DIARY

Book 154

December 1 - December 5, 1938

Regraded Uclassified

- A -

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December 1, 1938

10:45 a. m.

Present:

Mr. Chen
Mr. Tsi-mou
Mr. Ren
Mr. Lochhead
Dr. White

HM,Jr: I see a little break in the clouds. I don't want to be too encouraging, but I see a little break in the clouds. And I am trying very much to help the sun come out.

Mr. Chen: Thank you very much. I know you have been working very hard.

HM,Jr: And I am trying to make the sun shine. It is difficult, but I have received a little encouragement and I wanted you to know that.

Mr. Chen: I am glad to hear that.

HM,Jr: And I wondered if you care to tell me how you are getting along with your motor trucks.

Mr. Chen: We have received all the bids from the manufacturers, I think seven altogether, and it will take about three days more to tabulate it. Capt. Collins, who has helped us to get specifications, is helping us to tabulate it and then we will make decision, probably next Monday.

HM,Jr: I see.

Mr. Chen: And then we will proceed to ship it to Rangoon. From Rangoon to Burma Road.

HM,Jr: I think -- I want you to think this over -- I think it would be helpful to you -- and I want you to think it over -- that if and when you do decide to buy, thatyou give it publicity.

Mr. Chen: Yes. Yes.

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HM,Jr: I think it would be helpful to me in trying to get this loan for you.

Mr. Chen: Yes. Yes.

HM,Jr: In other words, the fact that China is spending money here plus the fact that you are getting trucks for this road, unless there is some military reason that they don't want it known -- there may be some military reason why they want to keep it secret; the Japanese might find it out.

Dr. White: They know it already.

HM,Jr: But I think with the public and right here in Washington it would be helpful to know that there are 1,000 trucks going over the Burma Road, because I still can't convince the people that the Burma Road is open. Now, they keep telling me it isn't open.

Mr. Chen : Well, the engineer is here.

HM,Jr: I know. I told them that. So you think it over, but my own feeling would be unless there is some military reason .....

Mr. Chen: I can see because when we decide the bids we have also transportation on commercial boats, to open this trade.

HM,Jr: One other thing, if I may make this suggestion, which also would be helpful: that in shipping these trucks, you use American flag ships.

Mr. Chen: Oh, yes! Oh, yes! That we have already decided to do that.

HM,Jr: Because all that helps build up sentiment for China.

Mr. Chen: Yes. Yes. Yes.

HM,Jr: I mean, that Americans are getting the shipping. Have we a line to Rangoon?

Mr. Lochhead: There are two things, first of all, for instance, like the Eagle Line, it does not run direct

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to Rangoon, but it is just a question of whether it would be enough on one boat, otherwise they would trans-ship at Manila. And then there is, second, the Roosevelt Line.

HM,Jr: There is a line?

Mr. Lochhead: There is another line that runs there.

HM,Jr: And if there is a ship -- Basil Harris, Vice President of that line (he's United States Lines)...

Mr. Lochhead: Two lines. One does more business on the Pacific.

HM,Jr: Either one, if they knew there were 1,000 trucks to transport, they would fill up a boat and send it direct.

Mr. Lochhead: Mr. Chen has spoken to me and in talking about it up in New York, the question of handling transportation came up and decision was reached by Mr. Chen that they are to be American bottoms and, of course, the question is how deliveries are to be made. They probably won't get 1,000 trucks -- they probably won't be able to make deliveries just as fast as that, but how-ever they go, they will go American bottom.

HM,Jr: Is it your inclination to do business with just one company?

Mr. Chen: We don't know yet.

HM,Jr: Depends upon prices.

Mr. Chen: Yes. So far, the General Motors has been completed, so we have not made any decision.

HM,Jr: Is it 2 or 3 tons?

Mr. Chen: Three tons. We had to change from 2 tons.

Dr. White: How soon do you anticipate making a final decision on that?

Mr. Chen: Monday. I think we will work on Sunday.

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Mr. Lochhead: Mr. Chen explained the trouble is not just a question of laid-down price on the trucks. The interesting part is what service these people can give them once they get over there.

HM,Jr: You have asked all that?

Dr. White: Such a big order, you could get a big story. Perhaps it would be a good idea to start now on the story if it is to be finished on Monday, start tomorrow or Saturday.

HM,Jr: Oh, I wouldn't do anything ....

Dr. White: Gaston mightdo this.

HM,Jr: I don't think it should come from us. It should come from the Chinese. My feeling is -- I may be wrong -- that it would be helpful to you.

Mr. Chen: Sure. I think so too.

HM,Jr: But I am working very hard on the loan thing. I am not discouraged.

Mr. Chen: I am glad to hear that.

HM,Jr: I am not discouraged, but, as I say, I do see a little bit of sunshine and I want you to know that and I wanted the newspaper men to see you were here.

Mr. Chen: When we were in New York, we completed the organization of the new company and officers have been elected.

HM,Jr: Fine!

Mr. Chen: And we have some names, so that as soon as those are finished, we will have the operation of the company.

HM,Jr: Good! You find Capt. Collins helpful?

Mr. Chen: Very! Very! Our engineer had conference with him yesterday.

HM,Jr: Good! Anytning else I can do?

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Mr. Chen: You have been kind already. Thank you so much.

HM,Jr: Let's hope one of these days I can go to China and have a visit.

Mr. Chen: We will be glad to welcome you.

oOo-oOo

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Discount Bays

.60-65 $400.

2 3/4

2% 8 1/2 $300.

rebfen 1/8 notes

you ~~think~~ 1 billion of 2%

150-200 1/8

Dec 1st

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Ecker - Metropolitan

would take $25 million
of 2 3/4

50 00 million of 9 yr.

not ~~interested~~ in 5 yr.

Dec 1st

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Llevine

$2\frac{3}{4}$ $60 - 6$ J

$101\frac{5}{8}$

[illegible]

2 9 years

$101\frac{3}{8} - 101\frac{1}{2}$

$1\frac{1}{8}$ for rights only

Dec 1st

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Levi: - Salomon Bros.

60-64 $2\frac{3}{4}$ —

14 yr. $2\frac{1}{2}$

June $1\frac{1}{8}$ or Dec. 42

---

5 yr $1\frac{1}{8}$ would go.

---

does not like 8 yr 2%

Dec 1st

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Aldrich

10

1. note
2. 7 yr.
3. long term Bond

Said Bank of France consulted Reichbank recently on exchange control - Brinkman advised French not to ~~use~~ go into exchange control

Dec 1st

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Garner

$1\frac{3}{4}$ 1960—5 = $1.\frac{5}{8}$-$1\frac{3}{4}$

$8\frac{1}{2}$ 2 % = $1\frac{1}{2}$ - $1\frac{5}{8}$

might give a note

~~as~~ asked him about

$2\frac{1}{2}$ 1952-4 " little thin

Dec 1st

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2 3/4 % ~~$3~~ 500.

| 60-65
| 15/8 - 2

$200.00

| 62-67
13/8 - 13/4

12

~~2~~ %

1 1/8 % $200.00

Dec 12th

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Bmy -

		2
200 - 1 1/2	250 - 1 1/8	300
200 - 2 %	600 - 2	700
300 - 2 3/4	750 - 2 3/4	640 mill

Repp

13

Dec 1

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225 1 1/8
850 2
625 2 3/4

14

[illegible]

Dec 1

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15

200 5 year 1 1/8 100

200 9 year 2 500

300 60-65 2 3/4 340

700 942

Mills

Dec 1

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REB

Nanking via N. R.

Dated December 1, 1938

Rec'd 3:45 p. m.

Secretary of State,

Washington.

19[illegible], December 1, 2 p. m.

My 189, November 29, 3 p. m.

The "National Peoples Representatives Congress" closed yesterday. The Congress passed a number of resolutions, including one recommending the constitution of a Confederate Government for China. During the "discussions" which were held in the congress, it was emphasized that a strong Central Government would not be suited to present conditions in China and that a confederate form of government, with provinces retaining a large measure of autonomy, would be preferable.

The Congress issued a manifesto, which included a denunciation of Chiang Kai Shek and Communism, an expression of appreciation of Japanese assistance, and a recommendation that a Confederate Government be organized.

In a press interview after the closing of the congress, Liang Hung Chih stated that it was possible that the form

of

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REB

2-#190, From Nanking, Dec.1,2p.m.

of Central Government to be established in China might be determined at the third meeting of the "Joint Commission of the Republic of China" which he said would probably be held sometime in December, but that a decision on the matter might be postponed until the fourth meeting of the joint commission.

Sent to Shanghai, Peiping.

SMYTH

CSB

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 1, 1938

TO Miss Chauncey

FROM Mr. White HDW

Subject: For the Secretary's Record

On Tuesday, November 29, 1938, the Secretary, after conferring with Mr. May, Treasury Attache (assigned to the Berlin office), called Mr. White and instructed him to prepare a comprehensive report describing exactly the methods employed by Germany in carrying on foreign trade. He assigned Mr. May to Mr. White and said that Mr. Miller would soon arrive in the United States and would be available as an additional source of information. If it were necessary to get additional information in Germany in order to complete the report he stated that Mr. May could return and send us the needed material.

He emphasized that he wanted a complete picture of German trade practices describing exactly how German trade was conducted. He expressed the opinion that if the United States was to maintain or strengthen its hold upon foreign markets, it was essential that all the tactics employed by countries who were operating on clearing arrangements, barter arrangements, multiple currency, etc., be known and understood here.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE DEC 1 1936

TO Secretary Morgenthau

FROM Herman Oliphant

For your information

You recall the President's interest in permission to reproduce stamped envelopes, and in other problems of interest to philatelists and numismatists. The present statute law on these and related matters is unsatisfactory. Its purpose to guard against counterfeiting is carried to the extent that Treasury rulings on particular cases often seem highly technical and arbitrary.

Consequently, I have asked Mr. Bernard, in charge of the Legislative Section, to revise and codify all of the law on the subject and put it into satisfactory form for enactment at the coming session.

HO

Regraded Uclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE DEC 1 1938

TO Secretary Morgenthau

FROM Herman Oliphant

For your information

There has now reached the Supreme Court a case on how much must be paid to discharge a bond payable, not in gold only, but also in a named foreign currency at the bondholder's election.

In the absence of any substantial Treasury interest in the status of outstanding private bonds on which the bondholders can demand payment in a foreign currency, we are concurring in what the Department of Justice's position will probably be, viz., that the Government should not get into this case.

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Plat 21

December 1, 1938

Dear Jack:

I am enclosing draft of a proposed letter to the President which the Secretary has asked me to submit to you for comment. It appears that this suggestion has cropped up several times and apparently has impressed the President so much that the Secretary thinks it worth while to send him a brief statement of the Secretary's views on the proposal. The intent was not to include all the ramifications of the proposal but only the more important ones in as abbreviated a form as the subject will permit.

At the conference on Tuesday, November 27, that you were unable to attend, a letter roughly in this form was passed upon.

As the Secretary wishes to send the letter off on Saturday, he would appreciate it if you would telephone your comments to me sometime before Saturday noon.

Sincerely,

(Signed) H. D. White
H. D. White

Dr. Jacob Viner,
Mount Royal Hotel,
Montreal, Canada.

Enclosure

HDW:Mh

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December 1, 1938

Dear Alvin:

I am enclosing draft of a proposed letter to the President which the Secretary has asked me to submit to you for comment. It appears that this suggestion has cropped up several times and apparently has impressed the President so much that the Secretary thinks it worth while to send him a brief statement of the Secretary's views on the proposal. The intent was not to include all the ramifications of the proposal but only the more important ones in as abbreviated a form as the subject will permit.

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Sincerely,

(Signed) H. D. White

H. D. White.

Prof. Alvin H. Hansen,
Harvard University,
Cambridge, Mass.

Enclosure

HDW:mh

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I understand that a proposal to impose an embargo on gold imports has been suggested to you as being an effective measure to protect the position of the dollar against further depreciation of sterling currencies. Such a step, in my opinion, might well have an effect on the exchange rates opposite to the one desired, and in addition would have consequences which would increase economic instability throughout the world.

An embargo on gold imports would probably increase the pressure against foreign currencies. During the past year the demand for dollar exchange has exceeded the supply arising from all international transactions, other than gold shipments, by almost $110 million a month. The importation of about $1,500 million of gold into the United States this year has been the means of supplying the additional dollars necessary to satisfy the demand at the prevailing rates of exchange. If the demand for dollar exchange continues to be in excess of the supply and if, further, dollars could not be acquired by the sale of gold to the United States, such dollars as are available on the foreign exchange market would become more valuable. In other words, numerous currencies would depreciate still further vis-a-vis the dollar. Since there does not seem to be any immediate prospect of a substantial shift in the demand-supply relationship for dollars an embargo on the imports of gold at this time would be a step in the direction of aggravating the very condition the proposal seeks to alleviate.

Furthermore, the declaration of an embargo on gold imports would — quite apart from its political repercussions both domestic and foreign — constitute a very disturbing factor in international economic relations. The Tripartite Accord would, ~~of course,~~ probably be automatically terminated and the instability in exchange rates ~~would~~ be much intensified. Grave uncertainties with respect to international monetary and commercial matters would be introduced, the full consequences of which cannot be entirely foreseen.

By curtailing the possibility of employing gold as a compensatory mechanism in the settlement of international balances, we would be promoting greater reliance on substitute devices. The cushioning effect that gold movements exert on exchange rates would be reduced and still more countries resort to clearing agreements and the more undesirable forms of exchange control for the purpose of narrowing the fluctuations in exchange rates.

FILE COPY

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Finally, an embargo on gold would deal a blow to the prestige of gold which now rests almost wholly on its use as an international medium of exchange. As a nation possessing more than half the world's monetary gold stock, and as the third largest gold producer, we have a vital interest in the future of gold. Any step which would undermine confidence in gold and endanger its use as an international medium of exchange should be taken only with the greatest reluctance and only after less drastic alternatives have been fully explored.

HDW:lrs
12/1/38

FILE COPY

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25 12(e)

FEDERAL RESERVE BANK
OF NEW YORK

FICE CORRESPONDENCE

DATE December 1, 1938.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH BANK OF ENGLAND.

