facilities, such as irrigation wells, fencing, land improvement, and the purchase of durable goods, notably farm equipment.

RAILROAD EQUIPMENT

The section relating to railroad equipment is designed to revive what is perhaps the most depressed of all the heavy capital-goods industries. During the course of the hearings it was developed that much of the existing equipment, both of rolling stock and in railroad machine shops, is aged and obsolete.

Over 40 percent of the freight cars and 70 percent of the steam locomotives are over 20 years of age.

Only 3 percent of the locomotives were purchased in the past 10 years.

The annual repair cost on this old equipment is very high, particularly in view of the state of the machine-shop equipment. If sufficiently attractive terms could be arranged, the railroads could make large annual savings in repair and operating costs through modernization of their equipment.

The present bill extends the power of the Reconstruction Finance Corporation to make loans for this purpose and, in addition, makes it possible for railroads to acquire new equipment or to finance major rebuilding programs through a leasing arrangement. The disposal of obsolete equipment can also be facilitated. The leasing arrangement is currently being utilized to a limited extent as between equipment makers and railroads. It permits certain types of financing not now possible under a straight loan. The Reconstruction Finance Corporation will purchase equipment only upon the agreement to lease and upon the specifications of individual roads. Under these additional powers it will be possible for the Reconstruction Finance Corporation to accommodate itself to the varying necessities of differently situated roads for different types of equipment more effectively than is possible at present.

PUBLIC ROADS ADMINISTRATION

The Public Roads Administration has formulated constructive plans for a highway program to be undertaken in cooperation with State highway departments totaling more than the \$500,000,000 provided for in this bill. The costs of this program under this bill would be recoverable from the following revenue sources: (1) Tolls, (2) special tags, (3) rentals from leases of rights-of-way to cities or States, (4) rental or sale of lands acquired along the new highways, (5) State gasoline taxes and similar taxes.

The highway program which this bill would provide incorporates several of the recommendations in the detailed report submitted to

the Congress entitled "Free Roads and Toll Roads" (House Document No. 272, 76th Cong., 1st sess.) and it is in harmony with the report on "Our Cities" prepared by the National Resources Committee.

The construction of the proposed highway program would utilize a large amount of common labor and would provide employment on desirable projects in areas where unemployment is a serious problem.

The new traffic arteries to be constructed under the terms of this bill would facilitate transportation in congested areas, relieve traffic congestion, reduce traffic hazards, and thus promote interstate commerce. By facilitating the movements of men and materials these new traffic arteries will make a contribution to our national defense.

It is anticipated that each project will be carefully examined and judged upon its own merits. The master plan is designed to serve existing traffic as well as traffic that can be safely forecast from carefully prepared detailed studies. The Public Roads Administration has made checks of traffic for the past 3 years in key points in the States which provide a basis for the contemplated program.

THE BUREAU OF RECLAMATION

The work of the Bureau of Reclamation, which, since 1902, has been of key importance in the development of our western lands, has recently assumed new significance. Because certain of our lands have suffered from persistent drought, erosion, and soil exhaustion, and also because of chronic surplus of certain staple crops, there has been a contraction of the cultivated areas in certain sections of the country. Most of this land is unsuited to cultivation and its retirement from active cropping is to be encouraged. It can be more profitably used as grazing land, and for reforestation.

However, most of the farmers leaving farms in drought areas, for instance, desire to remain on the land. It is easier for them to adapt themselves to new methods of farming than to city life, particularly at a time when there are few employment opportunities in the city. Irrigated farming offers them security against the disaster of drought. It offers them a better prospect of raising their own food supplies, and, finally, it enables them to turn to the production of agricultural products the prices of which are not depressed by chronic surplus. There has accordingly been a great migration to irrigated lands throughout the western half of the United States. This migration enables the farmers to improve their conditions and also makes easier the solution of two of our most difficult national problems—the problem of surplus agricultural staples and the problem of soil erosion.

At the same time that the demand for new irrigated lands is thus increasing, an important source of financial support from the Bureau of Reclamation is failing. Revenues from the sale of public lands are reaching the vanishing point. This source cannot be revived.

Although in certain difficult years the farmers on Government projects have had trouble in meeting payments due the Government, yet over the whole period of operation of the Bureau it has collected 97.7 percent of the money due it on all accounts. However, some aspects of multiple-purpose reclamation projects are non-revenue-producing. This bill recognizes in principle the fiscal desirability of separating the revenue-producing portion from these aspects.

Products of irrigated farms for the most part are not the kind to aggravate our surplus products problems. Stability of production and relative stability of prices in the irrigated areas has meant stability of tax revenues, of railroad revenues, and of income for other essential community services. The enterprises of the Bureau have furthermore provided new industrial opportunities through making available cheap power in connection with reclamation projects. Navigation has been improved and works now contemplated will greatly extend our navigable waterways in the West. At the same time the projects of the Bureau have given protection against floods to thousands of homes, and, finally, they have furnished valuable recreation facilities and wildlife shelter.

It is estimated by the Bureau of Reclamation that \$526,000,000 is needed to complete that portion of the reclamation program already under construction, and \$251,000,000 is needed for new projects. Approximately one-half of the \$90,000,000 made available in this bill is to be used to expedite work already under way, and the remainder is for new construction which can be started immediately.

All the money advanced on these projects will be returned to the Reconstruction Finance Corporation and used to retire outstanding obligations. No interest is charged on the irrigation portion of the reclamation program and such interest will therefore be a charge on the Budget.

EXPORT-IMPORT BANK OF WASHINGTON

The bill provides for an increase in the maximum loans which the Export-Import Bank can have outstanding from \$100,000,000 to \$200,000,000.

Since its establishment the bank has made commitments of \$250,700,000, of which \$101,000,000 have been canceled because the interested American firms failed to obtain the business or were unable to comply with the conditions of the credit. Actual disbursements have been about \$95,000,000 and repayments \$41,000,000. Total loans now aggregate approximately \$54,000,000 and active commitments about \$56,000,000.

Although the bank did not operate during the first 18 months of its existence, it has paid dividends upon its preferred stock at the rate of 3 percent per annum through December 31, 1938, and has funds with which to pay dividends accrued to date.

Net profit for the fiscal year 1939 was \$1,744,630.74.

The bank has handled but a small part of the export business of the United States. Its importance, however, lies in the fact that it has been able to give valuable assistance to those producers and manufacturers who are most dependent upon foreign outlets. The exportation of cotton, for example, has been substantially increased through credits provided by the bank. It is worth noting also that the bank has participated directly in financing the sale of most of the railway equipment exported from the United States during the past 2 years. Any activity which facilitates the sale abroad of basic equipment is of unusual significance for the reason that "follow-up" orders for parts and additional units invariably result.

Over 90 percent of the funds disbursed to date by the bank have been in direct connection with exports from the United States.

EFFECT OF THE PROGRAM ON EMPLOYMENT

The Department of Labor estimated that the adoption of this program would result in increased employment of at least 500,000 men. They are carpenters, bricklayers, stonemasons, ditch diggers, cement finishers, and a host of other skilled, semiskilled, and unskilled men who work with them. Second, there are the men in the factories who provide the brick, cement, lumber, and steel to be used on the job; back of them are the miners, the loggers, and others who supply the raw materials for the factories; and last, there are the men on transportation systems which carry the materials to the factories and later to the job. Employment of these secondary groups of workers is just as important in any reemployment program as the employment of men at the site of construction. For a great many types of public works the materials, man-hours, and transportation men are numerically more important than the men working at the site of the construction projects.

Beyond this labor consumed in the manufacturing of these products purchased by the contractor is other labor used in making the raw materials that went into their production. For steel, cement, lumber, brick, plumbing and heating supplies, electrical products, and sand and gravel there is the added employment in the mines, railroads, factories, and shipping lines necessary for their production and delivery for further fabrication.

In addition to the number of hours of employment created in fabricating the materials, the Bureau of Labor Statistics has shown the dollar value of orders which factories may expect from different types of programs. For example, in a \$100,000,000 building-construction program, iron and steel mills may expect orders valued at \$15,000,000; lumber and millwork firms, orders in the amount \$5,000,000; brick and tile plants, orders in the amount of \$4,200,000, etc.

For every \$100,000,000 spent for self-liquidating transportation projects, about 47,500,000 man-hours will be created at the construction site and 66,900,000 hours in mines, forests, factories, and on transportation systems.

A rural-electrification program of \$100,000,000 will create approximately 34,000,000 hours at the site and approximately 47,000,000 hours in mines, forests, factories, and on transportation systems.

The program would provide for the installation of approximately 460,000 miles of line. This would involve, among other things, the purchase of 9,200,000 poles, 1,150,000 meters, 1,000,000 transformers, 400,000,000 pounds of copper, aluminum, and steel. The program would serve a minimum of 1,150,000 rural families.

In addition to the foregoing the construction of these new lines would, during the first 6 months they were energized, result in the installation of approximately \$115,000,000 of home wiring and the purchase of over \$230,000,000 of home electrical appliances purchased by the families receiving electric service for the first time. Since approximately one-half of the cost of wiring represents labor (including that of the contractor) and one-half represents the cost of wiring materials, a market will be created by this program of over \$230,000,000 for appliances and approximately \$57,500,000 of wiring materials such as insulated copper conductor, outlets, and switches.

The figure on appliances is low; purchases during the second 6-month period would raise the total perhaps as much as 25 percent.

Included in the appliances purchased during the first 6 months of service would be approximately the following totals: 1,000,000 radios, 950,000 hand irons, 550,000 washing machines, 300,000 refrigerators, 275,000 toasters, 200,000 water pumps, 200,000 vacuum cleaners, and 100,000 small motors.

The manufacturers and vendors of consumers' goods and services also benefit by public works expenditures. From its studies of family expenditures, the Bureau of Labor Statistics has determined approximately how wage-earner families spend their earnings. It is estimated that a \$100,000,000 non-Federal construction program will show expenditures by wage earners of \$21,700,000 for food, \$10,700,000 for housing, and \$7,300,000 for clothing, etc.

The bulk of the employment involved in car building would be of a skilled and semiskilled nature. A rough estimate of the amount of employment involved in the program (assuming that one-fourth of the construction will be of locomotives) is 300,000,000 man-hours in which one-fourth will be in the car plants and the remainder outside of the car plants. Over 20,000 tons of steel would be employed, over 10,000 tons of coal, 780,000 tons of lumber, 15,000 gallons of paint, 60,000 tons of refractories. In addition to these, there are a large number of machine tools, small tools, and electrical equipment which would be needed.

ANALYSIS OF THE BILL BY SECTIONS

Section 1 provides that when enacted the bill may be cited as the "Works Financing Act of 1939."

Section 2 provides that the Reconstruction Finance Corporation shall issue its notes, bonds, or other obligations upon the direction of the President to finance the program to be carried on by the Department of Agriculture, the Department of the Interior, the Public Roads Administration, the Public Works Administration, the Rural Electrification Administration, and the Reconstruction Finance Corporation itself.

Section 3 provides that the Reconstruction Finance Corporation Act shall apply to such notes or other obligations, except that the maturity may be 30 years, and increases the amount which may be outstanding under existing law to \$2,390,000,000.

Section 4 provides for the proceeds of such notes, bonds, or other obligations to be deposited with the Treasurer of the United States and disbursed to the agencies carrying out the program in accordance with existing governmental accounting procedures.

Section 5 authorizes the Public Roads Administration, with the cooperation and consent of the States, municipalities, and other public bodies concerned, to carry out a program of highway improvements, including toll roads, bridges, tunnels, express bypasses, and other transportation facilities, and to acquire by purchase or condemnation any real property necessary or convenient to enable the improvements to be made.

Section 6 provides that no further consent of Congress need be required before bridges or tunnels may be built across navigable waters,

but requires that the approval of the Secretary of War to the plans and specifications be obtained in accordance with the General Bridge Act of 1906.

Section 7 authorizes the Reconstruction Finance Corporation to enter into contracts for, and to aid in financing, the purchase or construction of rolling stock and shop equipment by railroads and for selling or leasing the same with or without the option to purchase. Provision is also made for aiding in financing the purchase of old rolling stock and equipment for rebuilding, repair, or other disposition.

Section 8 provides for the construction and continuation of construction of authorized reclamation projects.

Section 9 provides that all revenues of the agencies charged with administering the bill which are derived from projects constructed or financed under the bill shall be deposited with the Treasurer of the United States to the credit of the Reconstruction Finance Corporation and requires the Corporation to use such revenues to pay the notes, bonds, and other obligations issued to finance the program, together with interest thereon.

Section 10 authorizes the Reconstruction Finance Corporation to sell securities acquired as evidence of loans made by any agency under the bill and to use such proceeds for the payment of the interest on and principal of its notes, bonds, and other obligations issued under the bill.

Section 11 makes available until expended the funds provided by the Reconstruction Finance Corporation to the various agencies charged with carrying out the program, and requires that all their expenditures (except those of the Corporation) shall be accounted for and audited by the General Accounting Office.

Section 12 provides that the Secretary of the Treasury and the Federal Loan Administrator shall make an annual examination of the status of the program and report the results to the President and to the Congress. The section also provides that to the extent that the expenditures for the program may not be recoverable the Secretary of the Treasury shall pay the Reconstruction Finance Corporation any estimated deficiency. An appropriation for the necessary payments is also authorized.

Section 13 imposes a duty upon every agency designated thereunder to exercise its powers in carrying out the program so as to reasonably assure recovery of the amount invested, with interest sufficient to reimburse the Reconstruction Finance Corporation for the cost to it of the capital required for its operations under the bill. This section also places a ceiling on the interest rate at the highest yield on the longest term, direct or indirect, obligation of the United States which is outstanding.

Section 14 provides that the services of Federal, State, and local agencies may be utilized and that reimbursement may be made for such services.

Section 15 provides that as to real property acquired under the bill the requirement of existing law that the United States must acquire exclusive jurisdiction over real property, is dispensed with. This section empowers the Attorney General to determine how much jurisdiction is desirable.

Section 16 provides that administrative expenses for the fiscal year 1940 shall be paid from the proceeds of notes, bonds, and other ob-

ligations issued by the Reconstruction Finance Corporation in amounts to be fixed by the Director of the Bureau of the Budget.

Section 17 provides that no expenditure or loan shall be made with respect to any project unless the agencies making the expenditure or loan determine that there is reasonable assurance that the amount with interest will be repaid within 40 years.

Section 18 contains a provision with respect to prevailing wages which is applicable to the projects undertaken by the Public Roads Administration, the Public Works Administration, and the Reconstruction Finance Corporation.

Section 19 authorizes the appropriation of such sums as may be necessary for administrative expenses in carrying out the provisions of the bill.

Section 20 increases the amount of loans for financing and facilitating exports which the Export-Import Bank of Washington is authorized to have outstanding at any one time from \$100,000,000 to \$200,000,000.

○

Calendar No. 936

76TH CONGRESS
1ST SESSION**S. 2864**

[Report No. 896]

IN THE SENATE OF THE UNITED STATES

JULY 22, 1939

Reported, under authority of the order of the Senate of July 21 (legislative day, July 18), 1939, by Mr. BARKLEY, from the Committee on Banking and Currency

A BILL

To provide for the financing of a program of recoverable expenditures, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Works Financing Act
4 of 1939".

AUTHORIZATION OF BONDS

5
6 SEC. 2. In order to provide a sound method of financing
7 which, without burdening the national taxing power, will
8 make it possible to increase employment through a program
9 of recoverable expenditures, the Reconstruction Finance Cor-
10 poration (herein called the "Corporation"), upon the direc-

1 tion of the President, shall issue from time to time notes,
2 debentures, bonds, or other obligations to enable the De-
3 partment of Agriculture, the Public Roads Administration,
4 the Public Works Administration, the Rural Electrification
5 Administration, and the Corporation to carry out their re-
6 spective functions as hereinafter provided.

7 PROVISIONS CONCERNING BONDS

8 SEC. 3. The provisions contained in the Reconstruction
9 Finance Corporation Act, approved January 22, 1932, as
10 amended, shall apply to the notes, debentures, bonds, or
11 other obligations issued to carry out the provisions of this
12 Act, except that—

13 (a) Such notes, debentures, bonds, or other obligations
14 may mature at such time or times, not exceeding thirty years
15 from their date, and contain and be subject to such terms,
16 covenants, and conditions as the Corporation, with the ap-
17 proval of the Secretary of the Treasury, may prescribe; and

18 (b) The amount of notes, debentures, bonds, or other
19 obligations which the Corporation may issue and have out-
20 standing at any one time under existing law is hereby
21 increased by the amount thereof directed to be issued by
22 the President, not to exceed \$2,390,000,000.

23 DISPOSITION OF BOND PROCEEDS

24 SEC. 4. The Corporation is hereby authorized and
25 directed to deposit all proceeds realized from the sale of

1 notes, debentures, bonds, and other obligations issued for
2 the purpose of carrying out this Act, with the Treasurer
3 of the United States to the credit of the Corporation. The
4 Treasurer of the United States is hereby authorized and
5 directed to receive such moneys and hold the same in a
6 special account or accounts to the credit of the Corpo-
7 ration, and to transfer from time to time such amounts as
8 the Corporation, upon the direction of the President, shall
9 order to such special disbursing accounts with said Treasurer
10 as the Secretary of the Treasury shall designate, in order
11 to provide funds for the following departments, adminis-
12 trations, and agencies of the Government, which shall not
13 exceed the following amounts for the following purposes,
14 in addition to sums available for such purposes from other
15 Acts:

16 (1) To the Public Roads Administration: The sum of
17 \$500,000,000 for post roads, highways, parkways (in coop-
18 eration with the National Park Service of the Department
19 of the Interior), grade crossings, underpasses, overpasses,
20 viaducts, bridges, and tunnels, including crossings over or
21 under navigable waters, and other transportation facilities,
22 including works, undertakings, or projects incidental thereto,
23 and all or any part of any of such facilities and appurtenances
24 thereto, such as lands, rights in lands, rights of access,
25 easements, and necessary buildings, equipment, and machin-

1 ery (herein called "highway improvements"), and for loans
2 to States, municipalities, and other public bodies to finance
3 highway improvements, as provided in section 5 of this
4 Act and property acquired as provided in said section;

5 (2) To the Public Works Administration: The sum of
6 \$350,000,000 for loans for projects of the character here-
7 tofore authorized to be financed by loan or grant, or both,
8 by the Federal Emergency Administration of Public Works
9 under title II of the National Industrial Recovery Act, the
10 Emergency Relief Appropriation Act of 1935, the Emer-
11 gency Relief Appropriation Act of 1936, the Public Works
12 Administration Extension Act of 1937, and the Public
13 Works Administration Appropriation Act of 1938, as pro-
14 vided in said Acts, except that the limitations therein relat-
15 ing to the receipt of applications and the time for begin-
16 ning and completion of construction shall not apply to loans
17 made with funds provided under this Act;

18 (3) To the Corporation: The sum of \$350,000,000 for
19 engines, locomotives, tenders, freight and passenger cars of
20 all types and classes, and parts thereof and appurtenances
21 thereto and other rolling stock, and for railway shop equip-
22 ment (herein called "railroad equipment"), as provided in
23 section 7 of this Act;

24 (4) To the Rural Electrification Administration:
25 \$500,000,000 for the purposes specified in the Rural Elec-

1 trification Act of 1936, as amended, as provided in said Act:
2 *Provided*, That section 3 (b) of said Act (relating to
3 authorization for appropriations) is hereby repealed, and
4 \$40,000,000 of the balances of appropriations made pursuant
5 to such section which remain unobligated on the date of en-
6 actment of this Act shall be covered into the Treasury as
7 miscellaneous receipts;

8 (5) To the Department of Agriculture: \$600,000,000
9 for loans for facilities for farm tenants, farm laborers, share
10 croppers, and other individuals who obtain, or who have
11 in the past obtained, the major portion of their income from
12 farm operations, including rural rehabilitation loans, and
13 projects for the provision of additional water facilities, and
14 farm-tenant loans as provided for in title I of the Bankhead-
15 Jones Farm Tenant Act, of which amount not less than
16 \$300,000,000 shall be available for farm-tenant loans as
17 provided for in title I of said Act: *Provided*, That the
18 limitation as to the number of days for which members of
19 county committees may be compensated, contained in the
20 first sentence of subsection (b) of section 42 of said Act,
21 shall not apply to the performance of their duties in connec-
22 tion with loans made with funds provided under this Act:
23 *Provided further*, That \$100,000,000 of any unobligated
24 balances of sums heretofore appropriated or made available
25 to the Secretary of Agriculture to enable him to carry out

1 the provisions of title I of the Bankhead-Jones Farm Tenant
2 Act, the Emergency Relief Appropriation Act of 1938, and
3 the Emergency Relief Appropriation Act of 1939, shall be
4 covered into the Treasury as miscellaneous receipts; and

5 (6) To the Department of the Interior: \$90,000,000
6 for the commencement or continuation of construction by the
7 Bureau of Reclamation under the supervision of the Secretary
8 of the Interior, as provided in section 8 of this Act, of
9 reclamation projects.

10 HIGHWAY IMPROVEMENTS

11 SEC. 5. Subject to the provisions of this Act, and utilizing
12 the services of and with the cooperation and consent of the
13 States, municipalities, and other public bodies concerned,
14 the Public Roads Administration shall have power—

15 (a) To make loans for highway improvements, or to
16 construct, reconstruct, alter, extend, enlarge, improve, repair,
17 and acquire highway improvements, with a view to promot-
18 ing interstate commerce, aiding in the national defense, facili-
19 tating the use of the mails, or promoting the general welfare;

20 (b) To maintain and operate highway improvements,
21 and such Administration shall fix, maintain, and collect tolls,
22 and other charges for the use of highway improvements
23 which shall be sufficient (after making reasonable allowances
24 for operation and maintenance expenses for depreciation to
25 the extent not provided for by amortization, and con-

1 tingencies) to amortize the cost of such highway improve-
2 ments with interest as hereinafter provided, but no tolls or
3 other charges shall be collected for the use of any such high-
4 way improvement after the construction cost thereof has been
5 paid or liquidated;

6 (c) To acquire in the name of the United States by
7 gift, purchase, exchange, or by the exercise of the power
8 of eminent domain or otherwise, and to hold, lease (as lessor
9 with or without the option to purchase, or as lessee), use,
10 sell, exchange, or otherwise dispose of highway improvements
11 or other real property necessary or convenient for carrying
12 out any of its functions hereunder;

13 (d) To expend moneys for the purpose for which any
14 real property has been purchased, or possession thereof has
15 been taken during the course of condemnation proceedings
16 and in advance of final judgment thereon, in demolishing
17 existing structures thereon, in improving such real property
18 in any way authorized by this Act, or in constructing any
19 highway improvement thereon, notwithstanding the provi-
20 sions of section 355 of the Revised Statutes;

21 (e) For the purposes of this section to institute and
22 carry on, under the direction of the Attorney General, con-
23 demnation proceedings for the purpose of taking any real
24 property (which term includes for purposes of this section
25 property devoted to another public use) in the manner or

1 mode of procedure provided by an Act entitled "An Act
2 to authorize condemnation of land for sites of public build-
3 ings, and for other purposes", approved August 1, 1888, as
4 amended, or of an Act entitled "An Act to expedite the
5 construction of public buildings and works outside of the
6 District of Columbia by enabling possession and title of
7 sites to be taken in advance of final judgment in proceedings
8 for the acquisition thereof under the power of eminent
9 domain", approved February 26, 1931, as amended;

10 (f) For the purposes of this section to enter on any real
11 property for the purpose of making surveys, borings, tests,
12 and examinations; and

13 (g) To pay all expenses in connection with the acqui-
14 sition of real property, including all fees for abstracts, official
15 certifications, evidences of title, and recordation, notwith-
16 standing the proviso in section 1 of the Act of March 2, 1889,
17 relating to the payment of such expenses and fees.

18 CROSSINGS ON NAVIGABLE WATERS

19 SEC. 6. The consent of Congress to the construction,
20 reconstruction, or acquisition by the Public Roads Admin-
21 istration of any bridge, tunnel, or other crossing over, under,
22 or across any navigable waters of the United States under
23 this Act shall be deemed to have been obtained and affirma-
24 tively authorized by virtue of this Act within the meaning
25 of sections 9, 10, and 11 of the Act of March 3, 1899, as

1 amended, whether or not such structures cross rivers and
2 other waterways the navigable portions of which lie wholly
3 within the limits of a single State; but no such structure
4 shall be constructed, reconstructed, or maintained under this
5 Act unless and until all the limitations, restrictions, and
6 other provisions of an Act entitled "An Act to regulate the
7 construction of bridges over navigable waters", approved
8 March 23, 1906, as amended, except the provisions of
9 section 6 thereof, shall have been complied with by said
10 Administration.