FROM L. W. Knoke

I called Mr. Bolton at 12:15 today. They had had a very difficult and anxious day, he said. The dollar had opened quite high and he had managed to pick up about $1,000,000 but shortly afterwards sterling dropped to 4.67 1/4 and they had to sell $5,000,000 in support. Cariguel likewise had to support the franc and sold substantial amounts of dollars in Paris (I think he mentioned $6,000,000 but his subsequent cable asking us to convert $8,000,000 of his gold into dollars would indicate that his sales were in the neighborhood of the latter figure).

As far as they could judge the sudden change in the market was due to the fact that French relations with Italy had become very unpleasant. He had, of course, in mind the scene in yesterday's Chamber of Deputies in Rome when after a speech by Ciano the Deputies staged a demonstration clamoring for the realization of Italy's as yet unsatisfied national aspirations in Nice, Savoy, Corsica and Tunisia. He ascribed the sudden outbreak to the fact that the French Government is offering naturalization in Tunisia to Italian Jews who want to leave Italy. Later on in the day, Bolton said, the demand for dollars dried up somewhat and the sterling rate recovered to about 4.68 where the market seemed to be steady at the moment he spoke. Their squeeze, he thought, was beginning to take effect with 3 months dollars now up to 2 cents. People like Kleinwort, Bankers Trust,

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FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE December 1, 1936.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH BANK OF ENGLAND.

FROM L. W. Knoke

Swiss Bank Corporation, Lazard and others were all trying to buy forward dollars without success. The big maturities had not really started running off yet and we should be able to see the effect better towards the beginning of next week. The British Treasury had given Washington an outline of the steps contemplated in London and had pointed out that this was, of course, purely of a temporary character and could last only during the present conditions. They had asked the clearing banks not to refuse any forward business but if they received orders to execute them in the market rather than to use their own means for financing such swaps.

I referred to our cable of last night offering to give them gold against our operations of the day at the approximate equivalent of the sterling rate obtained by us on our sterling sales rather than at his gold points. Bolton stated that he appreciated the gesture and that it was extremely considerate of us but hoped that we did not feel that we had created a precedent that we would have to stick to. Meanwhile, everybody was very happy about the set-up and thankful to us. I stated that the next renewal of our weekly gold order would be at what we now figured to be the exact shipping point from London to New York, that is, 34.76 1/4 instead of 84.75 as heretofore. Incidentally, 84.76 1/4, Bolton said, was exactly the point according to their calculations. I think Bolton also appreciated

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ISC 3.2 60M-6-38

FEDERAL RESERVE BANK
OF NEW YORK

FICE CORRESPONDENCE

DATE December 1, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH BANK OF ENGLAND.

M L. W. Knoke

this step of ours; he added that as long as he had gold in New York he would, of course, use that rather than fill us up with gold in London.

LWK:KW

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December 1, 1938.
2:43 p.m.

HMJr: Hello.

Operator: Mr. Barton. Go ahead.

HMJr: Hello.

Leroy Barton: Hello.

HMJr: How are you?

B: Fine, Mr. Secretary.

HMJr: Barton?

B: Yes, sir.

HMJr: I asked for the Admiral, he's up on the Hill. Miss Ann Baker made an investigation for me of the work done by a contractor in the planting around the Poughkeepsie Post Office.

B: Yes.

HMJr: And she found that the fellow did not live up to his contract. Now what I want is, I want you to find out how many other jobs he did for us, the same contractor, see?

B: All right, sir.

HMJr: And then I want Miss Baker employed to investigate all the other work that he did, see?

B: Yes, sir.

HMJr: Is it clear?

B: Yes.

HMJr: Let's say that contractors Smith and Smith did the job at Poughkeepsie, well she found and they agree over there that his work, he didn't live up to his contract. Now I want to know how many other jobs the same contractor did for us, landscape fellow, and I want Miss Baker employed to go and visit all the jobs that he did and compare them against the specifications and see whether he cheated as badly on the others as he did at Poughkeepsie.

B: All right. How far back would you go?

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HMJr: Oh, well I'd go -

B: About four years?

HMJr: What?

B: About four years?

HMJr: No. Well let's go back - well let's take, let's - I don't know - it depends on how many he did. I don't think I'd go back more than two years.

B: Two years. All right, sir.

HMJr: What?

B: All right.

HMJr: And I wouldn't - I would say this, I'd put it this way, if they'd examine three other jobs that he did.

B: That makes it

HMJr: If he's done three other jobs I'd examine three other jobs that he's done.

B: Yes.

HMJr: And frankly if I find that those are phoney then I'm going to have a complete investigation of the whole landscaping. I think there's something lousy in the landscaping department. I think there's something crooked there the way it looks to me. I'm very much upset about it.

B: I'll get a hold of it and -

HMJr: Take a look at Ann Baker's report and then - what it said. Now why do I have to employ somebody from the outside.

B: All right.

HMJr: There's something - there's something radically wrong in the landscape end of Procurement, and I'll start - if this contractor had three other jobs I want her to do those, and then if those aren't right, I'm going to have the whole thing examined.

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B: All right, sir.

HMJr: Will you give it your personal interest?

B: Yes.

HMJr: And tell Admiral Peoples about it.

B: Do it right away.

HMJr: Thank you very much.

B: All right, sir. Goodbye.

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: December 1, 1938, 4 p.m.

NO.: 2033

Today on the exchange market trading has been very active, with francs being in large demand. The present rate for sterling is 178.20, at rates varying from 178.32 to 178.20 the fund has again been able to obtain substantial amounts of sterling. During the morning it acquired 2,900,000 pounds. The dollar-sterling rate has varied between 4.69 at opening and 4.67-5/8, the rate at present. One month forward sterling rate ranges between ten and sixteen centimes, and one franc for three months; following this movement the dollar-franc rate has been erratic. Our market contact has told us that the fund is controlling the present rate.

Profit taking was in evidence on the security market today, showing a less favorable tendency.

There are no important changes in the bank statement for November 24 which was issued today. No change in the gold reserves is shown; the portfolio increased by 562,000,000; there was a decrease of 500,000,000 in thirty day advances, deposits are up 340,000,000, and there was a decrease in note circulation of 550,000,000. Total of 3,915,000,000 for Treasury account. Gold coverage ratio moved up to 60.21 from the former ration of 60.15.

General feeling here is one of profound relief, satisfaction and quiet optimism, as a result of the very important success of the Government yesterday in enforcing law and

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order and because the strike was practically a complete failure. The Government is urged in the financial press to take advantage at once of the opportunity held out by the prestige which it gained, and to carry on its reconstruction program energetically.

END MESSAGE.

WILSON.

EA:LWW

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December 1, 1938.
4:10 p.m.

Operator: Go ahead.

HMJr: Hello.

Thomas Parkinson: Hello Mr. Secretary.

HMJr: How are you?

P: Fine, thank you. I just got back from the President's meeting and found your note.

HMJr: Right. We're going to sell seven hundred million dollars worth of Government merchandise on Monday.

P: So I hear.

HMJr: And I wondered how you felt about it.

P: Well, we're in need of just such merchandise.

HMJr: You do.

P: Yes.

HMJr: Well, we're kind of thinking of a two and three quarter long bond and we haven't gone much beyond that, I mean it'll be - we'll have something else, but we don't know yet what.

P: I see. How long?

HMJr: 60.65 that's what it looks like tonight.

P: I see. With the usual normal tax exemption.

HMJr: The usual.

P: Yes.

HMJr: Yes.

P: Well, such is our condition that we'll have to subscribe to most anything you offer us.

HMJr: You would.

P: Yes.

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HMJr: About what would you need, I mean not the way, what you put in for subscription, but about what do - how many would you want approximately?

P: We'd be delighted to get about fifty million.

HMJr: You would.

P: Yes.

HMJr: I see. Would a nine year two interest you?

P: Nine year two. Yes.

HMJr: It would.

P: Yes. More than the five year tax exempt.

HMJr: It would.

P: Yes.

HMJr: Well I mean would you, for instance if we offered both a nine year two and a two and three quarters 60.65, would you subscribe to both?

P: Yes.

HMJr: Would you take, what, about twenty -

P: I think if you - I think if you made it - I think the banks would probably take that.

HMJr: The nine year two.

P: Yes.

HMJr: Which would be more preferable to your company, the two and three quarter long or the nine year two?

P: I think I'd prefer the nine year two.

HMJr: The nine year two.

P: Yes.

HMJr: Uh-huh.

P: But only on that old theory that some day you've got to come around to giving us a taxable three per cent coupon.

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HMJr: I see.

P: I don't want to load up too much with long terms under three.

HMJr: I see.

P: But we need the investments.

HMJr: But the nine year two is a little bit more attractive to you.

P: Yes I think so, for us.

HMJr: But if we offered both you'd take both.

P: Yes.

HMJr: Uh-huh.

P: If I were in your position, if you don't mind my saying so, I'd offer all three.

HMJr: That is what?

P: The five year -

HMJr: The five year, the nine year and the long two and three quarter.

P: Yes, this is going to be a pretty large amount you know.

HMJr: It's a billion seven.

P: Yes.

HMJr: Yes.

P: And we'd all be happy if it's thoroughly successful.

HMJr: Yes, well it's got to be.

P: Yes, that's it.

HMJr: It's got to be.

P: That's it.

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HMJr: Well, that's what I want to talk to you about.

P: Well I think that you can get away with that if your rates are as you always have made them, adjusted to the markets.

HMJr: Yes. We can have them so that they'll sell at a comfortable premium.

P: Well sir, we'll be on your list.

HMJr: All right. Thank you so much.

P: Not a bit.

HMJr: If you come to Washington let me know, I'd like to have you have lunch with me.

P: I'd like a lot to see you even for a moment. I'll do that.

HMJr: Well, when you come down, let me know.

P: I'll do that.

HMJr: Thank you so much.

P: Thank you. Goodbye.

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C A B L E

From: Bankers Trust Co., N. Y.
London Office

Date: December 1, 1938

DE CASTELLANE REPORTS CONTROL TOOK IN £2,000,000 THIS MORNING THIS AFTERNOON EXCHANGE MARKET VERY QUIET BOURSE WEAKER. ITALIAN DEPUTYS OUTBURST YESTERDAY CREATED UNFAVORABLE IMPRESSION. NEW FRENCH AMBASSADOR SO FAR RECEIVED COLD RECEPTION FROM ITALIAN GOVERNMENT. ITALIAN CHARGE D'AFFAIRES IN PARIS DESCRIBED DEMONSTRATION AS NONSENSE AND CLAIMS ITALY'S ONLY ASPIRATION END SPANISH WAR. RELATIONS BETWEEN POPE AND FASCIST GOVERNMENT VERY UNSATISFACTORY. CHAMBER WILL PROBABLY MEET DECEMBER 9TH DALADIER'S POSITION DEFINITELY STRENGTHENED AND MAJORITY NOW ALSMOST ASSURED. WHILST PROBLEMS CONNECTED WITH EXTERNAL SITUATION STILL SERIOUS GENERALLY BELIEVED CORNER TURNED.

LIQUIDATION LONG DOLLARS POSITIONS SEEMS ENDING AND SINCE NOON UNDERTONE DOLLAR RATHER WANTED. FORWARDS WANTED. DEMAND FOR FRENCH FRANCS ALSO SLOWING DOWN. FORWARDS INCLINED BE OFFERED.

CONFIDENTIAL

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REB

PLAIN

Shanghai via N. R.

Dated December 1, 1938

Rec'd 8:28 p. m.

Secretary of State,

Washington.

1456, First.

November thirtieth Chungking. Concerning Admiral Oikawa's memorandum to senior Naval officer concerning movement of foreign naval vessels on the Yangtze.

SHANGHAI TIMES commenting editorially points out that Admiral Oikawa's memorandum leaves no doubt that the Yangtze will remain closed so long as Chinese resistance continues but expresses the opinion that is "a clear military duty of the Japanese to safeguard the arteries of communication which they have opened." The paper concludes that the foreign powers clear cut issue which must be met either by concrete opposition or recognition of Japan's point of view.

The SHANGHAI EVENING POST and MERCURY described the Japanese Admiral's memorandum and the recent statement reported to have been made by the Japanese Vice-Minister of War as "a drive against foreign neutrality in China" and states that apparently the only way any foreign country can preserve its rights in China is bow before Japan.

The

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REB

2-#1456, From Shanghai, Dec. 1

The CHINA PRESS remarks that the Vice-Minister of War has neither wasted nor minced words regarding Japan's attitude toward Great Britain while Oikawa has reaffirmed Japan's decision to keep the Yangtze closed. This journal states further that because of the inactivity and lack of co-operation among the democratic countries, Japan has gathered sufficient courage to speak out her mind regarding British and French interests. It concludes with the hope that these developments will stir Great Britain to firm action either alone or together with other powers similarly situated.

Repeated to Peiping, Chungking Hankow.

GAUSS

ROW

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

file 11-30-38

DATE December 1, 1938

TO Secretary Morgenthau

FROM Mr. White

Subject: Meeting of the National Munitions Control Board, November 30, 1938, 2:30 P. M.

The meeting was called to consider the procedure governing the issuance of licenses for the exportation of tin-plate scrap during the calender year 1939. However, a representative of one of the de-tinning plants requested to appear in person before the Board in order to make a statement before a final decision was made on the procedure for the coming year. The Board voted not to hear the representative's testimony but to give him and all other interested concerns an opportunity to present additional written statements to the Board before a final decision was reached. The meeting was adjourned for two weeks, during which time an opportunity would be given for the presentation of statements by various interested concerns.

A copy of this is being sent to Mr. Oliphant and Mr. Taylor.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 1, 1938

TO Secretary Morgenthau

FROM Herman Oliphant

<u>For your information</u> -

The public hearings of the Monopoly Committee opened this morning with a full attendance and a large crowd. After an introductory statement by Senator O'Mahoney, Lubin took the floor, and, with pointer in hand, stated the meaning of a multitude of charts on how our economic machine has not been operating at a rate sufficient to absorb the unemployed. He did not go into the reasons, but his exposition of the facts was impressive. The large crowd was silent with intent attention. The atmosphere of the whole proceeding was that of the first lecture in a first class university course in elementary, descriptive economics. Peoples was present during the forenoon, and was to attend during the afternoon in my absence.