11 RAILROAD EQUIPMENT

12 SEC. 7. Subject to the provisions of this Act, the Cor-
13 poration shall have power—

14 (a) Through public bidding or private negotiations to
15 make contracts for, or to aid in financing by loan, lease,
16 or otherwise, the purchase or construction of railroad equip-
17 ment by a carrier or to be acquired by a carrier or carriers
18 under contract and of such type and design as may, with the
19 approval of the Corporation, be specified by the carrier or
20 carriers by whom such railroad equipment is intended to be
21 used, and to make contracts to aid in financing by loan,
22 lease, or otherwise, the purchase, rebuilding, repair, or dis-
23 position of old railroad equipment; and

24 (b) To lease, with or without the option to purchase,
25 or to sell or rent upon such terms and conditions as it shall

1 prescribe, any railroad equipment constructed, rebuilt, or
2 repaired under this section.

3 RECLAMATION PROJECTS

4 SEC. 8. The Secretary of the Interior, through the
5 Bureau of Reclamation, shall have power to expend the
6 moneys transferred to the Department of the Interior under
7 this Act to continue the construction or to undertake the
8 construction, pursuant to the Act of June 17, 1902 (32
9 Stat. 388), and all Acts amendatory thereof or supple-
10 mentary thereto (herein called "Federal reclamation laws"),
11 of reclamation projects which, respectively, are under con-
12 struction, authorized or deemed authorized under existing
13 or subsequently enacted Federal reclamation laws: *Pro-*
14 *vided*, That for the purpose of financing in whole or in part
15 any multiple purpose reclamation project heretofore or here-
16 after authorized, the Corporation shall not issue notes, deben-
17 tures, bonds, or other obligations under this Act in an
18 aggregate principal amount in excess of such part of the
19 estimated cost thereof as the Secretary of the Interior shall
20 allocate to the revenue producing or repaying features
21 thereof. The Federal reclamation laws shall govern the
22 selection, construction, operation, and the terms and pro-
23 visions for the repayment of construction costs of any such
24 reclamation projects financed in whole or in part with

1 moneys provided under this Act, any other provisions of
2 this Act to the contrary notwithstanding.

3 DISPOSITION OF PROJECT REVENUES

4 SEC. 9. (a) The Department of Agriculture, the Public
5 Roads Administration (after reserving when necessary suffi-
6 cient funds to pay operating and maintenance expenses of any
7 highway improvement), the Public Works Administration,
8 the Rural Electrification Administration, and the Corpora-
9 tion shall deposit all revenues and receipts derived from the
10 works, projects, or undertakings constructed, leased, rented,
11 or sold, or repayments of the interest on, or principal of,
12 all loans made to aid in financing works, projects, or under-
13 takings, in carrying out their respective functions under this
14 Act in a special account or accounts with the Treasurer of
15 the United States to the credit of the Corporation, and all
16 such revenues and receipts shall be used by the Corporation
17 exclusively for the payment of interest on its notes, deben-
18 tures, bonds, or other obligations issued for the purpose of
19 carrying out the provisions of this Act, as such interest shall
20 become due and payable, and for the purchase, retirement,
21 or redemption of such notes, debentures, bonds, or other
22 obligations.

23 (b) The Department of the Interior acting through the
24 Bureau of Reclamation annually, as soon as practicable after
25 the close of the fiscal year, shall certify to the Secretary of

1 the Treasury the proportionate amount of the net revenues
2 and repayments (as determined by the Secretary of the
3 Interior) received each fiscal year from each reclamation
4 project of the features thereof financed in whole or in part
5 with moneys provided under this Act on the basis of the
6 ratio between the total estimated cost of such project or fea-
7 tures thereof and the part of such cost financed with moneys
8 provided under this Act, until such certifications equal in
9 amount the moneys provided under this Act for such project
10 or features thereof (as determined by the Secretary of the
11 Interior). Upon receipt of such a certificate, the Secretary
12 of the Treasury is authorized and directed to charge the
13 reclamation fund with the amount so certified, which amount
14 shall be deposited in a special account with the Treasurer
15 of the United States to the credit of the Corporation to be
16 used by the Corporation as hereinbefore provided in this
17 section. Otherwise than as provided in this section, the dis-
18 position of such net revenues and repayments shall be
19 governed by the Federal reclamation laws.

20

SALE OF SECURITIES

21 SEC. 10. The Corporation shall have the power, with
22 the approval of the Secretary of the Treasury as to the time
23 of any such sale, to sell or otherwise dispose of any securities
24 acquired by any department, administration, or agency in
25 carrying out its functions under this Act, and in connection

1 with any such sale to make such contracts and agreements
2 as seem to the Corporation advisable; and all sums realized
3 from the sale of such securities shall be deposited by the
4 Corporation in a special account or accounts with the Treas-
5 urer of the United States and shall be used exclusively for
6 the payment of interest on notes, debentures, bonds, or other
7 obligations issued for the purpose of carrying out this Act,
8 as such interest shall become due and payable, and for the
9 purchase, retirement, or redemption of such notes, deben-
10 tures, bonds, or other obligations.

11 AVAILABILITY AND AUDIT OF FUNDS

12 SEC. 11. The departments, administrations, and agencies
13 for which funds shall be provided by the Corporation pursuant
14 to this Act may use such funds for the purpose of carrying
15 out their respective functions under this Act and such funds
16 shall remain available for such purposes until expended. All
17 the expenditures of the Corporation shall be governed by the
18 Reconstruction Finance Corporation Act, approved January
19 22, 1932, as amended and supplemented, and all other ex-
20 penditures under this Act shall be accounted for and audited
21 in accordance with the terms and provisions of the Budget
22 and Accounting Act of 1921, as amended, the same as if
23 an appropriate appropriation account had been established
24 therefor pursuant to an appropriation warrant or a covering
25 warrant.

APPRAISAL OF PROGRAM

1
2 SEC. 12. The Secretary of the Treasury and the Fed-
3 eral Loan Administrator shall cause an examination to be
4 made annually of the status of the program of recoverable
5 expenditures for the financing of which notes, debentures,
6 bonds, or other obligations of the Corporation shall have been
7 issued under this Act. Each such examination shall be made
8 as of the last day of December in each year, beginning with
9 December 31, 1940. The Secretary of the Treasury and
10 the Federal Loan Administrator shall submit a report of each
11 such examination to the President and to the Congress. If
12 any such examination discloses that the probable recovery of
13 the cost of all works, projects, or undertakings carried out
14 under this Act, and of all loans made to aid in the financing
15 of the same, together with the cash on hand in the special
16 account or accounts of the Corporation provided for by section
17 4 of this Act, is less than the principal amount of all notes, de-
18 bentures, bonds, or other obligations issued pursuant to this
19 Act, and interest thereon, the Secretary of the Treasury
20 on behalf of the United States shall pay to the Corporation
21 a sum equal to the amount of such difference. There is
22 hereby authorized to be appropriated annually, commencing
23 with the fiscal year 1941, out of any money in the Treasury
24 not otherwise appropriated, a sum equal to the amount

1 needed to enable the Secretary of the Treasury to make such
2 payment. Whenever such examination shall disclose a sur-
3 plus, the Corporation shall reimburse the Treasury to the
4 extent of such surplus for the amounts, if any, previously
5 paid under this section.

6 DUTY OF FEDERAL AGENCIES

7 SEC. 13. The Department of Agriculture, the Public
8 Roads Administration, the Public Works Administration,
9 the Rural Electrification Administration, and the Corpora-
10 tion shall exercise their powers under this Act so as to
11 reasonably assure recovery of any expenditure under this
12 Act, with interest (to be fixed by the department, adminis-
13 tration, or corporation concerned, with the approval of
14 the Secretary of the Treasury, within ten days after the
15 enactment of this Act and on the first day of each calendar
16 quarter thereafter), at a rate or rates which may reasonably
17 be expected to reimburse the Corporation for the cost to it
18 of the capital required for any expenditure under this Act,
19 but not to exceed the highest yield to maturity on the
20 longest term outstanding issue of obligations of the United
21 States, direct or indirect. For the purposes of this section,
22 the yield on any obligation shall be based on market prices
23 and on any callable obligation selling above par shall be
24 computed to its earliest callable date and said date shall

1 be deemed to be the maturity thereof. Nothing herein
2 shall be construed to require the alteration or readjustment
3 of any rate once the interest has been fixed for any borrower.

4 ASSISTANCE BY GOVERNMENTAL AGENCIES

5 SEC. 14. Any department, administration, or agency
6 authorized to perform any function under this Act shall
7 have power to utilize the services of Federal, State, mu-
8 nicipal and other local agencies and their employees and, not-
9 withstanding any other provision of law, to reimburse such
10 agencies and their employees for services rendered for such
11 purposes.

12 EXCLUSIVE FEDERAL JURISDICTION NOT REQUIRED

13 SEC. 15. Notwithstanding the provisions of any other
14 law, the obtaining of exclusive jurisdiction in the United
15 States over real property to be acquired under this Act
16 shall not be required; but the Attorney General may, in
17 such cases and at such times as he may deem desirable,
18 secure from the State in which such real property is situ-
19 ated, such jurisdiction, exclusive or partial, over any such
20 real property as the Attorney General may deem desirable,
21 and he may accept such jurisdiction on behalf of the United
22 States by filing a notice of such acceptance with the Gov-
23 ernor of such State or in such other manner as may be pre-
24 scribed by the laws of the State within the borders of which
25 such real property is situated. Unless and until acceptance

1 of such jurisdiction on behalf of the United States has been
2 made as aforesaid, it shall be conclusively presumed that no
3 such jurisdiction has been accepted.

4 ADMINISTRATIVE EXPENSES FOR THE FISCAL YEAR 1940

5 SEC. 16. Administrative expenses of the departments,
6 administrations, agencies of the Government, and amounts
7 required to reimburse States, municipalities, and other local
8 agencies and employees thereof for services rendered in carry-
9 ing out the purposes of this Act shall be paid for the fiscal
10 year ending June 30, 1940, from such amounts as may,
11 with the approval of the Director of the Bureau of the
12 Budget, be reserved from the proceeds realized from the
13 sale of notes, debentures, bonds, or other obligations of the
14 Corporation for the payment thereof, in addition to the
15 unobligated balances of sums heretofore appropriated or
16 authorized to be used for such administrative expenses, any
17 provision in this or any other law to the contrary notwith-
18 standing.

19 GENERAL PROVISIONS

20 SEC. 17. No project shall be constructed, nor any loan
21 made directly or indirectly to construct any project, unless,
22 through its operations or from reasonable assurances or agree-
23 ments, it is determined by the agencies making the expendi-
24 ture or loan that the amount expended, or the loan, with
25 interest, will be repaid within forty years.

1 SEC. 18. The rates of pay for persons engaged upon
2 any projects provided for in subsection (1), (2), or (3)
3 of section 4 shall be not less than the prevailing rates of
4 pay for work of a similar nature in the same locality as
5 determined by the agency administering such subsection.

6 AUTHORIZATION FOR APPROPRIATIONS

7 SEC. 19. There is hereby authorized to be appropriated
8 from time to time such sums as may be necessary for admin-
9 istrative expenses in carrying out the provisions of this Act.

10 EXPORT-IMPORT BANK OF WASHINGTON

11 SEC. 20. Section 9 of the Act approved January 31,
12 1935 (49 Stat. 4), as amended, is hereby further amended
13 by striking from the proviso at the end of the last sentence
14 thereof "\$100,000,000" and inserting in lieu thereof
15 "\$200,000,000".

S 1938

70th CONGRESS
1st Session

Calendar No. 936

S. 2864

[Report No. 896]

A BILL

To provide for the financing of a program of recoverable expenditures, and for other purposes.

By Mr. BARKLEY

JULY 22, 1939

Reported from the Committee on Banking and Currency

JUL 27 1939

Regraded Unclassified

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 24, 1939


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TO Secretary Morgenthau
FROM W. H. Hadley

Review of the Government Market

Week ending July 22, 1939

The government security market showed mixed tendencies during the past week. Early in the week prices were slightly easier with a few offerings appearing in the market. In the latter half of the week government securities turned around in sympathy with a strong stock market and moved up about 1/4 point. Activity as a whole was light and was limited mostly to switching operations but good buying demand developed toward the close of the week.

Intermediate and long term bonds were up 4 to 9/32nds, guaranteed issues were mixed with gains and losses ranging to 3/32nds, while Treasury notes were generally unchanged with the exception of the three longest issues which were up an average of 3/32nds. The present level of Treasury bond prices is about the average of the last two months, about 3/4 point below the June all-time high and 3/4 point above this month's low.

Dealers' Portfolios

Dealers showed substantial reduction in their portfolios, which now stand at the lowest levels since February. Total holdings were down about \$13 million. This reduction included declines of \$5 million in Treasury notes, \$5 million in guaranteed issues and \$2 million in Treasury

bonds. Dealers continue somewhat reluctant to carry larger positions.

Dealers' Portfolios

(in millions)

	<u>Week ended</u> <u>July 15</u>	<u>Week ended</u> <u>July 22</u>	<u>Net Change</u>
Treasury bonds	14.0	11.9	- 2.1
Treasury notes (1 year)	16.3	17.2	+ 0.9
Treasury notes (1-5 yrs.)	17.5	11.1	- 6.4
Treasury bills	3.7	3.7	0
H.O.L.C. bonds	25.9	19.6	- 6.3
F.F.M.C. bonds	<u>0.5</u>	<u>1.9</u>	<u>+ 1.4</u>
	77.9	65.4	-12.5

Dealers' volume of trading was light, averaging about \$100 million daily, of which about \$60 million daily was in Treasury bonds.

New Security Issues

Two large high grade refunding issues were the principal items in the new corporate bond market this week. Both of these issues, apparently because of pricing too close to the market, are moving very slowly. An \$85 million 15-year 2-1/2% bond of Shell Union Oil Company offered at 97 3/4 is now quoted about 1-1/4 points below the offering and reportedly only about 60% sold. Similarly, a \$22-3/4 million public offering of Southern Bell Telephone 3% 40-year debentures offered at 107 1/2 is quoted about 1 point below the offering and is reported to be only about 70% sold. Several large issues are scheduled for the near future.

Corporate Bond Market

In sympathy with a strong stock market, corporate bonds moved to new high levels. Second grade issues broke through the March, 1939 high and are now at the highest levels in two years. High grade issues held steady but slightly under the recent all-time highs. The yield

spread between high and second grade corporate bonds is now only 1.90%, the best level since March of this year, and reflects improved business confidence.

Treasury Investment Accounts

There were no transactions in the New York market for Treasury investment account during the week ending July 22.

HOLC Bonds

An additional \$2-1/2 million HOLC 1-1/2% bonds were sold this week, bringing the total now sold to \$59,900,000. This leaves a balance of \$40,100,000 to be sold. The average price on the total sales is about 102. 5/32nds.

Federal Reserve System Account

The Federal Reserve allowed an additional \$20 million Treasury bills to run off, replacing only \$16,637,000 of a \$36,637,000 maturity. Total reductions in the account for the last month have amounted to approximately \$49 million, the total account now standing at \$2,515,000,000, compared with \$2,564,000,000 on June 21.

M. P. ...

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

219
CONFIDENTIAL

DATE July 24, 1939

TO Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: The Business Situation,
Week ending July 22, 1939.

Conclusions

(1) Data now becoming available show that a strong forward movement in business is actively under way.

- (a) The rate of steel operations, which reached a new high for the year at the beginning of last week, was stepped up further in various districts before the end of the week.
- (b) Steel buying has increased markedly, and prices for steel products as well as for steel scrap have turned firmer.
- (c) The volume of textile buying expanded sharply last week.
- (d) Stock prices on the domestic markets made further substantial gains.
- (e) New security issues are increasing, with fairly large offerings in prospect during August.

(2) Favorable domestic conditions, however, are operating against the handicap of an unfavorable foreign background. Marked weakness in sensitive commodity prices, apathy of foreign stock markets, a sagging trend of British consols, and increased foreign selling of American securities, seem to disprove recent peace-like news items from abroad, and suggest instead an increasingly critical foreign situation.

- - - -

The current situation

The business picture continues to emphasize the conflict between domestic factors -- strongly favorable for a general rise in business -- and foreign uncertainties which act to restrict business initiative.

During the past week, a sharp uprush in prices on the New York Stock Exchange has reflected increased optimism over the domestic business outlook, and in turn has served to improve the outlook by stimulating increased buying of steel, textiles, and other products by the many businessmen who rely on the stock market for guidance. In part, the rise has been due to a more peaceful tenor of foreign news, which has led many to feel that the Danzig problem and others may be settled without serious difficulties.

The recent actions of commodity markets and foreign stock markets, however, cast grave doubt on this latter conclusion. Weakness in sensitive commodity prices (See Chart 1) has become more pronounced during the past week, particularly in the British price trend as represented by Reuter's index. This action appears similar to the price weakness which, on various occasions during the past year or more, has anticipated political crises abroad. A Dow-Jones cable from London last week, commenting on the price decline, attributed it in large part to poor demand due to prevailing uncertainties in the international political outlook, and mentioned that similar hand-to-mouth buying was reported from Continental centers as well as in Great Britain.

It is conceivable that decreased war possibilities might cause a decline in prices for some commodities, particularly for strategic war materials. But in the present case the weakness is most pronounced in non-strategic commodities, except that wheat prices have declined on increasing crop prospects. Furthermore, British consols and French rentes have also weakened, rather than rising as would be expected if war possibilities had actually become more remote.

Whatever the opinion held by stock traders in this country, foreign traders apparently believe the war outlook still critical. American securities have been sold steadily and heavily by foreign interests this week, piling up the largest sales total since the Czechoslovakian crisis last March. (See Chart 2.) Stock prices on the Paris Bourse remained practically unchanged last week during the Wall Street upturn, and prices on the London market rose only moderately.

Domestic business makes further gains

The business trend in this country is now strongly upward, aided recently by an improved business confidence. The New York Times adjusted index for the week ended July 15 exactly regained the holiday loss of 5.0 points. Preliminary data for the following week indicate that a sharp rise in the adjusted index of steel production, more than offset a decline in the index of automobile production due to shutdowns for change-overs.

Our index of business confidence, based on the current valuation of second grade bonds as compared with high grade bonds, has risen to the highest level since March. (See Chart 3.) This index tends to reflect variations in appraisal of the outlook for corporation profits.

Improved steel outlook

An outstanding feature of the current business trend is a marked improvement in steel orders, and a rise in the rate of steel operations to a level far exceeding earlier trade expectations. The 6.7-point increase in scheduled steel operations last week to a new high for the year has been topped by further increases in various districts near the end of the week, carrying the scheduled rate this week to the highest level since last November at 60.6 per cent.

A firming of steel scrap prices in the face of declines in general commodity prices, which has accompanied the upturn in steel activity during June and July, provides some evidence of the soundness of the current steel upturn. (See Chart 4.) It will be noted that in 1938 the rise in steel operations during the spring, which was not accompanied by a rise in scrap prices, did not prove permanent; while the pronounced steel upturn later in the year was accompanied by rising prices for steel scrap.

Trade reports note a sharp increase in steel orders since the Fourth of July holiday despite a continued lack of specifications from the automobile industry, which is hampered by the General Motors strike. The continued brisk demand from miscellaneous sources, said to be all material desired for immediate use, has surprised the trade and led to expectations of a continued rise in steel activity after the automobile companies come into the market. New orders reported confidentially by the U. S. Steel Corporation for the second week of July increased to 54 per cent of capacity, which compares with 42 per cent during the previous week.

Secretary Morgenthau - 4

Fear of a possible steel strike in the fall, due to attempts of the C. I. O. to sign up the four principal steel producers who do not now have labor agreements with the organization, is believed in some quarters to provide an incentive for a steel buying movement for building up inventories. A recent firming of finished steel prices, and current expectations that pig iron prices may soon be raised, tend to operate in the same direction. Such a movement might bring a bulge in steel operations early in the fall that could not later be sustained.

More restrictions on wages and hours, which become effective on October 24 under the Fair Labor Standards Act, may also in some degree lead to increased buying and increased production in anticipation of rising costs. On that date the minimum wage in industries producing goods for commerce, with some exceptions, will be raised to 30 cents an hour from 25 cents, and the maximum weekly hours to be worked without payment of overtime will be reduced from 44 to 42.

New orders index higher

Our weekly index of new orders for the second week of July recovered from the holiday dip, due to the upturn in steel orders. (See Chart 5.) Orders for products other than steel and textiles during that week remained seasonally depressed. Textile orders, which have regained much of the holiday-week loss, do not yet reflect the buying boom which got under way last week. Stimulated in part by the rise in stock prices, print cloth sales last week expanded to around 45,000,000 yards, about 350 per cent of current production, and other textile products sold in increased volume with a firming of prices.

July contract awards

Residential contract awards for the first half of July declined to a daily average of \$3,994,000, as compared with \$4,304,000 for the month of June, following a declining seasonal trend which reaches a low in August. Total contract awards, which remain seasonally unchanged from June to July, rose to a daily average of \$11,384,000 during the first half of July, as compared with a figure of \$11,089,000 for the month of June.

Secretary Morgenthau - 5

FHA mortgage insurance applications during the three weeks ended July 15 declined to \$59,877,960, about 10 per cent under the comparable figures for last year, owing to a sharp drop in applications covering houses already built. For new houses to be built, the value of applications during that period was about 15 per cent larger than in 1938.