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Thursday afternoon, December 1st, the Secretary of the Treasury and Mrs. Morgenthau will be at home to officials of the Treasury Department, and all allied Bureaus. Two teas will be given, one from five to six, the other from six to seven, p.m.

Receiving with the Secretary and Mrs. Morgenthau will be Under-secretary of the Treasury and Mrs. John W. Hanes, Assistant Secretary of the Treasury and Mrs. Wayne Chatfield Taylor, Assistant Secretary of the Treasury and Mrs. Stephen B. Gibbons.

Those who will assist at the tea table include Mrs. H. J. Anslinger, Mrs. Blair Banister, Mrs. Daniel W. Bell, Mrs. Preston Delano, Mrs. Eugene S. Duffield, Mrs. Herbert E. Gaston, Mrs. George C. Haas, Mrs. A. W. Hall, Mrs. Guy T. Helvering, Mrs. Archie Lochhead, Mrs. Wm. H. McReynolds, Mrs. James H. Moyle, Mrs. Herman Oliphant, Mrs. Thomas Parran, Mrs. C. J. Peoples, Mrs. Nellie Tayloe Ross, Mrs. R. R. Wassche, Mrs. Harry D. White, Mrs. F. J. Wilson.

Generally assisting during the course of the afternoon will be Mrs. Herman Klotz, Miss Nell Chauncey, Miss Mary E. Switzer, Miss Isabella S. Diamond, and Mrs. Arthur R. Forbush.

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.

DEPARTMENT OF STATE
WASHINGTON

December 1, 1938

My dear Mr. Secretary:

I acknowledge with thanks the receipt of your letter of November 30 forwarding for my confidential information copies of various memoranda and maps which have been furnished you by Mr. K. P. Chen.

Your thoughtfulness in sending me copies of this material is very much appreciated.

Sincerely yours,

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 1, 1938

TO Secretary Morgenthau

FROM Mr. Haas

With a total offering divided among three different securities, we would estimate the probable yield bases and market prices thereof substantially as follows:

(1) 1-1/8 percent 5-year note, probable yield basis about .95, probable premium 27/32.

(2) 2 percent 8½-year bond, probable yield basis about 1.80 to 1.85, probable premium 1-6/32 to 1-18/32.

(3) 2-3/4 percent 22-27 year bond, probable yield basis 2.65, probable premium 1-21/32.

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For your information
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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE
December 1, 1938.

TO Mr. Oliphant

FROM Mr. O'Connell

At my request, this afternoon Mr. Henderson asked Dr. Lubin the following question:

I told Cox to have this question asked
HO

"Did I understand you to say this morning that in your opinion we have never produced too much wheat or cotton to satisfy our real needs?"

Dr. Lubin's reply was substantially to the effect that he had not been speaking merely of wheat and cotton, but that he did not think we could suffer from over-production in any field as long as there were people in the country who did not get an adequate share of the goods produced. In reply to a question from Senator Borah as to whether or not he thought that that situation existed to-day, Dr. Lubin answered "of course".

This afternoon's hearing was uniformly quiet and followed along the same general lines as this morning, with Senator King asking most of the questions. The Senator attempted to develop to some extent the thesis that our economic system did not break down in 1929, but rather that due to some certain external causes, particularly world indebtedness, it was prevented from functioning in a satisfactory manner. He also suggested the importance of speculation prior to 1929 as being a major contributing cause of the depression.

While a chart of cement production was under discussion Dr. Lubin pointed out that in recent years 50 per cent or more of all of the cement produced was for public works. Senator Borah asked Dr. Lubin whether there had been any reduction in cement prices during the period shown by the chart, to which Dr. Lubin replied, "You will have to speak to Mr. Oliphant about that."

Dr. Lubin finished this afternoon, and Dr. Thorp goes on at 10.30 tomorrow morning.

JOC

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47 Jlc 11-28-38

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE DEC 1 1938

TO Secretary Morgenthau

FROM Herman Oliphant

This opinion is for your files. Copies are being sent to Messrs. Hanes, Delano, Duffield, Upham, and Gaston.

p.113

Herman Oliphant

Regraded Uclassified

GENERAL COUNSEL
TREASURY DEPARTMENT
WASHINGTON

NOV 2 8 1938

My dear Mr. Secretary:

Consideration has been given to the authority for and the operation of Department Circular No. 595, issued by you on September 13, 1938. That Circular provides:

> "The operating control of, and responsibility for, the legal work of the Office of the Comptroller of the Currency is hereby transferred to the General Counsel for the Department of the Treasury. Responsibility for decisions on all legal matters, including matters of general legal policy, as well as on any legal aspects of specific cases or instances shall rest with the General Counsel or those he designates for this work.
>
> "The Secretary of the Treasury shall pass upon all changes in the legal staff and in their salaries, upon the recommendation of the General Counsel. The General Counsel will be responsible for the assignment of work to various members of the legal staff and for other matters mentioned in Department Circular No. 519, dated June 20, 1934."

I am of the opinion that the Circular is in every respect within your legal authority as Secretary of the Treasury. Stated in summary form, my conclusions are as follows:

I. The Secretary of the Treasury has control over the administrative functions of the Comptroller of the Currency. This appears from:

A. The debates in Congress relating to the legislation creating the office of the Comptroller of the Currency and establishing a system of national banks;

B. The legislation itself, the interpretations thereof, and the interpretations of parallel laws.

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II. The supervision and control of the personnel and the work of the legal staff are a part of the general regulatory powers of the Secretary. These powers include:

A. The re-arrangement of the legal machinery of the Department and the general supervision of legal activities;

B. The appointment of attorneys or the approval thereof.

III. The foregoing propositions are fortified by a consideration of the statute creating the Office of the General Counsel for the Department of the Treasury.

I.

A. The Congressional debates which preceded the passage of the act creating the office of the Comptroller of the Currency reveal the clear intention of Congress to invest substantial control over the functionings of that office in the Secretary of the Treasury. During the course of these debates there was a persistent effort made by a group in the House of Representatives to secure the independence of the proposed bureau from the authority of the Secretary. Representatives Brooks and Pruyn, the leaders of the opposition, did succeed in having the House strike out a provision which made the approval of the Secretary a condition to the appointment of the Comptroller by the President. Thereafter, amendments designed to strike from the bill the various provisions for supervision and control by the Secretary were regularly introduced and as regularly rejected. The debates

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make it certain that the question as to what should be the relation between the Comptroller and the Secretary was clearly presented to Congress and that Congress deliberately chose to make the Comptroller subordinate to the Secretary and subject to a considerable extent to control by the Secretary. Ultimately the House acceded to the Senate Bill and approved a provision making the Secretary's recommendation a factor in the appointment of the Comptroller.

The understanding of Congress as to the relation which would be created between the two officers appears from the following excerpts from the debates:

> Rep. Pruyn in (1864) 64 Cong. Globe 1272: "I think that sufficient prominence and sufficient position is not given by this bill to the head of this department [Comptroller of the Currency]. It should be made, not a bureau of the Treasury Department--the Treasury has enough to attend to already--but it should be made a separate administrative Department of the Government, and it should be located at the commercial center of the Government, at New York, and not at Washington."

> Rep. Brooks (objecting to the requirement of the approval of the Secretary in the case of the organization of banks, etc.)(p. 1288): "I suggest that, especially under existing circumstances, that is a power which ought not to be lodged in the Secretary of the Treasury, however safe it might be to lodge it in the Comptroller of the Currency. Indeed, it seems to me that the whole bill, undesignedly without doubt, concentrates extraordinary powers in the hands of the Secretary of the Treasury. This is a high and dangerous power to give to any one man, particularly to the Secretary of the Treasury at this moment, standing in the peculiar relation to the country that he does."

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Rep. Stevens (p. 1350) pointed out that the "whole bill goes upon the supposition that the comptrollership is a part of the Treasury Department."

B. The Act was passed on June 3, 1864, and section 1, 13 Stat. 99, provided as follows:

"* * * there shall be established in the treasury department a separate bureau, * * *. The chief officer of the said bureau shall be denominated the comptroller of the currency, and shall be under the general direction of the Secretary of the Treasury." (Underscoring supplied.)

The above-quoted language was reenacted with slight grammatical changes as section 324 of the Revised Statutes of 1873, and although that section has been amended, the language above quoted is substantially that found in U.S.C. title 12, sec. 1. The following interpretation of this provision is contained in Frelinghuysen v. Baldwin, (D. N.J. 1882) 12 Fed. 395, 396:

"The Secretary of the Treasury is the head of the Treasury Department. Section 233 [U.S.C. title 5, sec. 244]. By section 324 [U.S.C. title 12, sec. 1] the Comptroller of the Currency is the chief officer of a bureau of the Treasury Department, charged with the execution of all laws passed by Congress relating to the issue and regulation of a national currency, secured by United States bonds. This officer, in cases of the insolvency of the association, appoints a receiver, through whose instrumentality the assets are turned into the Treasury of the United States; but the Comptroller performs this, as well as all other duties, under the general direction of the Secretary of the Treasury." (Underscoring supplied.)

In Bank of Bethel v. Pahquioque Bank, (U.S. 1871) 14 Wall. 383, 394, the court refers to:

"the conceded fact that such associations (national banks) are created by an Act of Congress and that

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> they are instruments of the National Government intrusted with the power of carrying on the business of banking and of employing and circulating Treasury notes as a National currency, subject to the supervision and direction of the Comptroller of the Currency and of the Secretary of the Treasury." (Underscoring supplied.)

Other statutes containing similar language have been similarly interpreted. In the case of Knight v. U.S. Land Association, (1891) 142 U.S. 161, the authority of the Secretary of the Interior to set aside a certain survey and order a new survey was contested, and in deciding the issue it was necessary for the court to determine the meaning of a provision which placed the Commissioner of the General Land Office "under the direction of the Secretary of the Interior." The court's determination is contained in the following language (at pages 177-178):

> "The phrase 'under the direction of the Secretary of the Interior' as used in these sections of the statutes, is not meaningless, but was intended as an expression in general terms of the power of the Secretary to supervise and control the extensive operations of the Land Department of which he is the head. It means that in important matters relating to the sale and disposition of the public domain, the surveying of private lands claims and the issuing of patents thereon, and the administration of the trusts devolving upon the government, by reason of the laws of Congress or under treaty stipulations, respecting the public domain, the Secretary of the Interior is the supervising agent of the government to do justice to all claimants and preserve the rights of the people of the United States."

Continuing, the court quoted (at page 178) with approval the following statement made by the Secretary of the Interior:

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> "The statutes in placing the whole business of the Department under the supervision of the Secretary, invest him with authority to review, reverse, amend, annul, or affirm all proceedings in the Department * * *. The mode in which the supervision shall be exercised in the absence of the statutory direction may be prescribed by such rules and regulations as the Secretary may adopt * * *. The rules prescribed are designed to facilitate the Department in the despatch of business, not to defeat the supervision of the Secretary * * *."

It pointed out further that the powers of direction and supervision are given in general terms to the Secretary, in order to obviate the necessity of a statutory particularization of each duty and power resting with him. See also Stoneroad v. Stoneroad, (1895) 158 U.S. 240.

The interpretation of this same provision was again involved in Orchard v. Alexander, (1895) 157 U.S. 372. In that case, the court said, at page 383:

> "Nevertheless the section contemplates that the proceedings shall not be wholly withdrawn from the control of the Secretary, and implies that they are but part and parcel of the general administrative system for the disposal of public lands. While it is within the discretion of Congress to segregate any particular step in the proceedings * * * from the scope of the general system, and place it outside of and beyond any supervising control of the higher officers, yet the courts should be satisfied that the language indicates an intention on the part of Congress so to do before any such break in the harmony of the system is adjudged * * *."

From the interpretations contained in these decisions there would appear to be little doubt that the Bureau of the Comptroller is merely one division in the Treasury Department, and that the Comptroller is a subordinate of the Secretary quite as much as division and bureau

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chiefs in the various executive departments are subordinates of the heads of those departments. Any other conclusion would do violence to the provision that the Bureau of the Comptroller of the Currency is a bureau of the Treasury Department, and would nullify that provision which gives the Secretary "general direction" over the Comptroller in the performance of his duties.

Since, therefore, it may be taken as established that the Secretary has some control over the activities of the Comptroller, it becomes important to define the nature of that control.

In an opinion to the President by Attorney General Wickersham, (1912) 29 Op. Atty. Gen. 555, it was said (at page 562):

> "It is true that while the Comptroller is performing quasi-judicial functions his discretion can not be controlled by you (Butterworth v. Hoe, 112 U.S. 50), yet this is not so of all his duties, otherwise the provision in the statute that he perform his duties under the general direction of the Secretary of the Treasury would amount to nothing. Certainly, broad general lines of policy may be laid down by you to be followed by the Comptroller; and you may direct him to make inquiries along certain lines and to consider the data thus acquired in determining whether individual banks are in sound condition and are obeying the existing law, and whether amendments thereto should be recommended." (Underscoring supplied.)

Likewise, in Butterworth v. Hoe, (1884) 112 U.S. 50, the court, while recognizing and applying a distinction between the "quasi-judicial" and executive or administrative functions of bureau officers, impliedly concedes that the head of a department, under his general powers of supervision, may direct the latter type of activity. (Pages 56 and 67.)

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The statements contained in these authorities with reference to the "quasi-judicial" functions of the subordinate bodies are of no relevance here; the important fact in each is the recognition of the control over bureau chiefs which rests with the heads of departments in connection with executive or administrative functions.

II.

The question may now be conveniently rephrased to read as follows: Is the action of the Secretary in issuing Department Circular No. 595 anything more than an exercise of this recognized right to control administrative functions? Under the Circular, the legal staff and the legal work of the Bureau is transferred to the office of the General Counsel, and the power to appoint and remove legal personnel is vested in the Secretary. In other words, there has taken place an intradepartmental rearrangement of legal machinery which coordinates the legal work of the Department and promotes its efficiency.

A. Upon analysis it appears that this redistribution of work involves nothing more than an administrative question. Before the issuance of the Circular, the Comptroller, prior to reaching a final determination in any case lying within his jurisdiction, was advised by the legal staff of his bureau. Under the new arrangement, the Comptroller is advised by the legal staff of the General Counsel.