COMMODITY PRICE INDEXES IN U.S. AND U.K.
Daily

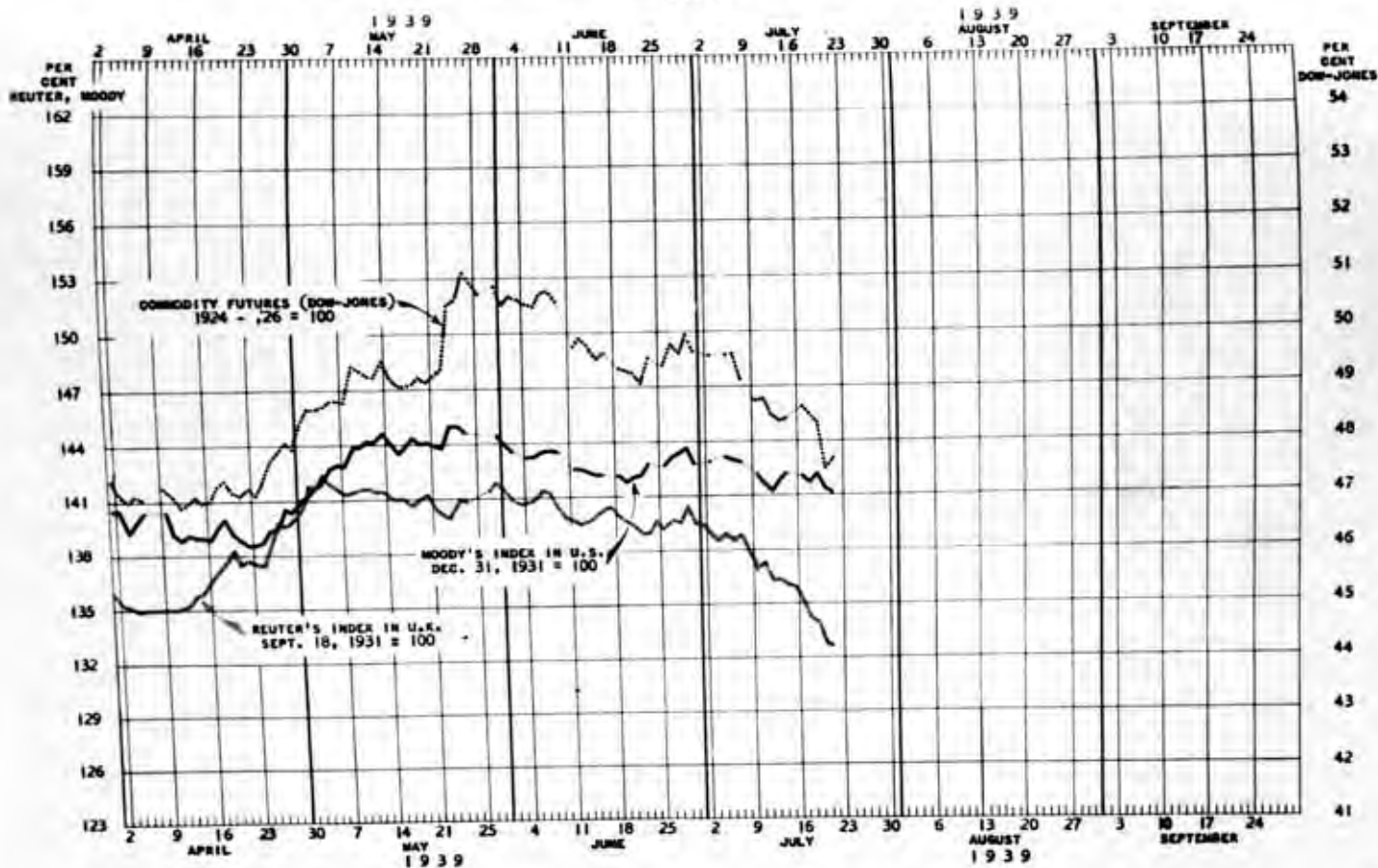
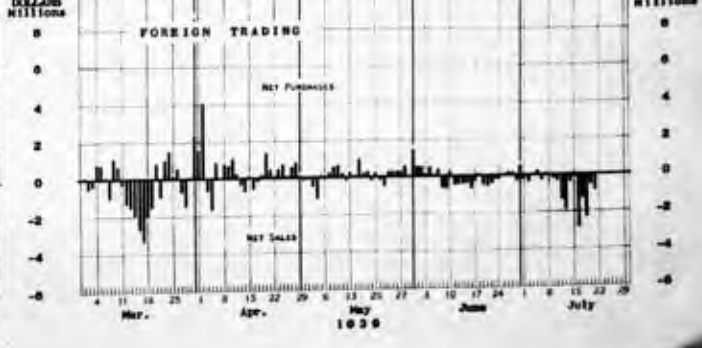
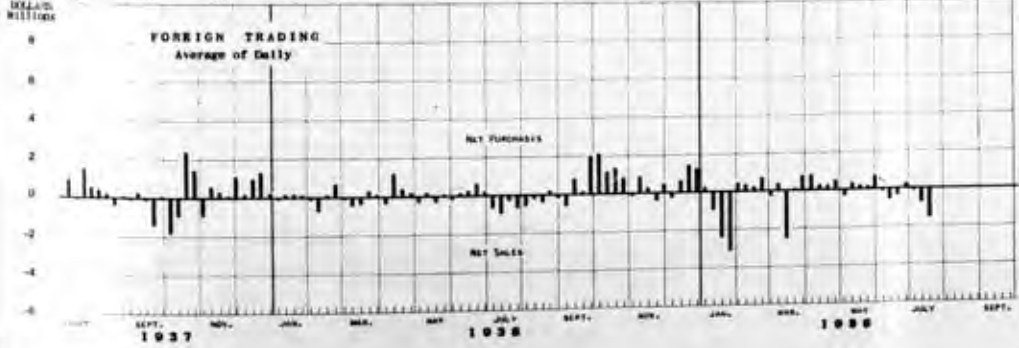
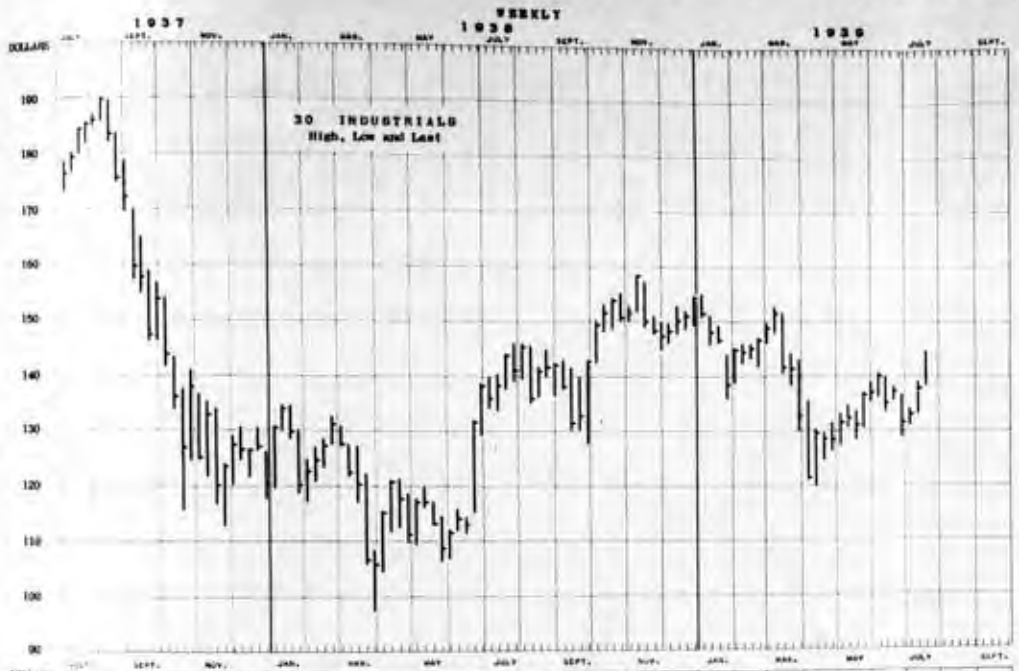


Chart 1

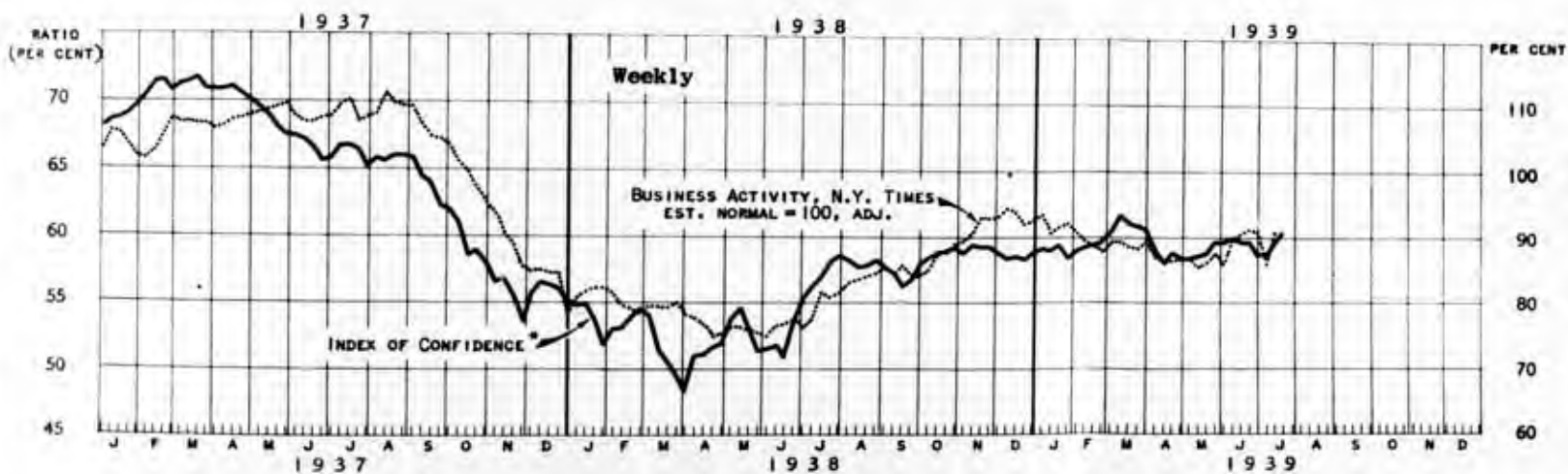
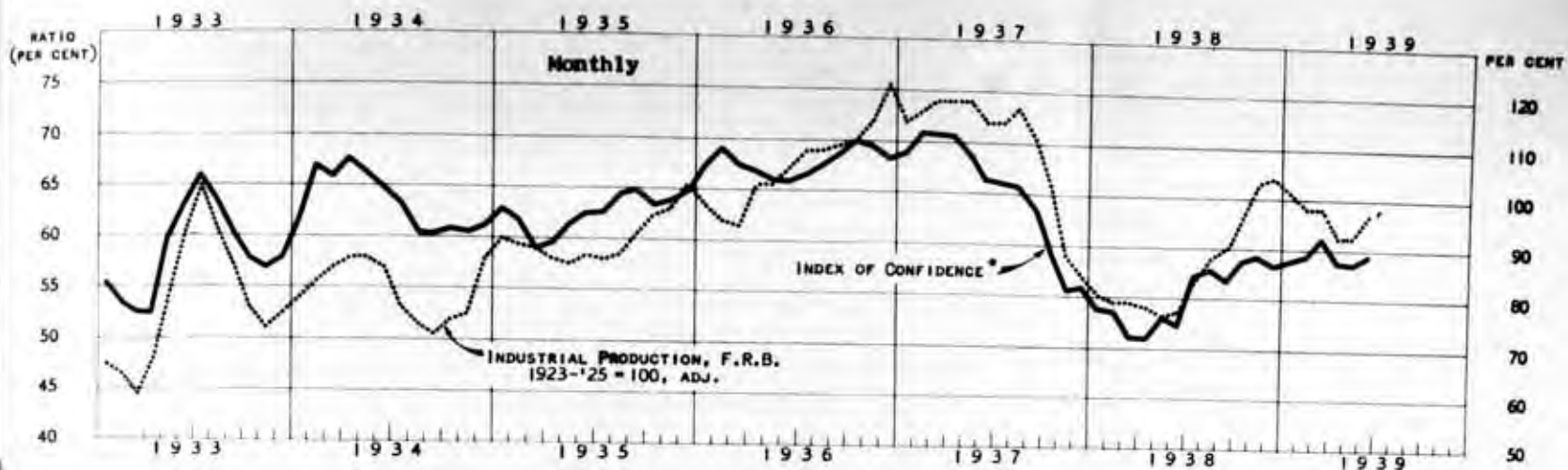
STOCK PRICES AND FOREIGN TRADING IN DOMESTIC STOCKS

Daily Movement, Dow-Jones Industrials and Foreign Net Purchases and Sales



Office of the Secretary of the Treasury
Bureau of Research and Statistics

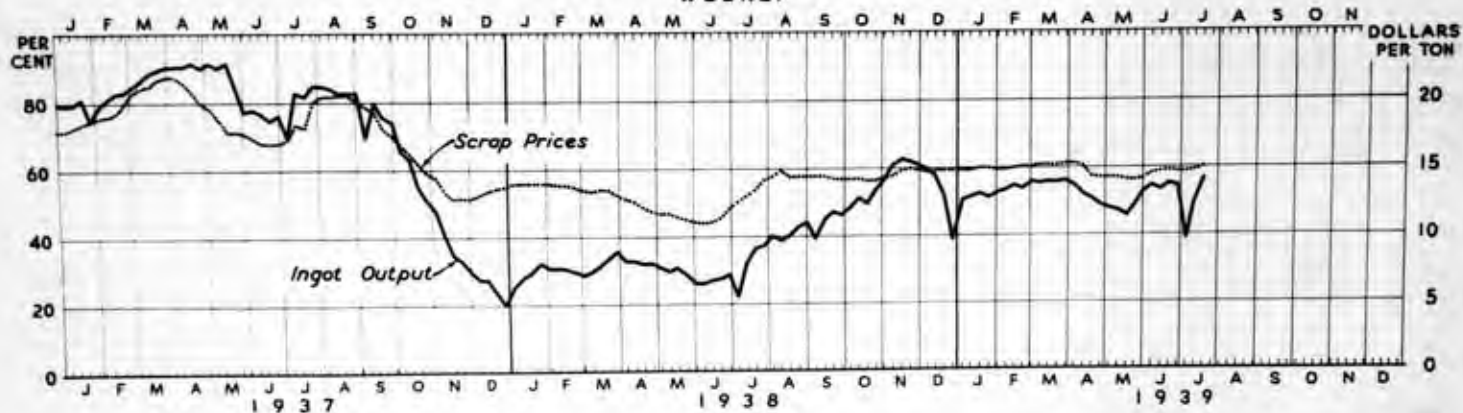
INDEX OF CONFIDENCE* AND BUSINESS ACTIVITY



* RATIO OF YIELD ON MOODY'S AAA BONDS TO YIELD ON BAA BONDS.