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The power of the Secretary to effect this redistribution is expressly recognized in section 161 of the Revised Statutes of 1873 (U.S.C. title 5, sec. 22), which provides as follows:

> "The head of each department is authorized to prescribe regulations, not inconsistent with law, for the government of his department, the conduct of its officers and clerks, the distribution and performance of its business, and the custody, use, and preservation of the records, papers, and property appertaining to it." (Underscoring supplied.)

The Attorney General, in (1903) 24 Op. Atty. Gen. 697, interpreting this provision in an opinion addressed to the Secretary of the Treasury, has said (at page 698):

> "* * * I do not think that Congress, in entrusting you with certain machinery to be employed in executing the laws, desired to restrict your freedom in designating the divisions of what was of course intended to be an organized Executive Department and not a mere gathering together of distinct institutions."

B. That the appointment and removal of members of the legal staff is the exercise of an administrative or executive function has been frequently held by the courts. Myers v. United States, (1926) 272 U.S. 52, 161 ("The power to remove inferior executive officers, like that to remove superior executive officers, is an incident of the power to appoint them, and is in its nature an executive power."); State v. Denny, (Ind. 1889) 21 N.E. 252; State v. Rose, (Wis. 1909) 122 N.W. 751; People v. Griffing, (App. Div. 2nd Dept. 1915) 152 N.Y.S. 113. Such officers are employed in the administrative branch of the Government, and their appointment or discharge is the exercise of an administrative power.

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In the absence of an express provision for the appointment of particular subordinate officers of a bureau, the authority to appoint such officers will be presumed to be in the head of the department rather than in the head of the bureau. Nishimura Ekiu v. United States, (1891) 142 U.S. 651, 663. The same thing undoubtedly is true with respect to the fixing of salaries. Having those powers as head of the Treasury Department, the Secretary of the Treasury may, of course, require the recommendation of the General Counsel.

In those limited situations with respect to which there are specific statutes, the legal position is substantially the same. Only three such statutes have been found.

Section 328 of the Revised Statutes of 1873 (U.S.C. title 12, sec. 8), provides:

> "The Comptroller of the Currency shall employ, from time to time, the necessary clerks, to be appointed and classified by the Secretary of the Treasury, to discharge such duties as the Comptroller shall direct." (Underscoring supplied.)

Section 5240 of the Revised Statutes of 1873, as amended (U.S.C., Sup. III, title 12, sec. 481), as it appears in the Code, provides, in part, as follows:

> "The examiners and assistant examiners making the examinations of national banking associations and affiliates thereof herein provided for and the chief examiners, reviewing examiners and other persons whose services may be required in connection with such examinations or the reports thereof, shall be employed by the Comptroller of the Currency with the approval of the Secretary of the Treasury: * * *." (Underscoring supplied.)

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It will be observed that both of those statutes expressly refer to the power of the Secretary of the Treasury. Since the first statute expressly gives the power of appointment and classification to the Secretary, the language, "The Comptroller of the Currency shall employ," is intended to direct the Comptroller to make use of the services of persons who are appointed by the Secretary. There can, therefore, be no question about the Secretary's power to appoint and fix salaries, insofar as that statute refers at all to members of the legal staff. The second statute expressly requires the approval of the Secretary of the Treasury for the employment of the persons mentioned, including, by clear implication, the fixing of salaries. Thus, with respect to persons employed under that statute, the Secretary clearly may "pass upon all changes in the legal staff and in their salaries" and may do so "upon the recommendation of the General Counsel", as provided for in Department Circular No. 595.

Section 209(b), title II (providing for National Agricultural Credit Corporations), of the Agricultural Credits Act of 1923, 42 Stat. 1467 (U.S.C. title 12, secs. 9, 9(a)), provides, in part, as follows:

> "The Comptroller of the Currency is hereby authorized to employ such additional examiners, clerks, and other employees as he deems necessary to carry out the provisions of this title and to assign to duty in the office of his bureau in Washington such examiners and assistant examiners as he shall deem necessary to assist in the performance of the work

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> of that bureau. The salaries of the Deputy Comptrollers of the Currency and of such additional examiners, assistant examiners, clerks, and other employees shall be fixed in advance by the Comptroller of the Currency."

It should be noted at the outset that that statute has a very limited application, viz., to persons employed to carry out the provisions of law relating to National Agricultural Credit Corporations. Moreover, section 77 of the Farm Credit Act of 1933, 48 Stat. 272 (U.S.C. title 12, sec. 1151a), provides:

> "After the date of the enactment of this Act, no national agricultural credit corporation shall be formed under the provisions of the title II of the Agricultural Credits Act of 1923."

It is understood that all the National Agricultural Credit Corporations have been liquidated except one. The liquidation of that one has been almost completed, and it involves no legal work. Thus, section 209(b) of the Agricultural Credits Act of 1923 is no longer applicable to members of the staff doing the legal work of the Office of the Comptroller of the Currency.

In any event, appointments under that section had to be approved by the Secretary of the Treasury. Section 1 of the Act of June 30, 1876, 19 Stat. 63 (U.S.C. title 12, sec. 191) and section 5234 of the Revised Statutes of 1873, as amended (U.S.C. title 12, sec. 192), authorizing the appointment of receivers in certain cases by the Comptroller, do not refer to the Secretary. In spite of this omission, the conclusion resulting from a line of holdings is that the approval

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of the Secretary is a prerequisite to the valid appointment of receivers. Frelinghuysen v. Baldwin, (D. N.J. 1882) 12 Fed. 395; Price v. Abbott, (C.C. D. Mass. 1883) 17 Fed. 506; United States v. Schlierholz, (E.D. Ark. 1905) 137 Fed. 616; Gibson v. Peters, (1893) 150 U.S. 342; In re Chetwood, (1897) 165 U.S. 443; Auten v. United States National Bank, (1899) 174 U.S. 125; United States v. Weitzel, (1918) 246 U.S. 533. The question in these cases was whether receivers are "officers of the United States" for the purpose of jurisdiction of the lower Federal courts, and it was held that appointments of receivers are to be presumed to have been made with the concurrence or approval of the Secretary, and, therefore, are made by the head of a department within the meaning of Article 2, section 2, of the Constitution. Such a presumption would be unjustified except upon the ground that the Secretary had the power to approve or disapprove appointments. The theory of the courts apparently is that powers of this nature vested in the Comptroller are modified by section 324 of the Revised Statutes of 1873, as amended (U.S.C. title 12, sec. 1), which provides, as it appears in the Code, as follows:

> "There shall be in the Department of the Treasury a bureau charged with the execution of all laws passed by Congress relating to the issue and regulation of a national currency secured by United States bonds and, under the general supervision of the Board of Governors of the Federal Reserve System, of all Federal reserve notes, the chief officer of which bureau shall be called the Comptroller of the Currency and shall perform his duties under the general directions of the Secretary of the Treasury." (Underscoring supplied.)

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The same theory applied to employment under section 209(b) of the Agricultural Credits Act of 1923, with regard to salaries as well as appointments. Since, then, employment and salaries under this statute were subject to the approval of the Secretary, the same conclusion follows as was reached above in connection with the second statute discussed.

It should be observed that the result reached in the foregoing cases leads to the conclusion that the Secretary also has regulatory powers over administration, since his control over appointments is predicated upon his general supervision of the Comptroller's functions and the administration of receiverships is one of these.

III.

By section 512 of the Revenue Act of 1934, 48 Stat. 758 (U.S.C. title 26, secs. 1720-1726) there was created in the Treasury Department the office of General Counsel. That it was the intention of Congress, in enacting this provision, to include the legal work of the Comptroller's office within the scope of the General Counsel's control and responsibility, clearly appears both from the report of the Committee on Finance of the Senate and the report of the Committee on Ways and Means of the House. The Senate report contains the following statement ((1934) Sen. Rep. No. 558, 73d Cong., 2d Sess. 50; to accompany H. R. 7835):

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"The legal activities of the Treasury Department are now handled by separate, uncoordinated legal units in the various divisions, bureaus, and offices of the Department. A single responsible law officer, having the necessary power, can coordinate the activities of these distinct legal units and prevent inconsistency of action, duplication of effort, delays, and waste of public funds." (Underscoring supplied.)

A similar statement appears in the House report ((1934) H. R. Rep. No. 704, 73d Cong., 2d Sess. 40; to accompany H. R. 7835):

"Section 512. General Counsel for the Treasury: At the present time a number of the bureaus and divisions of the Treasury have separate legal staffs, operating independently of each other. Although the law provides for a Solicitor of the Treasury, he is vested with power only over a limited field, not assigned to other legal officers in the Department. There is no responsible legal officer in the Treasury with power to coordinate the legal work of these separate groups of lawyers and to prevent waste and duplication of effort among them." (Underscoring supplied.)

Section 512, as finally enacted, provided, in part:

"The General Counsel shall be the chief law officer of the Department, and shall perform such duties in respect of the legal activities thereof as may be prescribed by the Secretary or required by law."

Pursuant to the authority of this section, the Secretary of the Treasury, by Department Circular No. 519, of June 20, 1934, provided as follows:

"The General Counsel is hereby authorized to perform all duties and functions incident to the administration of the legal activities of the Treasury Department, including the signing of letters and approval in my stead of such documents as may come before him in the legal course of his administration of the Legal Division of the Treasury Department, and such other duties as may be assigned to him by me from time to time.

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> "All matters relating to personnel in the Legal Division, including recommendations for new appointments, transfers, promotions, or other matters relating to changes in personnel, and all matters relating to the purchase of books and supplies for the Legal Division shall be referred to the General Counsel for approval before any action is taken thereon."

This order of the Secretary placed in the General Counsel's office the active supervision of all Treasury legal matters and referred to the General Counsel the appointment of all personnel in the Legal Division for approval before final action by the Secretary of the Treasury.

Since the effective date of this order, the General Counsel has supervised the legal work of the Bureau of Narcotics, the Coast Guard, the Bureau of Customs, the Procurement Division, etc. It seems obvious that the control of the General Counsel was properly extended by the order under consideration, Department Circular No. 595, of September 13, 1938, to the legal business of the Bureau of the Comptroller of the Currency, since, in its relationship to the Treasury Department, that bureau would seem to occupy a position no different from any of the other bureaus enumerated above.

Very truly yours,

Herman Oliphant

General Counsel.

The Honorable

The Secretary of the Treasury.

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TREASURY DEPARTMENT

WASHINGTON

December 1, 1938

CONFERENCES IN THE SECRETARY'S OFFICE
REGARDING THE DECEMBER 15 FINANCING

(The Secretary, Mr. Allan Sproul of the
Federal Reserve Bank of New York and
Mr. Bell, present.)

Mr. Levy,
Salomon Brothers and Hutzler
9:15 a.m.

The Secretary asked Mr. Levy what he would advise the Treasury to do in connection with the forthcoming financing.

Mr. Levy said that he would have three issues, a 2-3/4% bond of 1960-64; a 2-1/2% straight 14-year bond; and a Treasury note, either an additional issue of the last June notes or a 4-year note maturing December 15, 1942. He said that the insurance companies will take both the 2-1/2% and the 2-3/4% bonds and the banks will certainly take the 2-1/2s.

Mr. Sproul asked him how much there is in the investment market for a 2-3/4% bond. Mr. Levy said it was his opinion that the amount was relatively small compared with the total investment funds available. He thought the savings banks would take the 2-1/2% bond rather than the 2-3/4%.

The Secretary asked Mr. Levy if he thought there would be any market trouble in the 2-3/4%. He said absolutely none. Then the Secretary asked him about a 5-year note.

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Mr. Levy said he had not considered a note at all, but looking over his yield sheet he thought we might want to go to as much as 1-1/4% for five years; that 1-1/8% would go but it is not quite rich enough, while the 1-1/4% might be considered a little too rich. He said a 2-3/4% bond would certainly go and every one would subscribe to it, but there is always the question of subsequent redistribution, which makes a bad market for a period of two or three weeks following an issue.

The Secretary then asked him if we could sell a 25-30 year bond at 2-3/4%. Mr. Levy did not feel that such a bond would be certain of success although the insurance companies would take an issue of this kind. He thought it would be much better to reduce the period to 20-24 or 22-25 years.

Mr. Sproul asked how much the market would absorb in long-term bonds, whether the market would take as much as one billion dollars of a 2-3/4% issue. Mr. Levy seemed to evade the question and said it was hard to tell, he did not know whether it would go as much as a billion or not.

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Mr. Aldrich,
Chase National Bank
9:45 a.m.

The Secretary told Mr. Aldrich that he assumed he had seen the announcement in the morning papers to the effect that the

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Treasury was offering some kind of new security for $700,000,000 in cash and exchange offerings to the holders of the March maturities in the amount of $942,000,000. He said he would like Mr. Aldrich's advice on what would be proper for the Treasury to do, not only from the standpoint of the country but from the standpoint of the banks.

Mr. Aldrich said that from his observation the commercial banks would certainly prefer a relatively short-termed obligation. He was quite familiar with the current talk in New York and he was inclined to agree that a three-way proposition is the better course to pursue; that is, a note of some kind, a 7-year bond and a long-term bond. As an alternate, the Treasury could certainly get by with a long-term bond and an intermediate bond. He does not feel that the note should be issued. As a matter of fiscal policy he thinks the Treasury should make every attempt to extend the present maturities and get the present heavy debt program in the next five years extended over a much longer period.

He said there seemed to be no question about a 2-3/4% bond and that a substantial amount of subscriptions for this security will come from insurance companies, while the banks would be heavy subscribers in an intermediate bond if one is offered.

Mr. Aldrich asked about the deficit. He said he thought that was an uncertain factor and when I told him that the latest official

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estimate indicated that the deficit for the current fiscal year would be about $3,985,000,000, the only uncertain factor in that estimate being the additional funds required for the Works Progress Administration program for the period from February 1 to June 30, 1939, he said he thought the figure was too low. He felt it would be nearer $4\frac{1}{2}$ billion dollars. In reply to his question as to the estimate of revenues, I told him $5,000,000,000. He seemed surprised and said he had a figure in mind of about $4\frac{1}{2}$ billion for revenue.

The Secretary asked Mr. Haas to come in and bring the so-called "bubble charts" which he explained to Mr. Aldrich. They showed that for the first four months of this fiscal year the receipts are about 8% above the estimates and the expenditures about 6% below.

Mr. Aldrich then went into a discussion of deficit financing. He said he believed that the responsibility of those who buy Government bonds and advise others to buy them is about as great as the responsibility of the Secretary of the Treasury in carrying out the fiscal policies of the Administration. With a program of deficit financing and no possibility in sight of a balanced budget, he questioned whether the banks should buy long-term Government's. He said he did not believe in the pump-priming theory and he was quite certain that it had not produced the results which its advocates had promised. He believes that the influx of gold will continue and that there will be some pressure in the next Congress for further

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devaluation of the dollar. These will have a tremendous influence on our economic situation.

Mr. Aldrich said he is amazed at the amount of money that continues to flow from abroad. His bank has from 50 to 60 new accounts every month, many of which are opened by German refugees, and substantial amounts of money are constantly being deposited to the credit of these accounts. Foreign deposits with the Chase National Bank today stand at about $256,000,000.

Then he went into a rather lengthy discussion of the foreign situation as he viewed it from his trip this fall. He said he had a number of conferences with high government and banking officials and came away with the feeling that it is only a question of time until the situation in central Europe will be brought to a crisis, which may result in a much better situation than has prevailed in the past. He said he was surprised when he got to France to learn that French officials had conferred with German officials on the question of how to handle the French situation. The advice given by the Germans urged the French not to put on any kind of exchange controls because that was the first step that Germany took, which, in the opinion of these officials, later led to the various steps that were taken, namely, regimentation, control of the Jews, control of prices, control of production and prohibition against free speech, all of which in turn led to larger expenditures for national defense.

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Another point stressed was the feeling abroad of every country watching the experiments being made in the United States and the urge on the part of many politicians over there to adopt many of these experiments. It was his opinion that the United States can not go on indefinitely with deficit financing; that if it does the day is certainly approaching when we also will drift further towards regimentation and control of the whole economic situation, which in turn will have a far-reaching effect upon the European situation, each country following what we are doing, and eventually all will go over the precipice together. He said he assumed that the Secretary was just as worried about the situation as he is and that he probably is constantly thinking about it. He feels that something will have to be done to stop the very definite trend in this country toward regimentation and control.

Mr. Aldrich continued by saying that he realizes the next Congress will have to air its political views and make some attempt to carry out some of the many political promises made during the last campaign and that there will be a great deal said about Social security programs such as the Townsend Plan and others. However he hopes the Administration will be successful in opposing all of these Utopian schemes.

After we got out in the corridor Mr. Aldrich handed me a memorandum covering the December 15 financing. A copy is attached.

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MEMORANDUM

to

Mr Aldrich

Re: U. S. Treasury December Financing

The Treasury Department has announced that the December financing will include the sale of $700,000,000 of securities for cash and the refunding of $942,000,000 1 1/2% Notes due March 15, 1939. This latter issue is now selling at approximately 101 18/32, which theoretically establishes the price of at least one of the issues to be offered in the refunding operation.

Various opinions are given as to the types of new issues to be offered both for cash and in exchange for the notes to be refunded. Combinations of at least four types of securities are being discussed.

1. A five-year note having a coupon of 1 1/8% or an additional issue of the notes presently outstanding due in four and one-half years having a coupon of 1 1/8%, now selling at 101 6/32 to yield .85%.

2. A 2% bond due in eight or nine years. Bonds optional in seven and one-half years are presently selling at about a 1.87% basis, and bonds optional in nine years at approximately 1.96%. This obligation and the issue next described, it is thought, would be in demand on the part of commercial banks.

3. A 2 1/2% bond due in 1952 or 1953. This bond at 100 would compare with a 2 1/2% bond due 1952/50, which was sold at 100 in September and is now selling at around 102 to yield 2.30%. The 2 3/4's due 1954/51 at 103 1/2 now yield 2.42%.

4. A 2 3/4% bond due in the neighborhood of twenty-five years. There is an issue outstanding of 2 3/4's due 1963/58 which was given in exchange in June, 1938, and is now selling at 102 6/32 to yield 2.60%. This type of bond would probably be more suitable for insurance companies.

The general discussions of the various combinations of the four above-mentioned securities include a combination of the note issue and the 2 3/4% bonds due in about twenty-five years, both of which would be exchangeable for the issue to be refunded.

Another program includes the sale for cash of equal amounts of 2% bonds due in eight years and long 2 3/4% bonds, these two issues to be offered also in exchange for the 1 1/2% notes, with an additional offering on an exchange basis only of 4 1/2 year 1 1/8% notes.

A third program would consist of three securities offered for cash: (1) a four and one-half or five-year 1 1/8% note, (2) a 2½% bond due in fourteen

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years, or in place of this issue a 2% bond due in eight or nine years. As the third part of the program, they could offer a 2 3/4% bond due in approximately twenty-five years. All of these issues would be exchangeable for the 1 1/2% notes due in 1939.

I feel that a good program for the Treasury to follow would be to offer for cash four and one-half or five-year 1 1/8% notes and 2 1/2% bonds due in fourteen years. Both of these issues would be offered in exchange for the 1 1/2% notes due March 15, 1939, and this latter issue could also be turned in for the 2 3/4% bonds due 1963/58 which are presently outstanding and sell at 102 1/8 to yield 2.60%.

Nov. 30, 1938

Sheldon R. Green

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Mr. Garner,
Guaranty Trust Company,
11 a.m.

The Secretary asked Mr. Garner what he would do if he were sitting in his chair with respect to the December financing.

Mr. Garner said he had given the matter quite a bit of thought and had talked with people in New York, and if he were writing the ticket he would have three issues: (1) a 2-3/4% 1960 - 65 bond (possibly the maturity date could be brought down to 1964 or 1963 and would go better); (2) an 8-1/2 year (June 15, 1947) 2% bond; and (3) a note, possibly 1-1/8% for 5 years. The note, however, is not essential.

Mr. Garner said there is a good but somewhat limited demand for long-term bonds. Insurance companies, savings banks and some commercial banks will take the long bond, and no doubt it will be many times over-subscribed as it will command a premium of from 1-5/8% to 1-3/4%. He feels that the commercial banks will take the 8-1/2 year bond and that it will be largely over-subscribed as it will sell at a premium of from 1-1/2% to 1-5/8%. This latter bond is in line with the longer bond and would not throw a larger percentage of the offering to one or the other. He thought the subscriptions might be on an even keel. To offer a note in connection with this program is not essential but there are always note buyers in the market and he believes the Secretary should satisfy the

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market to that extent. It is necessary to bear in mind that we are eliminating from the market some $942,000,000 in notes and it is only fair to replace them in part by a small note issue.

Mr. Garner continued by saying that if the Treasury should desire to issue a long-term bond and a note, he was quite satisfied that we would get an over-subscription for the note for cash but we would get very few exchanges; that a large part of the exchange subscriptions would go into the long-term bonds even by those who would not hold them but would take them for sale in order to get the premium. This would raise a rather serious problem of subsequent distribution, whereas if we have an 8-1/2 year bond this would fit in very nicely with the banks' portfolios and would give the banks a nice maturity for which they would exchange the notes, the majority of which are held by commercial banks. By issuing a 2% bond and a 2-3/4% bond the effect would be to eliminate the speculator from the market because the issues would go exactly where they belong and would be kept and not disposed of.

The Secretary then asked Mr. Garner how far the Treasury could go with a 2-1/2% bond. He said we could probably go to 1952 and might even extend it to 1953 with a definite maturity. We could make it a 1951-53 bond but he would not put out a 2-1/2% and a 2-3/4% bond. He believes the 2-1/2% would very definitely detract from the 2-3/4% and might give rise to an even more serious

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problem of distribution. He believes there are two distinct demands in the market -- one by the banks for the shorter bond and one by the insurance companies for the longer bonds.

The Secretary then asked him whether, if the Treasury put out three issues, a 2-3/4%, a 2% and a 1-1/8%, it would be taken by the market as a sign of weakness. He said he did not think so but on the other hand would be interpreted as an attempt on the part of the Treasury to meet the desires of the investors.

The Secretary requested his opinion on an offering of a 2-3/4% bond and a 1-1/8% note. He said there would not be any question about its success, but the majority of the exchanges would certainly go into the bonds. There was then quite a discussion of how a program of $300,000,000 2-3/4% bonds, $200,000,000 2% bonds and $200,000,000 1-1/8% notes, all for cash with the privilege to the holders of the March maturity of exchanging for any of the three issues, would go. Mr. Garner said a program of this kind in his opinion would exactly fit the situation as it exists today and would be pleasant news to the whole market.

We then discussed the length of bond we could issue with a 2-3/4% coupon. Mr. Harris, who had just come into the room, thought we might go as far as 1962-67 and that it might command a premium of from 1-3/8% to 1-3/4%. He and Mr. Garner both agreed that it might be weak. They thought a 1960-65 would command a premium of 1-5/8% and might work up to 2%. Mr. Garner said he preferred, if the Secretary

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wanted to get beyond the 1960 period, a 1961-65 and we might even go to 1962-65. He did not feel the Secretary ought to go beyond 1965 as a maturity date but that he could fix the call period any place between 1960 and 1963.

He was then asked how he thought the exchanges would go on the three-way proposition. He said he did not think the notes would get any exchanges to amount to much but that the two bonds might split evenly within a range of from $350,000,000 to $500,000,000. Mr. Harris raised the question of how the exchanges would go if the note issue bore a rate of interest of 1-1/4%. He said that would make some difference but he still thought the large majority of the exchange subscriptions would go into the bonds. The Secretary then said he was very definitely not in favor of a 1-1/4% note. Such a security would command a premium of almost as much as the two bonds and he did not think the Treasury should pay that much for its money when it could get it at 1-1/8%.

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Dr. Burgess,
National City Bank, New York City
Luncheon conference.

Others present were Under Secretary Hanes, Assistant Secretary Taylor and Mr. Haas.

The Secretary asked Dr. Burgess to give his views on the forthcoming financing. He started out by saying that the Treasury

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could sell almost any kind of security as the market is in excellent condition. He thought, however, that we ought to arrange our issues so that they will just about fit the market requirements. What we should try to do is to arrange our maturities and rates so that not more than $750,000,000 will go into any one issue. He thought a 2-3/4% bond of 1960-65 and a 2% bond of June, 1947 (8½ years) would just about take care of the market requirements. He said that we could open up the notes of last June to satisfy those who want to continue their investment in notes, but he did not think we would get more than $50,000,000 in exchanges. Making this statement, Dr. Burgess was under the impression that the total financing, including the exchange offering for the maturities in March, would aggregate about 1-1/2 billion. He was told that the total financing would be about $1,700,000,000 so that the $750,000,000 limit previously referred to would probably have to be raised to around $850,000,000.

Dr. Burgess was quite certain that if the two bonds indicated were issued, the insurance companies and savings banks would be heavy subscribers to the long-term bond, while the commercial banks would be the heavy subscribers in the shorter-term bond. Furthermore, he thought we would not have a subsequent redistribution problem as both insurance companies and the banks would take these bonds for permanent investment. He thought that if we confined it to a longer

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term bond, such as the 2-3/4% 1960-65 or 1-1/8% 5-year note, the banks would subscribe to the bonds, not with a view to holding them permanently but with a view to selling them on the market as soon as it was possible in order to realize the profit.

The Secretary then said that in the morning conference he had thrown out, just for discussion, the suggestion that we offer a 2-3/4% 1960-65 bond in the amount of $300,000,000; an 8-1/2-year 2% bond for $200,000,000; and a 1-1/8% 5-year note for $200,000,000, all for cash with the option to be granted to the holders of the March 15 maturities to exchange them for any one of the three issues. He asked Dr. Burgess what he thought of this suggestion.

Dr. Burgess said he thought it was very good and that it would suit the market perfectly. He did not think we would get many exchanges on the notes, probably $50,000,000. Of course we would get the cash subscriptions which would make a note issue of about $250,000,000. He thought the exchanges for the other two issues would go about fifty-fifty. The only objection he had to this proposal was the maturity date of December, 1943. He called attention to the fact that we already have in this year a $600,000,000 note maturity in June. It is also the call date for the 1943-47 bonds in the amount of $450,000,000. October is the call date for the 1943-45 bonds in the amount of $1,400,000,000. He thought it might be well to consider selling a 4-year note. The Secretary stated

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that he would like to have the December, 1942 date kept as it is with the small maturity. Dr. Burgess and Mr. Sproul both indicated that the Secretary's suggestion of a three-way issue of new securities would suit market conditions perfectly and that there is not much argument between the 5-year note, the 4-year note and reopening of an old issue.

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Mr. Devine,
Devine and Company,
3 p.m.

Mr. Hanes and Mr. Taylor also joined this conference as well as the one following.

The Secretary asked Mr. Devine what he would do with the forthcoming financing. He said that he would issue a 2-3/4% of 1960-65, a 2% 9-year bond all for cash and allow the privilege to the March holders to exchange into these securities, and in addition, he would reopen the 1-1/8% 5-year notes for exchange purposes only. He says there is some talk about a 2½% bond, period 51-53, but he does not feel that this is the proper place to put a bond as there are already heavy maturities in this period.

He says the market is now just right for the program he has suggested. The banks are staying out of the market and have been for two months and cash is piled up and there will be ready investors as soon as the December financing is out of the way. He thinks that a 9-year 2% bond will sell at about 101-3/8 to 101-1/2. He believes that you might get as much as $600,000,000 conversion and if on Saturday morning the term seems a little too long the period can be reduced to 8-1/2 years. He says there has also been some suggestion in the market that the short bond be an 8 year obligation but he thinks this is ridiculous and entirely too rich.

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The Secretary then explained to him that during the day we had discussed the possibilities of an issue for cash of $300,000,000 2-3/4% long bond, $200,000,000 2% short bond, and $200,000,000 1-1/8% notes with exchanges in all three. He asked Mr. Devine how many exchanges out of the $942,000,000 maturing notes he thought we would get and how would they be divided. Mr. Devine said that he believed that possibly as much as $500,000,000 of the long bond would go into exchanges, $400,000,000 of the short bond, and a negligible amount, 50 to 75 million dollars, would go into notes.