STEEL OUTPUT AND SCRAP PRICES

Ingot Output in Percent Capacity
WEEKLY



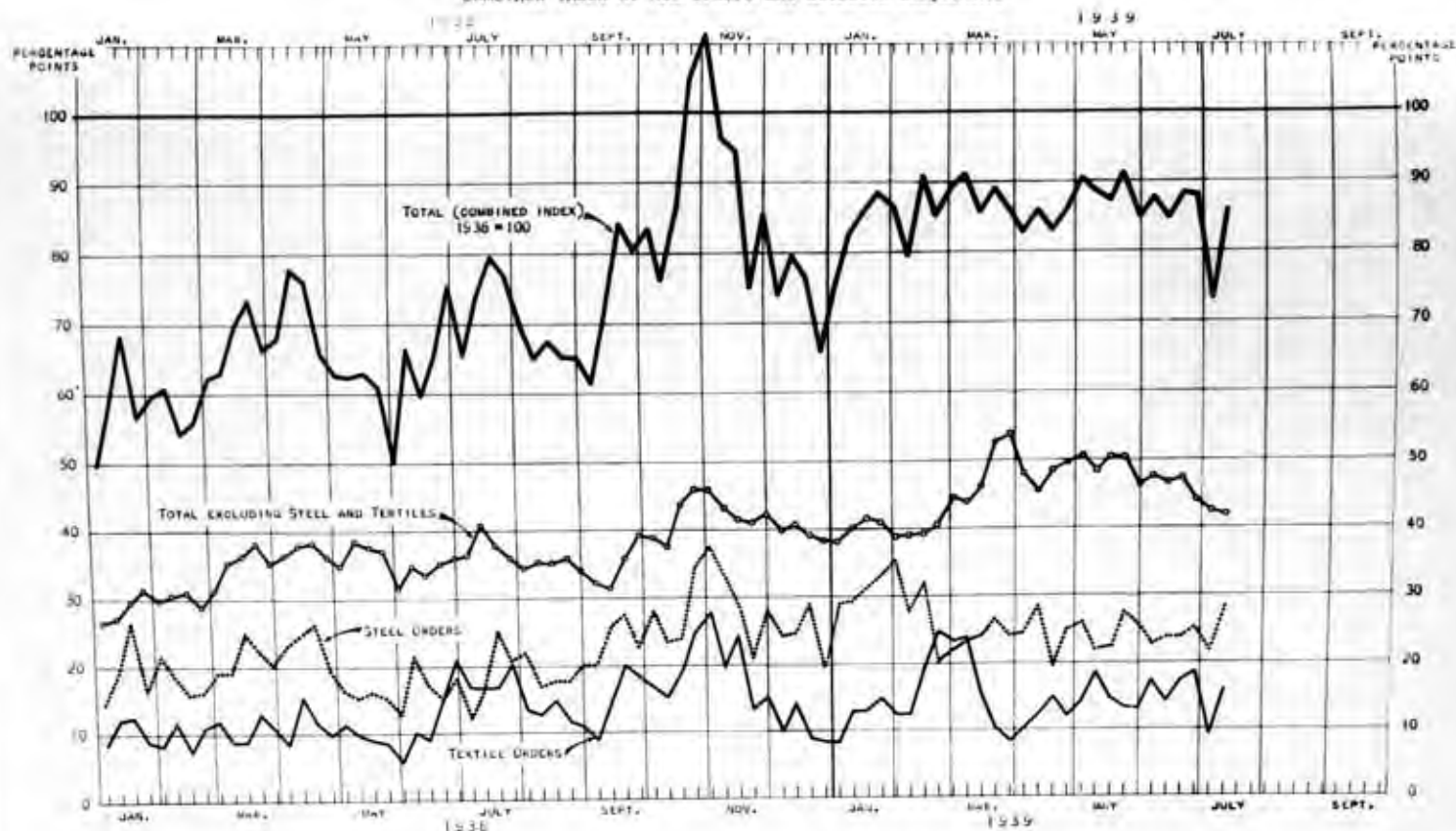
Office of the Secretary of the Treasury
Bureau of Research and Statistics

C-190-A

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Chart 4

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



Office of the Secretary of the Treasury
 Division of Research and Statistics

1 - 85 - 4

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Chart 5
 CONFIDENTIAL

Regraded Unclassified

TREASURY DEPARTMENT

229

INTER OFFICE COMMUNICATION

DATE July 20, 1939

TO Secretary Morgenthau
FROM Mr. White

Subject: Foreign Exchange and Trade Status of "Gold" vs
"Non-Gold" Countries

Summary

1. Germany, Italy and Japan possessed 13 percent of the world's gold holdings in 1928 but now they have less than 3 percent. The United States, England, France, the Netherlands, Switzerland, Belgium and Russia had 62 percent of the gold holdings in 1928 but now they have more than 90 percent.

Germany and Italy produce negligible quantities of gold and Japan produces about \$60 million a year. The bulk -- 30 percent -- of the world's production of gold is produced in the United States and the British Empire.

(Germany, Italy and Japan may thus be referred to for convenience as non-gold countries and the others as the gold countries.)

2. Germany alone of the three non-gold countries has maintained its share of world exports since 1933. Japan has lost 1/5 of her share of the world's trade since 1933 and Italy has lost 1/2 of her share.

On the other hand, the United States has increased its share of the world trade since 1933 by 30 percent. England has just about maintained her share but France has lost, dropping from 6 percent of the world's trade in 1933 to 7 percent in 1938.

3. The reasons for the failure of the non-gold countries to secure a larger share of the world's trade are first, the demands made upon their respective economies for armament expenditures; secondly, consumers' opposition in foreign countries to the goods of these nations; third, the inability to secure adequate imported raw materials to produce exports efficiently. It is only the latter reason which can be directly attributed to the lack of gold resources.

4. The non-gold countries must now rely almost entirely upon export of goods to acquire foreign exchange. Tourist expenditures in Germany, Japan and Italy have practically ceased. Japan and Germany formerly received a large net revenue from shipping but this has been sharply curtailed in recent years.

The gold countries receive larger amounts of foreign exchange income on non-trade account than they received in 1933. The United States and England alone are receiving \$1½ billion per year net foreign exchange revenue from investments abroad and England is receiving \$500 million per year on shipping revenue.

5. The non-gold countries have acquired, however, more than \$250 million of foreign exchange in the past two years by outright seizure in Austria, Czechoslovakia, China and Spain.

6. Germany, Japan and Italy together have from \$600 to \$800 million less of gold reserves and foreign exchange assets now than they had in 1933. The United States, England, France and the former gold bloc countries have larger gold reserves, investments abroad and other foreign exchange assets than they had in 1933. Currently the three non-gold countries are receiving less foreign exchange relative to the gold countries than they did in 1933.

TREASURY DEPARTMENT

231

INTER OFFICE COMMUNICATION

DATE July 24, 1939

TO Secretary Morgenthau
FROM Mr. White

1. In 1928 Germany, Italy and Japan possessed 13 percent of the world's gold holdings, and the United States, England, France, the Netherlands, Switzerland, Belgium and Russia had 62 percent of the gold holdings.

Now Germany, Italy and Japan have less than 3 percent of the world's gold holdings while the other countries enumerated above have 90 percent.

2. Germany and Italy produce negligible quantities of gold. Japan produces about \$60 million a year. The other countries enumerated together produce approximately \$420 million and the British Empire countries produce \$700 million per year.

(For purposes of convenience we shall refer to Germany, Italy and Japan as non-gold countries and the others as the gold countries.)

3. The non-gold countries have not maintained their share of the world export trade since 1933. Together they obtained 16 percent in 1933 and last year they obtained only 14 percent. In contrast the gold countries (listed above) increased their share from 32 percent in 1933 to 36 percent in 1938.

Germany alone of the three non-gold countries has maintained its share of the world exports since 1933 and even she had done so only with increasing difficulty. Japan has lost 1/5 of her share of the world's trade since 1933 and Italy has lost 1/4 of her share. Internal price levels in the non-gold countries have been rising relative to the price levels in other countries and the consequent higher cost of production, combined with increasing consumer resistance to their goods, have necessitated increasing subsidies in order to maintain their export markets. Furthermore, capital investments in industries not directly connected with armaments and defense have been permitted to deteriorate and thereby still further hamper exports.

4. The United States has increased its share of world trade since 1933 from 10 percent in 1933 to 13 percent in 1938. This represents a 30 percent increase in her share of the world's exports. England

has just about maintained her share of the world market, dropping slightly from 10.4 percent to 10.2 percent. France, exclusive of the colonies, on the other hand has sharply decreased her share of world trade from 6 percent to 3 percent.

5. It is clear that the non-gold countries — those countries which are resorting to new commercial policies in an effort to increase their exports — have not been successful in securing a larger share of the world trade. The trading methods of these countries which involve internal subsidies, forced exports to liquidate foreign debts and investments, and bilateral trading arrangements with weak countries are losing their effectiveness as time goes on. Increasing reliance must be placed on internal subsidies although such measures intensify the rising price levels within their own countries and place a further burden upon the fiscal system already beset with difficulties arising from the huge armament expenditures.

Japan and Italy have been devoting an increasing share of their recorded export trade to the export of goods to colonial possessions recently acquired. Italy shipped only 8 percent of her recorded exports to Africa in 1933 but in 1938 she was sending 27 percent of her exports to that area, the bulk of which went to Ethiopia. Japan is now sending 45 percent of her exports to China, Manchuria and Kwantung while she receives less than half of the value of these exports in the form of imports from these areas. These exports by Japan and Italy do not provide foreign exchange but represent capital exports or military expenditures which may or may not yield a return in the future.

It is not the possession or absence of gold which is the significant factor determining a country's ability to export, nor is it the country's willingness to trade in free exchange as against restrictive exchange. The absence of free exchange may reduce the country's imports, but it affects exports directly if at all, only by providing an additional stimulus for the encouragement of exports. The failure of these three countries to increase their exports lies, first, in the demands made upon their economy for armament expenditures; secondly, in the consumers' opposition in foreign countries to the goods of those nations and finally, to the inability to secure adequate imported raw materials to produce exports efficiently. It is only the latter which can be directly attributed to the lack of gold holdings and gold production.

(Russia's share of the world trade has been cut in half since 1933. It was 2.2 percent and is now 1.1 percent. But in the case of Russia the explanation does not lie in the mechanism of trade adjustments but rather, it is a deliberate policy on the part of Russia to balance her exports with her imports closely and to reduce the volume of exports.)

Secretary Morgenthau - 3

6. The non-gold countries must now rely almost entirely upon the export of goods to acquire foreign exchange. The gold countries, however, obtain a substantial income of foreign exchange from foreign investments, from shipping and from tourist expenditures. The United States and England alone receive more than $\$1\frac{1}{2}$ billions per year on foreign investments, and England receives almost \$500 millions in foreign exchange from shipping, both being sharp increases over the amounts received in 1933. Germany, Italy and Japan since the Great War have not had a substantial amount of foreign investment. There are indications that Germany and Italy have actually liquidated a portion of the foreign investments which they did have and Japan has been liquidating foreign investments in the past year.

Tourist expenditures in Germany, Japan and Italy have practically ceased. This has been an important source of revenue to Italy in the past. In 1929, for example, the Italian balance of payments contained an inflow of \$111 million on tourist expenditures. Italy no longer publishes information on her balance of payments but reports indicate that their income in the past year in tourist expenditures was only a small fraction of the 1929 amounts.

The Japanese revenue of foreign exchange from shipping has been sharply reduced since the beginning of the China Incident. It has been estimated that this reserve has been reduced by more than 50 percent, principally because of the transference of ships to military purposes.

In 1929 Germany obtained a net revenue of foreign exchange on shipping of \$250 million. This revenue has been curtailed in the past few years because of the decline of tourist travel to Germany and Central Europe and because of the efforts of the other countries of the world to be self-sufficient in their merchant marine.

7. The non-gold countries have acquired a substantial amount of foreign exchange in the past two years by outright seizure. Germany has obtained \$150 millions to \$200 millions from Austria and Czechoslovakia. Japan has taken from \$25 millions to \$75 millions from China, with more to come if England releases the specie and foreign exchange of the international settlement.

8. The non-gold countries have less foreign exchange reserves and are acquiring less on current account, than in 1933. The gold countries as a group, however, have larger foreign exchange reserves than in 1933, and are still acquiring substantial amounts on current account.

July 24, 1939
12:52 p.m.

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HMJr: Hello.

Robert
Doughton: All right, Mr. Secretary.