The Secretary than asked him if there was involved any question of confidence in this program. Mr. Devine said he did not believe that was a serious factor although he did not believe the Treasury would show a great amount of confidence by issuing notes for cash. He thought it would be much better to have $400,000,000 long bonds and $300,000,000 short bonds for cash, both of which would go well.

The Secretary then explained that the note market was thin. We would take $942,000,000 of notes out of the market and that the people who have purchased notes have been very good to the Treasury in the past and he did not see why we should not put out something in this financing, particularly in view of its size, that would please those who would prefer notes. Furthermore, the Secretary said there is a large

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maturing issue in June, $1,294,000,000, and we may want another 500 or 600 million dollars in cash in which case it would make a total financing of about $2,000,000,000 and that he might want to try this three way proposition again either at that time or in March.

Mr. Devine said that the market, he thought, would be quite surprised to get three issues and for that reason he argued for the reopening of an outstanding issue but in this connection the Secretary was adamant. Mr. Devine said that if the Secretary would issue $500,000,000 in long bonds and $200,000,000 in short bonds to a fixed date it would help a great deal. It would also have the effect, in his opinion, of not getting too much on a fixed maturity date and, at the same time, not getting too large an amount into the long maturity which might come back upon the market.

The Secretary then asked him if there was any question in his mind as to the success of the three issues he had suggested. Mr. Devine said there was none whatever, that it would go and go big.

Mr. Mills and Mr. Repp,
Discount Corporation,
3:30 p.m.

The Secretary asked these gentlemen what kind of a program they had mapped out for the Treasury in the forthcoming December financing. Mr. Mills said the market certainly expected a 2-3/4%

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bond 1960-65 period. It seemed to him about the only question involved with respect to this issue was to how many long term bonds the market can absorb. We certainly don't want a large bond of this issue to be indigestible later on. He said the insurance companies will be in the market for bonds although their balances are not quite as large as they were in September, declining possibly $100,000,000. Savings banks and trust companies will take the long bonds and so will many of the other banks as they are now interested in earnings. He thought there were several sources of this character which would certainly take the long bond. He also thought we would have to write the ticket of the long bond in such fashion that we would get about the amount we would like to have outstanding in this issue then couple it with a short bond, say 2% for 8-1/2 years. Then he would have a note issue possibly for exchange purposes only and for this purpose he thought the reopening of an old issue would be preferable. Specifically he recommended $400,000,000 2-3/4% long bond, $300,000,000 2% short bond, all for cash with exchange privileges, and a reopening of the 1-1/8% of last June for exchange purposes only. He thought this program would give us possibly a large conversion into the 2's. In writing down the figures he thought we might get as much as $600,000,000 in exchanges and $200,000,000 in cash on the 2%, $400,000,000 in cash and $300,000,000 in exchanges on the 2-3/4%, and on the 1-1/8% notes the conversion would be negligible.

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The Secretary then explained to them that he would not want a billion dollars falling due on a fixed maturity date and that something would have to be done to hold the short term bond down to 5, 6, or 7, and not more than $700,000,000. Mr. Mills suggested that we have the note for cash and that might take the pressure off the intermediate bond.

The Secretary then asked him what he thought of the proposition that we had been discussing throughout the day, namely, $300,000,000 2-3/4% long bonds, $200,000,000 2% 9-years, and $200,000,000 1-1/8% new 5-year notes, all for cash with exchange privileges. The Secretary asked him what the Treasury would get under this program. Mr. Mills said he thought we would get on cash and exchanges $300,000,000 on the notes, $700,000,000 on the 2% bonds, and $640,000,000 on the 2-3/4% bonds. Mr. Repp thought we would get $250,000,000 on the notes, $600,000,000 in short bonds, and $750,000,000 in 2-3/4% bonds. Mr. Repp's estimate would be ideal if we could get that division.

Mr. Mills said that he would not, just speaking in a broad way, offer the financing in a three way proposition. He would put out $300,000,000 in notes and $400,000,000 in long bonds for cash and then an intermediate bond for exchange only. The Secretary said that was new and very interesting and wanted to know what he thought we would get on exchange if we offered a 2% 9-year bond. There was a great deal of discussion about this last suggestion. The Secretary asked them to consider

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this suggestion of Mr. Mills in its relation to the other maturities and other securities that would have to be offered and come to his house at 8:30 p.m. for a further conference.

He made it plain before they left that he doesn't particularly like a fixed maturity date; that he wants to satisfy to some extent the note holders and asked them to keep these things in mind for the 8:30 discussion.

Messrs. Mills, Repp, Hanes
Sproul and Bell,
8:30 p.m.

Mr. Mills said that they had considered the matter for about an hour and then had had dinner with Mr. Sproul and further discussed it. Mr. Mills went on to explain at great length why they thought that the Secretary ought to put out two bonds for cash. He stated that putting the cash on the long term bond and no cash on the note might have the effect of pressing the prices on the long term bonds and throwing the conversion rights into the shorter term bonds and might get a large proportion of your notes converted into the short term bonds.

After a great deal of discussion on this point the Secretary stated that there were two things that he did not want. He did not want as much as a billion dollars maturing at a fixed date and he did not want more than $750,000,000

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of long term bonds to be put out at this time for the simple reason that Federal Reserve System representatives feel that that is about the limit the market can absorb and anything in excess of that would no doubt be thrown back on the market for sale. This would have an adverse effect on the market and would require the Federal Reserve System to support the market. He wanted the cooperation of the Federal Reserve System in supporting the market. He wanted to confine the long term bond to about the amount suggested by the Federal Reserve authorities.

Mr. Mills said they had considered the proposition of the Secretary and had come to the conclusion that he could put out a 2-3/4% bond 1960-65 which would sell from 1-12/32 to 1-20/32 premium, a 2% 9-year bond, without cash, which would sell just about on the same basis, and a 1-1/8% 5-year note would sell about 1 point premium.

Mr. Mills thought that this program would produce about $640,000,000 long term bonds with $440,000,000 cash and $200,000,000 exchanges, $380,000,000 notes with $330,000,000 cash and $50,000,000 exchanges, and $690,000,000 of short terms on exchanges. Mr. Repp thought this was a fairly good program but he thought you might get as much as $300,000,000 exchanges on the long bond.

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The Secretary then called Dr. Burgess of the National City Bank of New York on the telephone and made the suggestion to him and asked his advice on it. Dr. Burgess said he thought the 9-year 2% bond was a little thin and it would probably throw more weight toward the long term bond. The Secretary answered that by saying he thought we possibly could stand another $200,000,000 on the long term bond without in any way hurting the situation. Dr. Burgess also questioned the compilations made by Messrs. Mills and Repp that the short bond for exchange purposes only would sell on about the same basis as the long bond, namely 101-12/32 to 101-20/32.

The Secretary said that in conclusion he was satisfied in general with the program and that he intended to announce before the market opened the next morning the following:

> The Treasury would offer $400,000,000 2-3/4% long bond and $300,000,000 5-year note, all for cash, with the right of the March maturity holders to convert into either one of those securities, plus the right to convert into a 2% short bond.

He then called Mr. Haas on the telephone and told him what he had decided and requested that he get Mr. Seltzer and Mr. Harris together the following morning and discuss the relative yields of these various securities and then discuss it with him at nine o'clock.

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approx date
12/1/38 87

ESTIMATES OF NATIONAL INCOME IN 1939

It is estimated that national income produced will be approximately $68 billion in 1939. This compares with an indicated $62 billion in 1938 (on the basis of data available for ten months only) and $70 billion in 1937. On this basis approximately three-fourths of the loss from 1937 to 1938 should be recovered in 1939.

The above estimate is based upon analysis of underlying conditions and current trends. This analysis indicated a probable average of 106 for the Federal Reserve Index of Production in 1939. In December of 1938, the index is expected to be in the neighborhood of 100 and after a levelling out, or perhaps even a small decline, in the early part of 1939, to increase rapidly in the later part of the year.

The estimated rise in national income produced from $62 billion to $68 billion is approximately ten percent, which reflects in part the improved position with reference to business savings. This item, after payments of dividends and withdrawals by entrepreneurs, is expected to show only a small net loss in 1939, as compared with an estimated net loss of more than $2 billion in 1938. National income paid out is expected to rise approximately six percent from $64 billion in 1938 to $68 billion in 1939. Since income payments are running at about an annual rate of $66 billion at the present time, it will be necessary for them to increase to an estimated rate of approximately $71 billion at the end of 1939 in order that the estimated average for the year can be attained.

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Estimates of National Income in 1939

The accompanying table summarizes the above estimates and gives the comparable figures for 1937 and 1938, the latter being partly estimated also.

	1937	*1938	E 1939
National Income Produced	69.8	62.0	68.0
Business Savings	+0.5	-2.3	-0.3
National Income Paid Out	69.3	64.3	68.3
Compensation of Employees	45.4	42.1	44.6
Manufacturing, mining, construction	15.9	12.9	15.1
Transportation and utilities	4.8	4.4	4.6
Trade and Finance	7.9	7.6	7.9
Government, Service, Other	15.0	14.9	15.1
Work Relief	1.9	2.2	1.9
Dividends and Interest	9.5	8.2	9.0
Entrepreneurial Withdrawals	10.4	9.8	10.3
Net Rents and Royalties	2.5	2.6	2.6
Social Security Contributions, etc.	1.4	1.6	1.8

*Partly estimated

E- Estimated

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U. S. GOVERNMENT RECEIPTS AND EXPENDITURES (GENERAL AND SPECIAL ACCOUNTS ONLY)
(Fiscal Year Ended June 30, 1938--Dollar Amounts in Millions)

RECEIPTS

	Multiplier	Visible Budget (Dollar Amounts)	Invisible Budget (Dollar Amounts x Multiplier)
I. INTERNAL REVENUE			
Individual Income Tax			
Net income under $5,000	3 1/2	63	220
Net income of $5,000 and under $25,000	3	271	813
Net income of $25,000 and under $50,000	2 1/2	203	508
Net income of $50,000 and under $150,000	2	352	704
Net income of $150,000 and over	1	397	397
Corporation Income and Capital Stock Taxes	2 1/2	1,476	3,690
Estate and Gift Taxes	0	417	0
Alcoholic, Mnfrs., Excise, and Misc. Taxes	3 1/2	1,071	3,749
Tobacco Taxes	2 1/2	568	1,430
Employment Tax (Title VIII--Old Age)			
Tax on employees	3 1/2	257	890
Tax on employers	2 1/2	257	643
Tax on Employers of 8 or More (Title IX--Unemployment	3	90	270
Railroad Employment Compensation Taxes			
Tax on employees	3 1/2	75	263
Tax on employers	2 1/2	75	188
II. CUSTOMS	3	359	1,078
III. ALL OTHER RECEIPTS (inc. adj.)	1.2 aver.	311	342
Total receipts		6,242	15,207

EXPENDITURES

	Multiplier	Visible Budget (Dollar Amounts)	Invisible Budget (Dollar Amounts x Multiplier)
I. GENERAL			
Departmental	3	644	1,932
Public Buildings; Highways; River and Harbor Work and Flood Control	2 1/2	378	945
Social Security Act (grants to states for needy persons, etc.)	3 1/2	272	950
National Defense	2.7 aver.	974	2,653
Veterans Administration	3.4 aver.	582	1,989
Agricultural Adjustment Program	3 1/2	362	1,266
Civilian Conservation Corps	3.2 aver.	326	1,035
Interest on Public Debt	1 1/2	926	1,389
II. RECOVERY AND RELIEF			
Public Highways; River and Harbor Work, and Flood Control	2 1/2	118	296
W.P.A.	3.5 aver.	1,473	5,122
Other	2.6 aver.	224	591
Aid to Home Owners (including Farm Security Administration	3.2 aver.	240	778
III. REVOLVING FUNDS (NET)			
Public Works--Loans and Grants to States, etc.	2 1/2	134	335
IV. TRANSFERS TO TRUST ACCOUNTS, ETC.	0	607	0
V. ALL OTHER EXPENDITURES	1.7 aver.	364	610
Total expenditures (excl. debt retirement)		7,626	19,891

Visible Balance (Deficit) - 1,384

Invisible Balance (Income Effect) + 4,684

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U. S. GOVERNMENT RECEIPTS AND EXPENDITURES (GENERAL AND SPECIAL ACCOUNTS ONLY)
(Fiscal Year Ended June 30, 1937—Dollar Amounts in Millions)

RECEIPTS

	Multiplier	Visible Budget (Dollar Amounts)	Invisible Budget (Dollar Amounts) x Multiplier)
INTERNAL REVENUE			
Individual Income Tax			
Net income under $5,000	3 1/2	54	189
Net income of $5,000 and under $25,000	3	229	687
Net income of $25,000 and under $50,000	2 1/2	172	430
Net income of $50,000 and under $150,000	2	299	598
Net income of $150,000 and over	1	337	337
Corporation Income and Capital Stock Taxes	2 1/2	1,220	3,050
Estate and Gift Taxes	0	306	0
Alcoholic, Mnfrs., Excise and Misc. Taxes	3 1/2	1,124	3,934
Tobacco Taxes	2 1/2	552	1,380
Employment Tax (Title VIII--Old Age)			
Tax on employees	3 1/2	97	340
Tax on employers	2 1/2	97	242
Tax on Employers of 8 or More (Title IX--Unemployment	3	58	174
CUSTOMS	3	486	1,458
ALL OTHER RECEIPTS (incl. adj.)	1 aver.	263	263
Total receipts		5,294	13,062

EXPENDITURES

	Multiplier	Visible Budget (Dollar Amounts)	Invisible Budget (Dollar Amounts) x Multiplier)
I. GENERAL			
Departmental	3	560	1,680
Public bldgs.; highways; river and harbor work, and flood control	2 1/2	264	660
Social Security Act (grants to states for needy persons, etc.)	3 1/2	167	585
National Defense	2.8 aver.	857	2,356
Veterans Administration	3.4 aver.	580	1,983
Agricultural Adjustment Program	3 1/2	527	1,845
Civilian Conservation Corps	3.2 aver.	386	1,233
Interest on Public Debt	1 1/2	866	1,299
II. RECOVERY AND RELIEF			
Public highways, river and harbor work, and flood control	2 1/2	355	889
W.P.A.	3.5 aver.	1,896	6,606
Other	2.6 aver.	384	1,007
Aid to home owners (inc. Farm Security Adm.)	3.1 aver.	298	932
III. REVOLVING FUNDS (NET)			
Public Works, loans and grants to states, etc.	2 1/2	221	553
IV. TRANSFERS TO TRUST ACCOUNTS, ETC.	0	868	0
V. ALL OTHER EXPENDITURES	2.3 aver.	213	498
Total expenditures (excl. debt retirement)		8,442	22,126

Visible Balance (Deficit) - 3,148

Invisible Balance (Income effect) + 9,044

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Summary

1. On a reasonably optimistic estimate, industrial production may rise to 106 by the second quarter of 1939, and about 115 to 120 for the fiscal year 1939-40.
2. If such a rise in industrial production does take place, it would reduce non-farm unemployment from about 8.6 millions now to about 7.3 for the 1939-40 fiscal year.
3. To continue to provide relief to the same proportion of the unemployed now covered, W.P.A. expenditures of one billion fifty million dollars would be needed for the first half of 1939, and 1.85 billion for the 1939-40 fiscal year.
4. 600,000 cases now certified to W.P.A. are not now employed because of limited funds. Their families are without support except for direct relief, which is usually very meager. Increasing unemployment insurance payments offset only a portion of this deficiency in W.P.A. To care for these cases as well as those already covered, W.P.A. funds would have to be increased materially above the amounts stated.
5. On a very optimistic forecast, industrial production might rise to 116 by the second quarter of 1939 and to about the 125 to 130 level for the fiscal year 1939-40. Even in that extreme case, W.P.A. expenditures needed to maintain merely the present level of adequacy would be one billion dollars for the first half of 1939, and 1.6 billions for the 1939-40 fiscal year.
6. Judging from past periods of recovery, industrial production for the 1940-41 fiscal year might average between 105 and 130. Such a level of production would reduce unemployment to between 5.7 and 7.8 millions, and require W.P.A. appropriations of between 1.45 and 2.0 billions for the 1940-41 fiscal year to maintain the present level of adequacy.

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How much will it be safe to reduce W.P.A.
during 1939, 1939-40, and 1940-41?

How fast can W.P.A. rolls be reduced without increasing the number without food and clothing?

The answer depends on our appraisal of a number of subordinate questions, as follows:

1. How fast and far will industrial recovery go?

Careful appraisals of the immediate prospects, and a reasonably optimistic appraisal of the possible speed of continued recovery over the years ahead, based on similar recovery periods in the past, give the following forecasts as a basis for our estimates:

Forecast of Industrial Production

(Federal Reserve Index, 1923-25 = 100)

Actual to date	Index
1929 average	119
1937 average	110
1938 June	77
November (preliminary)	102
Estimated 1/	
1938 4th quarter	101
1939 1st quarter	100
1939 2nd quarter	105
1939-40 fiscal year	120

1/ Estimated by Agricultural Industrial Relations Section, Division of Program Planning, A.A.A.

These forecasts, in comparison with the annual data since 1920, are shown in the upper portion of Figure 1.

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2. How rapidly will employment rise?

In the past, changes in industrial production have been reflected in employment in non-farm employment, with some lag between them. This is also shown in Figure 1, by the employment data charted.

On the basis of previous relations between production and employment, the non-farm employment which would be produced if the forecasted production is realized has been estimated, as shown below:

Actual to date	Industrial production index 1/ (Seasonally adjusted)	Non-farm employment 2/ Millions
1929 average	119	36.1
1932 average	64	27.7
1937 average	110	34.6
1938 June	77	31.8
1938 October	96	32.7 (Preliminary)
Forecasts		
1938 4th quarter	101	3/ 33.5
1939 1st quarter	100	33.3
1939 2nd quarter	106	34.4
1939-40 fiscal year	120	35.3

1/ Federal Reserve index, 1923-25 = 100
2/ Department of Labor. Excludes W.P.A., C.C.C., and other relief employment.
3/ The reduction is due to the usual seasonal decline in employment during the winter.

These estimates are also shown on Figure 1.

3. How rapidly will unemployment fall?

Figures on the persons available for non-farm employment have been compiled from previous data on employment and age composition of the population. Comparing these with the estimates of non-farm employment, the numbers of non-farm unemployed may be projected as follows:

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Non-farm unemployment
(in millions)

Actual	Non-farm labor supply 1/	Non-farm employment	Non-farm unemployment
1929 average	37.7	36.1	1.6
1932 average	39.1	27.7	11.4
1937 average	41.3	34.6	6.7
1938 June	41.8	31.8	10.0
October	41.9	32.7 (p)	9.2 (p)
Forecasts			
1938 4th quarter	42.0	33.5	8.5
1939 1st quarter	42.1	33.3	8.8
2nd quarter	42.2	34.4	7.8
1939-40 fiscal year	42.6	35.3	7.3

1/ This excludes the number of wives or daughters seeking work because their husbands or fathers are unemployed. Biggers' census indicated that in November, 1937, there were over 2 1/2 million such persons looking for work, in addition to those ordinarily available for work.

The changes in the number of persons actually employed at any one time reflect many other factors besides industrial production. 1/

If these estimates are fulfilled, non-farm unemployment will change from its present levels (for the 4th quarter of 1938) about as follows:

1st quarter, 1939	3.5	per cent increase over present
2nd quarter, 1939	8	per cent decrease below present
1939-40 fiscal year	14	per cent decrease below present

1/ In addition to industrial production, the number of persons actually employed will be influenced by changes in the usual work week, in the output per person employed, and in the extent of part-time or over-time work. If it were possible to account for these factors as well, the above forecasts might be modified somewhat and made slightly more reliable. Such perfections of the data, however, would probably be small compared to the total unemployment shown below, and therefore would change the estimated relief needs only slightly. Shifts from part-time to full-time will tend to increase the average hours worked per week, but the wages and hours law and other pressures toward a shorter full-time week will work in the opposite direction. The estimates presented are on the basis of the present levels of production and the present average hours.

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4. How rapidly will the need for relief decline?

Aid to the unemployed and needy is provided through public assistance, old-age assistance, and unemployment compensation.

Unemployment compensation payments are taking care of an increasing number of the unemployed, as more and more states reach the stage where their outpayments begin. The cases taken care of and the sums disbursed, however, represent as yet only a very small fraction of those in need because of unemployment. At the peak of their fall program, W.P.A. had 600,000 cases certified for W.P.A. employment who could not be taken on because of inadequate funds. Increasing unemployment insurance payments in 1939 may close about one quarter to one half of this gap between needs for W.P.A. jobs and funds available, but that is about all they can be counted on for in the immediate future.

Old-age assistance has expanded until 1,735,000 persons are now receiving old-age payments, while aid to the blind and to dependent children is providing for an additional 330,000. These special types of public assistance care for only a small portion of the distress due to unemployment, however, and will continue to expand regardless of business conditions. 1/

General relief, although presumably for non-employables, shows some tendency to vary with business conditions. It expanded rapidly in the winter of 1937-38, before the increased W.P.A. appropriations became available, and shrank again as W.P.A. began expanding. Since July, however, general relief expenditures have remained relatively constant at about 36 million dollars a month. C.C.C. expenditures, too, remain

1/ Old age insurance may have reduced the number of persons over 65 who are seeking employment by about 100,000 to 200,000 cases, judging from Biggers' census. This may make the following estimates high to this slight extent. If further studies confirm this shift, the estimates of persons employable will be revised accordingly.

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relatively stable, showing little reflection of business conditions.

W.P.A. has constituted the most important source of relief for the unemployed since it replaced F.E.R.A. This is evident in the following tabulation:

Period	Estimated non-farm unemployment Thousands	Estimated unduplicated relief cases 1/ Thousands	W.P.A. employment 2/ Thousands
1933	11,841	4,212	-
1934	9,738	4,706	-
1935	8,943	4,677	-
1936	7,654	4,116	2,530
1937	6,744	3,262	1,785
1938 nine mos.	9,733	4,297	2,562
September	9,476	4,567	3,111

1/ Excludes assistance granted under the Social Security program and under some other smaller programs whose recipients, in general, are not employable. Also, excludes emergency drought relief in 1936.
2/ Excludes N.Y.A. employment.

W.P.A. thus constitutes the major method of relief, now caring for 33 per cent of the unemployed, or for two-thirds of all relief cases.

The proportion of the non-farm unemployed on W.P.A. jobs dropped from 33.1 per cent in 1936 to 26.5 per cent in 1937, and then rose again to 32.8 per cent by September, 1938. The drop in 1937 was explained in part by the sharp cut in the budget during that year.

The number needing relief in 1939 and 1939-40, may be estimated on the assumption that W.P.A. will continue to be needed for the same proportion of the unemployed as in 1936 and in September, 1938. These forecasts are as follows:

Period	Non-farm Unemployment Millions	W.P.A. employment Millions
Actual		
1938 September	9.5	3.11
Forecast		
1939 1st quarter	8.8	2.90
2nd quarter	7.8	2.57
1939-40 fiscal year	7.3	2.41

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These estimates are based on the assumption that as employment rises the same proportion of the unemployed, 33 per cent, will continue to need W.P.A. help. In the past the major relief to the unemployed has been provided from their own resources or that of relatives, and that is why as low a per cent as 33 have been on W.P.A. As unemployment decreases, it may be that the proportion of the unemployed who can get along without relief help will increase, so that the proportion in need of W.P.A. will diminish. On the other hand, the long duration of heavy unemployment for many may so exhaust their resources as to make still a larger proportion in need of relief. In the absence of any clear basis for judging between these two alternative possibilities, the estimated need has been based on the existing coverage.

5. <u>What Federal W.P.A. funds will be needed to meet the 1939 needs?</u>

Total W.P.A. expenditures during recent calendar years have varied from $847 per relief worker down to $770 per worker for September, 1938. Assuming that this latter rate is maintained over the period, Federal W.P.A. funds will be required as follows to provide for the cases estimated:

Actual	Federal W.P.A. expenditures (annual equivalent) Millions	W.P.A. employment Millions
1936	$2,069	2.53
1937	1,510	1.79
1938 September	2,400	3.11
Forecasted		
1939 1st quarter	2,230	2.90
2nd quarter	1,980	2.57
1939-40 fiscal year	1,850	2.41

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For the first six months of 1939, this would require W.P.A. expenditure running at about 2.1 billions annually, or about $1,050,000,000 for the six-month period, to maintain the present level of relief, compared to unemployment. For every $100,000,000 that W.P.A. expenditures are cut below this level during the first half of 1939, about 260,000 families in need of relief will be cut off W.P.A. rolls. That means that 800 to 900 million dollars in addition to present funds will be needed by W.P.A. for the rest of the current fiscal year, to continue relief merely on the present level. Even more would be needed to enable W.P.A. to care for the several hundred thousand families certified to it which it cannot now employ.

For 1939-40, W.P.A. appropriations of about 1.85 billions will be needed if production, employment, and relief needs develop as estimated here.

Effect of a more rapid recovery

These estimates are based upon a reasonably optimistic forecast of continued recovery. Even if the recovery should go much faster than that, however, the relief problem would still be heavy. For example, if industrial production should exceed that previously estimated by a full 10 points throughout, the forecasts would then be as follows:

Period	Industrial production	Non-farm employment	Non-farm unemployment	W.P.A. cases	W.P.A. expenditures (annual rate)
		Millions	Millions	Millions	Millions
1939 1st quarter	110	33.6	8.5	2.80	2,160
2nd quarter	116	35.0	7.2	2.38	1,830
1939-40 fiscal year	130	36.4	6.2	2.04	1,570

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Even on this most optimistic basis, W.P.A. expenditures of just about one billion dollars for the first half of 1939, and of 1.6 billions for the succeeding fiscal year, would be needed to maintain unemployment relief on its present level of adequacy.

Possible relief needs during the 1940-41 fiscal year

The 1940-41 fiscal year is 18 to 30 months ahead, and any forecast now as to conditions then will be necessarily largely conjectural. In past recovery periods following sharp depressions like that of 1938, however, industrial activity two to three years later has varied widely, the most rapid progress showing over 50 per cent recovery from the low year, and the least, less than 25 per cent recovery. If this time the recovery falls within the same pattern, it would result in a level of industrial activity for the 1940-41 fiscal year somewhere between 105 and 130.

Such production in 1940-41 would mean a non-farm unemployment of between 5.7 and 7.8 million. W.P.A. expenditures of between 1.45 and 2.0 billions would be needed to care for such unemployment, on the present basis of adequacy.