HMJr: How are you?

D: Fine! How are you feeling?

HMJr: I'm all right. The State of New York is safe for the
Democratic Party. How's North Carolina?

D: How's that?

HMJr: The State of New York is safe for the Democratic Party,
how is North Carolina?

D: Well, I think probably we'll have a chance down there.

HMJr: I see.

D: You say New York's all right?

HMJr: New York is safe.

D: Well, I'm glad to hear that. I didn't know. As you know,
there have been conferences and counter-conferences up
there and all kinds of reports.

HMJr: Well.....

D: I didn't know whether we were going to have two or
three parties up there and two or three candidates
and all that, or what is going to happen.

HMJr: You must'nt read the newspapers.

D: Huh?

HMJr: You should never read the newspapers.

D: Well, I might just as well not if I want the truth.

HMJr: Yeah. You're Chairman of this Joint Committee, aren't
you, on taxation?

D: Yeah.

HMJr: Well, when are you and that friend of yours, Pat Harrison, going to give me an O.K. on that ruling?

D: About the 102?

HMJr: Yes, sir.

D: We had a conference here with Stam Saturday morning, I believe it was.

HMJr: Yeah.

D: And we decided this, we kind of talked it over, and I really would like to talk with you about it, and maybe Mr. Hanes together if he was here.

HMJr: Well, he.....

D: Anyhow with you. But we have this item, that it was an administrative matter rather than legislative, and it looked like it might be all right. We were a little apprehensive that if they didn't proceed cautiously and -- the right kind of men to handle it, they might stir up business and decide that they were -- it might have some unfavorable reaction if it was handled without the very best of diplomacy and good judgment.

HMJr: Well, I don't say we've got all of that but do you and Pat want to talk to me about it?

D: Well, I'm -- not especially. I thought maybe I'd like to.

HMJr: Yeah.

D: You see, if the -- it depends a good deal upon how a thing like that is handled.

HMJr: Yeah.

D: If you send out men they go into everybody's office -- business office, and handle the matter -- to -- who hasn't a careful manner.....

HMJr: Yeah.

D:--diplomatically, why all right, but if these -- you know a lot of these folks you send out they exercise all the influence and power and authority they've got and sometimes they'll rub the hair the wrong way and it's not necessary.

HMJr: Well.....

D: What do you think about that? It depends, in my judgment, altogether upon how it's administered -- how wisely it's administered.

HMJr: Well, why don't you and Pat and I try to have lunch together on Wednesday?

D: When?

HMJr: Wednesday.

D: Wednesday?

HMJr: Yeah.

D: Well, could you come down here and eat with us?

HMJr: I'll eat there, or here, any place you two men say.

D: Weenever know when there's going to be a roll call or something in the House, you know.

HMJr: Well, you fix it up and I'll come to you.

D: Uh-huh. Well, I'll talk to Pat about it.

HMJr: Yes.

D: And see what he says and call you back.

HMJr: I've got to be on the Hill to appear before that Steering Committee at two o'clock on Wednesday.

D: At two o'clock.

HMJr: So it would be convenient for me it -- to go right on up and see you men at one o'clock.

D: Then we could talk and we could have a lunch. We can't talk much here in these rooms, you know.

HMJr: Well, you give me something to eat and then I'd go.....

D: Give you something to eat, then we'd go up -- come up in my office here and talk.

HMJr: All right. Then I can go to the Steering Committee at two o'clock on Wednesday.

D: All right. Well, I'll tell you what I'll do then.

HMJr: Yeah.

D: I'll invite you to come down and eat lunch with me Wednesday.

HMJr: Yeah.

D: At one o'clock.

HMJr: Yeah.

D: That soon, or a little before?

HMJr: Ah.....

D: Twelve-thirty better?

HMJr: Oh, I'll split the difference; twelve forty-five.

D: How's that?

HMJr: Make it twelve forty-five.

D: Twelve forty-five. All right. Now, that's Wednesday.

HMJr: That's right.

D: I'll invite Pat to come along and if he doesn't accept then I'll invite him to come up for the conference in my office here right next to the Capitol, you know.

HMJr: I know.

D: I'll try to get him to come and eat with us. If he won't, I'll get him to come to the conference anyhow at -- let's see, twelve -- say, at one-thirty?

HMJr: Well, we eat at twelve forty-five?

D: Eat at twelve forty-five.

HMJr: Well.....

D: And then that would give us three quarters of an hour.

HMJr: Yeah.

D: You see, and then we'll come up immediately, up here into my -- the Ways and Means Committee room.

HMJr: O. K.

D: Fine! I'll look for you at twelve forty-five Wednesday.

HMJr: I guess Pat will come. He's got to eat too, you know.

D: All right. I'll get him to come if he will.

HMJr: But all I'm trying to do is to carry out the law that you fellows passed.

D: Well, all right. We want you to do that and we want to cooperate. I do.

HMJr: Yeah.

D: All right.

HMJr: Right.

D: Look for you at twelve forty-five Wednesday.

HMJr: Thank you.

D: Just come here to the Ways and Means Committee room. I'll meet you right here and we'll go to lunch.

HMJr: O. K.

D: Thank you.

July 24, 1939
2:00 p.m.

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HMJr: Hello. Hello.

Pat
Harrison: Henry.

HMJr: Yes, Pat.

H: I had -- went over this matter with Stam. I had him to look it over and I -- I went over it, and Bob Doughton; we've had a little meeting.

HMJr: Yes.

H: We three.

HMJr: Yeah.

H: Of course, this being a matter purely of administrative -- my -- I'm just giving my viewpoint.

HMJr: Please.

H: It being merely an administrative matter, I don't think we ought to break into it.

HMJr: I see.

H: It was our reaction.....

HMJr: Yes.

H:that it ought to be handled very carefully and cautiously so it wouldn't put fear of God into everybody that was a closed -- one of these closed corporations.

HMJr: Yeah.

H: Especially the small fellow under twenty-five thousand....

HMJr: Yeah.

H: ..Corporations.

HMJr: Well, we have no intention of doing anything else but being just as fair as we know how.

H: I -- I know that.

HMJr: But I -- I realize that it was dynamite and for your own information only I had Magill take a look at it.

H: Yeah.

HMJr: And he was satisfied the way it is now. He made a couple of suggestions and I accepted them, but he said that -- I asked if this was the way to handle it and everything else, and he said yes. And when I talked to Bob -- he wanted to talk to me, so he asked me to come up and have lunch with him at one o'clock on Wednesday and he said he'd ask you to come over there too.

H: Yeah.

HMJr: So I hope that that'll be convenient.

H: If I can, Henry, I will, but my reaction to it was -- was the only thing is, these people get scared to death, you know; and if you just move along cautiously on it, but of course make the investigations anyway, you can tell pretty generally which ones might be in.

HMJr: Well, let me ask you this, Pat. We've got to do it, don't we?

H: Well, I'd go into it, investigate it; if any of these people are violating 102 they ought to be caught, you understand.

HMJr: No, but I mean, I've got to get out a Treasury Regulation, don't I?

H: Well, I don't know about that.

HMJr: Well, what they were going to do was -- was just to get out a ruling to our people, and then I said, they -- they come in on them like a ton of bricks and they don't know anything about it.

H: Yeah.

HMJr: Therefore, I wanted to do it out in the open.

H: Whenever they -- whenever you do it, if this is published, for instance.....

HMJr: Yes.

H:it's going to put a lot of fear in a lot of people.

HMJr: Yeah, but I -- I'd much rather do it out in the open than just to send it around to our agents and then have them go into the fellows and say, "Here....."

H: Yeah.

HMJr: ".....I've got this word from Washington."

H: Yeah.

HMJr: You see what I mean?

H: Yeah.

HMJr: And then -- a few people know about it, but it isn't public property.

H: Well, I just don't -- I just hate to -- to put fear in business.....

HMJr: I don't want to.....

H:all the time.

HMJr: Well, gosh, I don't want to, but.....

H: I know you don't . That -- that was the only -- only criticism that I have. Well, it isn't criticism.

HMJr: Yeah.

H: Just proceed along cautiously on it, but.....

HMJr: Well, we'll do that.

H: Yeah.

HMJr: But I -- I -- what I'm always afraid of is that a small group may know about this, see? Say, these tax lawyers in Washington. Then some fellow around in the small country wouldn't know, and then our man comes in with a regulation like this and it hasn't been made public.

H: Yeah.

HMJr: You see?

H: Yeah.

HMJr: That's what I -- that's what I'm afraid of.

H: Well, you're just thinking about giving it right to the press.

HMJr: Just -- not -- I won't give it. It'll just come out of Internal Revenue as a -- as an ordinary thing.

H: Yeah.

HMJr: Just an ordinary -- just -- just have it.....

H: Well, I was just thinking along that line. That -- that's the way it struck me and that's the way it struck Stam, and I think that's the way it struck Bob.

HMJr: Well, I -- I wanted your reaction.

H: Yeah.

HMJr: And I'm coming up there a quarter to one on Wednesday and if you're around.....

H: Well, if I can, Henry, I will.

HMJr: All right.

H: I'm having a lot of trouble with them on Social Security here.

HMJr: Well, I can assure you we'll handle it carefully.

H: All right, Henry.

HMJr: Thank you.

H: Good luck.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

July 24, 1939.

TO SECRETARY MORGENTHAU

FROM W. R. JOHNSON:

RE: The dumping of matches from Finland.

1. On July 17 the Finnish Minister made an informal call on me and on the same day left the attached informal memorandum in your office.

2. Importations of matches from Finland are now subject to anti-dumping duties under a dumping order issued in 1931, at the same time that dumping orders were issued covering importations of matches from seven other countries. The dumping order covering Sweden was revoked in 1933 on the basis of a finding that the practice which had necessitated the issuance of the original finding had been discontinued.

3. A petition was entered some time ago by the Vulcan Match Company and the Irving Trust Company (as trustee in bankruptcy for the International Match Corporation), requesting that the Treasury vacate ab initio the findings of dumping with respect to those six countries (excluding Austria) on which they still stand. This petition is based on two grounds: (a) that Secretary Mellon could have had no evidence before him to justify finding a dumping price, and (b) that the match industry was not at that time being injured by the importation of matches. In my opinion, there is no justification for vacating the finding of dumping on the basis of the petitioner's first claim. The injury angle in this case is now being considered by the Division of Monetary Research and a decision is promised in the near future.

4. The Finnish Minister, however, was not interested in the above-mentioned petition. The purpose of his visit was to request that the dumping order applicable to Finland be revoked, effective as of the present date, on the grounds that importations of matches from Finland are not now injuring the domestic industry and that a controlled market exists in Finland which eliminates the possibility of there being a dumping price on Finnish matches.

The possible injury resulting from the current importation of matches from Finland or any other country has not been included in the study now being made, as there is no pending request on this. The Finnish Minister stated that he would present a formal memorandum, through the State Department, requesting the revocation of the dumping order applicable to Finnish matches on the above grounds. The case will then proceed in accordance with our usual procedure for new dumping investigations.

W. R. Johnson

SECRETARY MORGENTHAU

July 24, 1936.

W. R. JOHNSON:

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WJ/agg 7-24-36

n. John

Memorandum

In 1931 Anti Dumping Duty Orders were issued concerning the import of matches from the following eight countries: Finland, Sweden, Norway, Esthonia, Latvia, Netherlands, Austria, and Poland. Already previously such an order had been issued concerning imports from Russia.

Those orders were revoked as far as Sweden is concerned August 12, 1933 and in respect of Russia, January 24, 1934.

Japan, which seems to be the third biggest of match importers to this country, is also exempt from Anti Dumping Order.

The total value of matches produced in the United States may be between 20 and 30 millions (figures not checked). The total value of imports of matches during 1938 was \$285,000.

Imports from Finland were 1938, \$31,000, which corresponds to only a part of one per cent of the value of the total production in this country and to some 12 per cent of the total imports.

Of the total imports of \$285,000 almost all or about \$246,000 comes from Sweden, U.S.S.R., and Japan, i.e. from countries not under Anti Dumping Duty Orders.

The Finnish price is considerably higher than the price for matches from the above-mentioned countries.

It seems evident under these circumstances that the Finnish imports cannot constitute an injury to the American industry.

It is furthermore argued by the importers of Finnish matches that the Finnish home market is a closed market as the home market prices are

- 2 -

fixed by a joint committee representing all the factories and that the price on the United States market is no lower than the corresponding price for corresponding grades of matches to other markets in general.

July 24, 1939
10:22 a.m.

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Jesse
Jones: Hello, Henry.

HMJr: What a man!

J: Yeah, what a man! I'm in Denver.

HMJr: I see.

J: And en route -- I sent you a little wire last night.

HMJr: Well, I'm sorry to have missed you Saturday. I tried to get you Sunday and I missed you again.

J: Well, I -- well, I just assumed you had gone. So I -- just wanted to have a little visit before leaving.

HMJr: Yeah.

J: I think they're making a good deal over -- in the press they seem to be making a good deal over -- of a little bit of money we've lost on business loans.

HMJr: Well.....

J:how I could correct that. I'll think up some way, I guess.

HMJr: Well, of course, anything that's unfavorable to this bill, they'll play it up, and anything that looks good they -- they won't print it.

J: Yeah, but I think though, Henry, that the bill's all set to go.

HMJr: You do?

J: I don't think there's any doubt in the world about it.

HMJr: Well, I hope you're right.

J: Well, I feel confident of it.

HMJr: Yeah.

J: Because I couldn't find any real opposition except that which would naturally come from the other side.....

HMJr: Yeah.

J:Republicans.

HMJr: Yeah.

J: And that's just political.

HMJr: Yeah.

J: But I think that the bill's all set to go and I think that it'll come out of the -- I believe it'll come out of Steagall's committee in good shape.

HMJr: Well, I hope you're right! But.....

J: It seems to be in pretty fair shape. They, of course, wrote it -- rewrote it and all that sort of business.

HMJr: Yeah.

J: But you've been kept posted by Ed Foley.....

HMJr: Oh, yes.

J:anyhow.

HMJr: Oh, yes. Well.....

J: When are you getting away?

HMJr: I hope to go August 2nd if everything stays as is.

J: On the 2nd of August?

HMJr: Yeah.

J: Uh-huh.

HMJr: Well -- well, call me when -- call me when you get to the coast, Jesse.

J: I'll do that, Henry.

HMJr: Before you go up to that Grove.

J: I'll call you then -- I'll call you Wednesday.

HMJr: All right.

J: Goodbye.

HMJr: Thank you. Goodbye.

July 24, 1939
12:45 p.m.

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HMJr: Hello.

Operator: Mr. Delano. Go ahead.

HMJr: Hello, Preston.

Preston
Delano: Good morning, Mr. Secretary.

HMJr: Yes.

D: I have a copy of that wire.

HMJr: Yeah.

D: I think that's the most outrageous thing that I ever read.

HMJr: Oh, does that bother you!

D: Well, I think that's outrageous, Mr. Secretary.

HMJr: Well, I've gotten other telegrams like that.....

D: You have?

HMJr:I mean, from Giannini.

D: You have had others?

HMJr: Well not recently.

D: My God! I think that's the most -- I think that's the best evidence they ever had that the fellow isn't fit to run a dog cart.

HMJr: Well, I'll say this, that the whole time I've been Secretary of the Treasury, nobody but Giannini has ever had the audacity to send me a telegram like that.

D: Why, I think that's the most outrageous

HMJr: Nobody but Giannini, the whole time I've been Secretary.

D: Well, we've got Gus on his way back here now.

HMJr: Good!

D: He'll be here Wednesday.

HMJr: Fine.

D: And we'll go into an immediate huddle on the letter.

HMJr: Fine.

D: This letter -- we're going to make a letter that will -- I hope will state our case.

HMJr: Well now.....

D: Now, do you want me to get Tom K. Smith and these other fellows back here for that?

HMJr: Yes, I do.

D: And I wonder when we'd better have them. May I ask how much time we have on it? We want to.....

HMJr: Yes, I hope to leave on my holiday, leave here the night of August 1.

D: That's Tuesday night.

HMJr: Yes.

D: So we'll have that weekend to work it in.

HMJr: Yes, so I would suggest that they be here on the 31st, Monday.

D: All right.

HMJr: What would you say?

D: I think so. I'll start working on that and, of course, we're -- I have the decks cleared with Foley now, so that he'll have plenty of time and men.

HMJr: Yes.

D: And we'll -- we'll throw this whole place into a huddle on,.....

HMJr: Well, if you could have them here on the 31st, you see....

D: Um-huh.

HMJr:I think I'd tell them -- well -- to prepare to stay two days, if necessary.

D: All right, I'll start working on that right away, and then just as soon as Gus gets back here I think the first thing would be to give -- if you could give us a few minutes.....

HMJr: I will.

D:of your time so that he -- you can talk to him and me about his trip and so on.

HMJr: I will. No -- well, do you suppose Giannini knows what's coming now?

D: Oh, yes. Oh, you mean.....

HMJr: Has -- has Gus shown him any of this?

D: Well, Gus has talked to Giannini.

HMJr: Is that what's.....

D: That's what it's all about.

HMJr: Oh, that's -- that's what it's all about.

D: Gus has been there and he's had this meeting.....

HMJr: Oh.

D:with -- with them, and I have this long message. I -- I gave a copy of that to Herbert. I didn't want to bother you about it.....

HMJr: Yes.

D:from L.M.Giannini.....

HMJr: Yes.

D:in which he protests against this write-off, you see.

HMJr: I see.

D: And we're not answering that until Gus gets here.

HMJr: Right.

D: And the whole matter will be thrashed out then.....

HMJr: Fine.

D:with you just as soon as -- if you can give us a little time on Wednesday as soon as Gus can.....

HMJr: Definitely. Definitely.

D:get his feet under him, you see.

HMJr: Definitely.

D: All right. I -- I would suggest, Mr. Secretary, Wednesday afternoon.

HMJr: Well, I'll be available.

D: All right. And we -- I'll go to work on getting these fellows here on August 31st.

HMJr: Righto.

D: Righto. I'm terribly -- I mean, it just disturbs me to no end that anybody.....

HMJr: Well.....

D:could be so -- so outrageously lacking in manners, you know?

HMJr: Yeah. Well he.....

D: I mean that -- that's just unforgivable in my -- in my -- the way I'm brought up, they just don't do that sort of thing.

HMJr: Well, as I say, it's my only -- I don't know anybody else like him.

D: Why I -- I've got -- why I think that is awful good evidence, it seems to me, that the man isn't fit to run things.

HMJr: Well.....

D: I mean -- I don't know whether we can use it or not.....

HMJr: No.

D:for that purpose, but -- probably not.

HMJr: No.

D: But it is -- it is -- it satisfies my mind.

HMJr: Well, if -- if it ever got into a public wrangle and we made a thing like this public.....

D: Oh.

HMJr:it would show where the venom was.

D: Oh, certainly! Without any doubt. And you say you've had other messages like this?

HMJr: Oh, yes, heretofore.

D: Way back, I suppose.

HMJr: Yes.

D: Before I came around here.

HMJr: I suppose so, yes.

D: My God!

HMJr: Yeah, it's terrible.

D: Well, we'll move up now and.....

HMJr: All right.

D: I'll keep you informed.

HMJr: Thank you.

D: Goodbye.

July 24, 1939
4:12 p.m.

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HMJr: Hello.

Operator: Senator Pittman is on the floor and he says he can't possibly leave now, but he has your message.

HMJr: I see.

O: He has the treaty -- before the Senate and he can't leave.

HMJr: Well -- O. K.

O: All right.

HMJr: Well, you -- he has my message?

O: He has your message, yes.

HMJr: Thank you.

O: You're welcome.

MEMORANDUM FOR THE SECRETARY'S FILES

Re: Interview between the Secretary and
Mr. Sumner Welles, July 24, 1939,
with reference to Latin American
problems.

(Dr. White and Mr. Cotton, present.)

After some discussion and criticism by Mr. Welles of the pending Treasury Department request for an additional \$50,000 to permit cooperation under Public No. 63, Mr. Morgenthau stated flatly that we were not making progress in the program of cooperation with Latin American Republics. It was agreed that the stumbling block was the private debt situation. Mr. Morgenthau said that he hoped that before the year was out, at least, a good job in one country could be completed - if not in Brazil, then in some smaller country - and that the longer the situation was allowed to drift, the more the Latin American countries were forced to turn elsewhere than to the United States for assistance. He said that, if the State Department was in full agreement and would give him full clearance, the Treasury would be prepared to go ahead, by sending men down and otherwise, to try and lay a basis for a complete reconstruction job in Brazil or elsewhere.

With respect to debts, Mr. Morgenthau said that he was definitely of the impression that, given the existing personnel and the Foreign Bondholders' Protective Council, Inc., there was no prospect of debt settlements being discussed on a practicable basis which Latin American countries could or would discuss. He

threw out a suggestion that the Export-Import Bank might be able to act as an intermediary in discussing the debt question. He indicated that, in his opinion, some way must be found for initiating debt settlement discussions on a practicable basis.

Mr. Welles said that he agreed in principle with the Secretary that the existence of the private debt situation should not hold up the program of cooperative assistance, but said that in his opinion it would be unwise for the United States Government to go in advance of public opinion in carrying out the program. He did not elucidate his position further and did not react to the suggestion that the Treasury be given clearance to see what it could do. He did, however, negative the suggestion that the Export-Import Bank act as an intermediary in debt discussions. He said he would like to talk to the Secretary again on this whole problem before the latter leaves on his vacation this year.

J.P. ep.

JPC, Jr.:EJ
dic. 7/24/39

July 24, 1939

FOR THE SECRETARY:

Paul Leach of the Chicago Daily News, to whom you talked before the Annenberg case broke, called today asking to see you Tuesday for an off-the-record discussion of the Treasury investigation into the activities of Mike Igoe. Do you wish to see him?

ESD

CJ

GRAY

PARIS

Dated July 24, 1939

Rec'd 3:30 p.m.

Secretary of State,
Washington.

1365, July 24, 6 p.m. (SECTION ONE).

FOR THE TREASURY.

The fund gained about £25,000 in extremely light trading today. The dollar was somewhat offered in early dealings but turned stronger. The Swiss franc was slightly more bid and the belga a little more offered. The florin was stronger on the formation of a Colijn government. Dealings in the securities market were equally light rentes advancing 25 centimes and the following list gaining about one half per cent.

This morning's AGENCE ECONOMIQUE carries a full column front page article on the proposed meeting of foreign bondholders' representatives in Rio de Janeiro in August.
(END SECTION ONE).

BULLITT

NPL

CJ

GRAY

PARIS

Dated July 24, 1939

Rec'd 3:14 p.m.

Secretary of State,
Washington.

1365, July 24, 6 p.m. (SECTION TWO).

The article cites various statistics purporting to show great improvement in the past year in Brazil's financial position and the feasibility of a resumption of service on its foreign debt. It points out the highly favorable trade balance which Brazil enjoys with France (Brazilian exports to this country totaling 274,000 francs as against French exports to Brazil of 124,000 francs in the first five months of the present year) and complains that service on the proportion of the foreign debt in the hands of French holders was reduced 82% as against reductions of 41% and 77% respectively for British and American (?) under the 1934 "Aranha plan".

BULLITT

KLP:HPD

CJ

GRAY

PARIS

Dated July 24, 1939

Rec'd 3:53 p.m.

Secretary of State,
Washington.

1365, July 24, 6 p.m. (SECTION THREE).

The article terminates with the suggestion that France "acquire a larger proportion of its supplies from colonial coffees having no reason to continue favoring a supplier whose good will seems more than EVEN open to question. It has been suggested that France negotiate with Brazil financial agreements analagous to those reached between Brazil and the United States. It does not appear that even with an agreement of that sort the lot of French holders of Brazilian bonds will be materially improved. (END SECT ON THREE).

BULLITT

NPL

PARTIAL PARAPHRASE, SECTION FOUR, TELEGRAM NO. 1365
of JULY 24, 1939, FROM PARIS.

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The symbolic gesture which the Brazilian Government has just made in depositing \$1,000,000 with New York banks does not seem likely according to recent information to be followed by other transfers before an indefinite date". The Embassy was given to understand confidentially that the Foreign Office inspired this article.

The French financial press eyes the so-called Wohlthat plan of financial appeasement with considerable skepticism. Gignoux in the JOURNEE INDUSTRIELLE, however, takes the view that any possibility of avoiding a European conflict should be followed and that if peace is to be maintained it can only be through some such "credits-disarmament basis".

END MESSAGE.

BULLITT.

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JUL 25 1939

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