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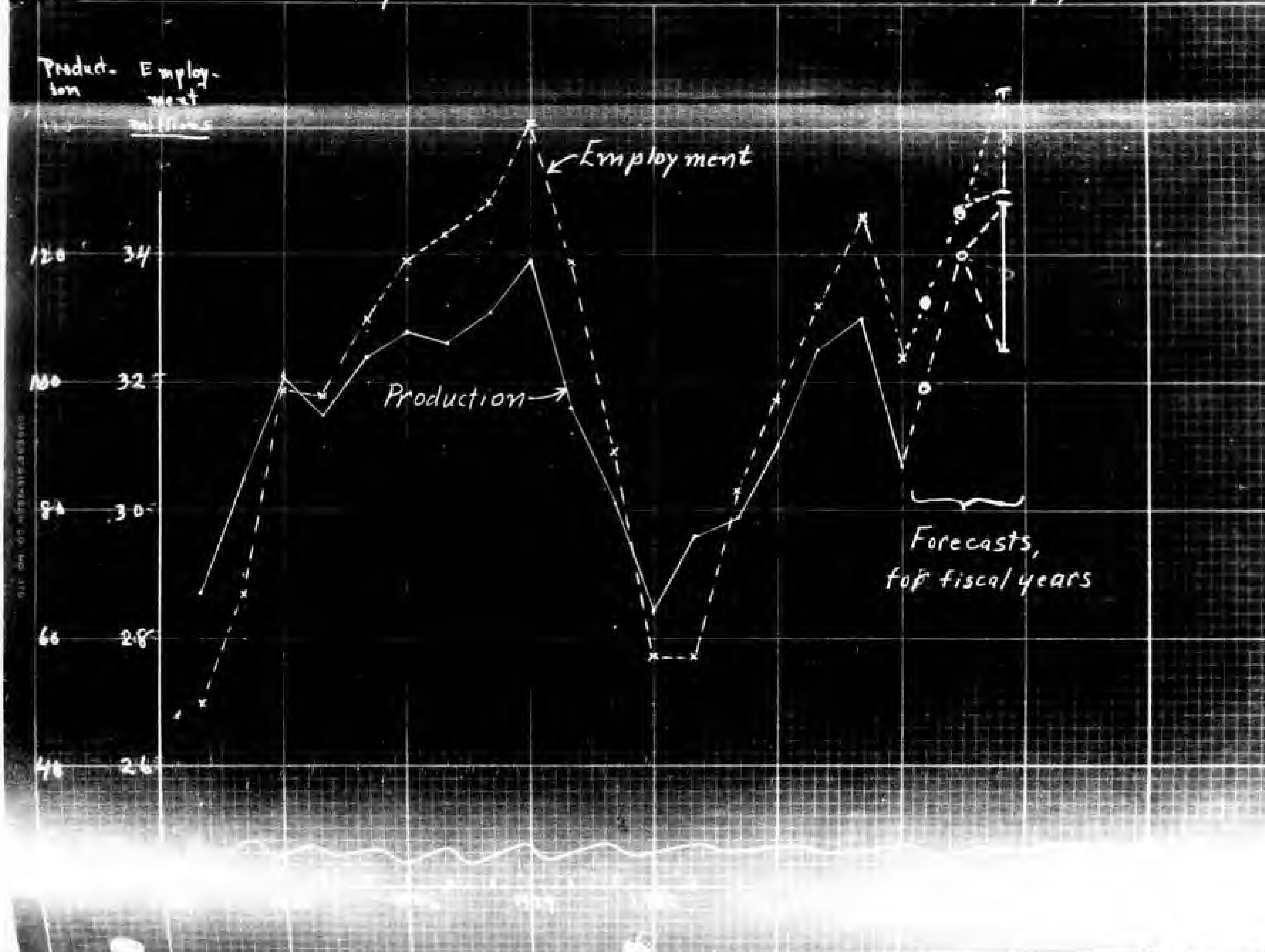
Figure 1. Industrial Production and Non-farm Employment



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December 2, 1938.

MEMORANDUM

At 3 P.M. December 2, 1938, Mr. Shoji Arakawa, Financial Commissioner of the Imperial Japanese Government, Financial Attache to his Imperial Majesty's Embassies at London, Paris and Washington, was received by the Secretary of the Treasury. Also present were Messrs. Lochhead, Cochran and Butterworth, whom the Secretary presented to the caller.

Mr. Arakawa began the conversation by telling the Secretary that he had talked with Mr. Taylor, and by asking that the Secretary learn of the conversation from the Assistant Secretary rather than have him repeat it at this time. He explained that he was assigned to the three capitals of London, Paris and Washington, but spends most of his time in London. The Minister of Finance of Japan, whose friendship the visitor enjoys, had instructed him to visit the United States at this time and he is consequently spending ten days in New York and ten days in Washington.

He stated that the Minister of Finance, a Harvard man well acquainted with the United States and enjoying a splendid reputation in his own country, was interested in hearing from the Secretary of the American Treasury in regard to the general situation in the United States.

Secretary Morgenthau replied that it was difficult to know where to begin in describing the American situation. He would gladly be helpful but the Treasury itself had such a variety of activities and wide range of interests that to undertake to discuss them was impossible. There were no problems up between the Japanese and American Treasuries to discuss.

The visitor said that his Minister would be especially interested in the broad lines of the American impressions of the Sino-Japanese war. The Secretary said this was not in his field to discuss and that the Press gave the American reaction fully.

Again the Secretary said there were no Treasury problems between the two countries. There had arisen at one time a question in regard to Japanese gold shipment, but this had been satisfactorily adjusted and the Federal Reserve Bank of New York, the fiscal agent of the Treasury, and the Central Bank of Japan and were in touch with each other and cooperating.

This reminded the visitor that he had failed to thank the Secretary for this cooperation in the past. In this connection he said he knew that American Ambassador Grew was informed by the Minister of Finance of Japan as to the latter's interest in having the cooperation of the United States in the development of territory which the Japanese occupied in China. Secretary Morgenthau said it would be interesting to see what might transpire in this phase of the matter, but this was a subject for discussion between the Japanese Ministry for Foreign Affairs and our Department of State.

H.M.C.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 2, 1938

TO Secretary Morgenthau

FROM Herman Oliphant

Cairns says:

Miss Freda Utley will be in Washington on December 12 or 13, and it occurred to me that you might welcome the opportunity to talk to her. She is the Far Eastern correspondent of the London News Chronicle and is now on her way to London from China. She is the author of Japan's Feet of Clay (1937), Japan's Gamble in China (1938) and numerous other books. She is also a frequent contributor on Far Eastern subjects to journals of foreign affairs.

She is coming to Washington to address the National Press Association and for a conference with Mrs. Roosevelt. She is deeply sympathetic to the Chinese cause. I hope that she will be available for discussion during the lunch hour, but it is possible that she may be free only in the evening.

HO

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December 2, 1938

To: Mr. Oliphant

From: Mr. Duffield

The position of the Comptroller of the Currency and his Office as units within the Treasury Department is clearly set forth in the law, debates of Congress, opinions of the Attorney General and court decisions. The law sets up "in the Department of the Treasury a bureau" to be headed by a Comptroller of the Currency who "shall perform his duties under the general directions of the Secretary of the Treasury." This language is similar to that used in setting up other bureaus within the Treasury Department, as, for instance, Bureau of the Mint.

That the Congress intended this law to mean that the Comptroller's Office should be a unit within the Treasury was further demonstrated by the debates which preceded enactment of the National Banking Act. Amendments to the Act which would have struck from it various provisions of supervision and control of the Comptroller's Office by the Secretary were introduced and rejected except one making the Comptroller the appointee of the President rather than of the Secretary. This appointment feature is also typical of other Treasury officials, such as the Commissioner of Internal Revenue, the

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Director of the Mint, the Surgeon General, all of whom are clearly under direction of the Secretary.

A district court has held that the Comptroller performs his duties "under the general direction of the Secretary of the Treasury," and the Supreme Court has spoken of the national banks as being "subject to the supervision and direction of the Comptroller of the Currency and of the Secretary of the Treasury."

The Attorney General informed the President in 1912 that, although the Secretary can not control the Comptroller's discretion in performing quasi-judicial functions, the Secretary must obviously supervise the administrative and executive functions of the office if the law is to have any meaning when it says that the Comptroller performs his duties "under the general directions of the Secretary."

Since the Comptroller's Office is by law a bureau within the Treasury, the Secretary has authority to provide for "the distribution and performance of its business" under the laws which give each Cabinet Officer the power to operate his own Department. The action of the Secretary on September 13th, placing the legal work of the Comptroller's Office under the General Counsel for the Treasury Department, was an action providing for distribution and performance of the business of a unit of the Treasury Department.

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The portion of the September 13th order providing that the Secretary shall pass upon all changes in the legal staff and upon salaries paid that staff is not prohibited by any specific portion of law. Therefore, it is within his power because appointment of executive officers and employees of a unit within the Department remains with the Secretary unless otherwise provided.

The authority for this action is further supported by the law creating the position of General Counsel for the Treasury Department which states that the General Counsel shall be the chief law officer of the Department and shall perform such duties as the Secretary may require of him.

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TRIPLICATE 116 Strictly Confidential

NO.130.

AMERICAN CONSULATE
Rangoon, Burma, December 2, 1938.

Subject: Shipments of War Materials.

Strictly Confidential.

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to report that the war supplies for China brought from Odessa to Rangoon by the British steamer STANHALL have been unloaded at this port, and that, with the exception of explosives, they have been placed in warehouses of the Port Commission, where they are being guarded by Military Police. The explosives are being held on a barge in the Rangoon river below the port.

The supplies in the warehouses are being checked by the Customs authorities. A manifest of the cargo was not obtained, and detailed Customs inspection was ordered. No Customs statistics are yet available.

The STANHALL arrived here on November 8th, but unloading was not commenced until November 21st, pending attempts to obtain a manifest, the preparation of a report by the Customs for the Government, and the Government's decision in the matter. The ship was granted clearance and left this port yesterday.

Report of American Supplies.

There is a report that some motor-truck parts and

some

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some munitions of American origin are included in the supplies brought by the STANHALL, all of which were loaded at Odessa. This report has not yet been verified.

All of the cargo from the STANHALL will be transported to Lashio by the Burma Railways. Some special freight cars for the carriage of ammunition and explosives have been built in the railway shops, and others are building. It is planned to establish a transit depot at Lashio, on ground owned by the Burma Railways, the required storage facilities to be provided by the Chinese, together with a garage and repair shop.

In order to reduce the danger of explosions and at the same time to obtain a lower freight rate from the Burma Railways, detonators are being removed from shells, preliminary to shipment. Shipment of the supplies now stored here will not be commenced until motor-transport arrangements are completed and it is apparent that trucks can get through from Lashio to Yunnanfu. Chinese representatives are now at Lashio in connection with transportation arrangements.

Respectfully yours,

Austin C. Brady
American Consul

Distribution:

1. Original and four copies to the Department.
2. Copy to the American Embassy, London.
3. Copy to the Consulate General, Calcutta.

800.

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A true copy of
the signed original
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Confidential
December 2, 1938.

UNITED STATES RAILROAD EQUIPMENT AUTHORITY

Proposal: Establish a railroad equipment authority, with capital stock owned by the Treasury, empowered to issue guaranteed debentures for the purpose of contracting for the purchase of new railroad rolling stock to be rented or leased to railroads.

1. The Stimulation of Recovery

Expenditures of some $500 million on railroad equipment could be assured in the first year of operation. Apart from the stimulation this would afford the economy in general, it would provide work for the railroads' own car shops and increased traffic for the roads themselves.

2. The Removal of Future Bottlenecks

Preliminary estimates indicate that in order to handle the volume of traffic consequent upon the continuance of recovery at a desirable rate, yearly expenditures on rolling stock of about $800 million at present prices would have to be incurred in the period 1939-41. From the standpoint of the national economy it would obviously be to our interest to utilize idle plant and labor in the immediate future in order to relieve the shortages, stoppages, and bottlenecks that will arise in freight traffic, the railroad equipment industry and in the steel industry with the continuance of recovery.

3. A Contribution to Future Stability

The railroad equipment field has traditionally a feast and famine character and is consequently an important source of economic

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instability. A federal authority, not pressed by financial considerations or immediate profit considerations, could level off the peaks and valleys of railroad equipment buying.

In addition, variation in rental rates for equipment would offer a highly desirable alternative to variations in freight rates as a means of bringing about greater stability in railroad net earnings.

4. National Defense

A modernized supply of rolling stock adequate to handle the volume of traffic incident upon war appears to be an indispensable element in any comprehensive program of national defense. Moreover, experience in the handling of a national car pool will be invaluable in the event of war.

5. Betterment of the Financial Structure of Railroads

The gradual substitution of rented and leased rolling stock for owned equipment would permit a reduction in the debt of railroads and a substitution of variable for fixed charges. Moreover, the proposal offers a means whereby the Government could stimulate private expenditures without getting deeper involved in the complicated financial structure of the railroads.

6. Improved Efficiency

The proposal, through making possible continuous buying, greater standardization, and more liberal provisions for research, should permit very substantial reductions in costs to be achieved. It should also permit more efficient utilization of rolling stock in the handling of empties, etc.

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7. Relation to the "Railroad Problem".

The proposal could be adopted independently and without prejudice to any comprehensive program of reorganization and consolidation of the railroads, which may take a long time to accomplish.

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Objections to the Proposal:

1. Government Ownership.

The proposal does, of course, involve a degree of Government ownership, so far as rolling stock is concerned. It may be pointed out here, however that

(a) it is only a degree removed from the present practice of making loans to financially shaky roads,

(b) it is far removed from the actual Government operation of railroads as is practiced in certain other democratic countries such as Canada and Sweden,

(c) it is proposed that the Government operations be confined to research and ordering, renting or leasing equipment and that no construction or repair be undertaken in Government shops.

2. Loss to the Government

It may be objected that the Authority's equipment will be used only during peak periods and years of exceptionally high traffic volume and that for the rest "the Government will be left holding the bag."

This objection can easily be disposed of by pointing out that this all depends on the terms of leasing or daily rentals. If they are set sufficiently low, it will pay the railroads to use the Authority's equipment, and rely on old high - repair- cost equipment for peak requirements. Low rental rates will also

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constitute an inducement to retire old equipment.

This way out, however, raises another objection. If rentals are set too low, the revenues of the Authority will be inadequate to service its obligations and keep its equipment in good repair. It should, however, for the following reasons, prove possible for the authority to set sufficiently low rentals to induce the railroads to use its equipment and yet not suffer a loss:

(a) it will have the advantage of borrowing at lower interest rates than the railroads can secure;

(b) being a very large and continuous buyer of standardized equipment it should be able to secure greater price concessions than any individual road could obtain;

(c) there should be economies consequent upon the growth of a national car pool;

(d) it will be in a position to charge higher rentals in good years to recoup any losses sustained in bad years.

Finally, it must be kept in mind that even though the Authority should actually show a loss, this would not be incompatible with a large net national gain in more stable and higher national income, production and employment.

3. Technical Difficulties

The proposal has been examined by a number of operating railroad men and although problems have been pointed out in connection with repairs, zoning, storage, etc., it appeared to be the general

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consensus that the problems would be similar to those now encountered in connection with "foreign" cars and the private leasing companies, such as Pacific Fruit Express, and various ways of meeting these problems were at hand.

In connection with the determination of the volume of new equipment of various types, it would appear feasible to make far better national estimates of the number of different types of freight cars and locomotives that a certain volume of traffic will require than could possibly be arrived at as the sum of individual estimates made independently by the various roads.

4. Inequities as Between Roads

Some companies have normally an excess of cars and others a deficiency. Some companies, therefore, would be in a better position to take advantage of low rentals on new equipment while others might suffer a loss of revenue now derived from the use of their cars by other lines.

Again, many roads now build a substantial amount of equipment in their own shops and individual hardships might result from the inevitable changes in the location of work consequent upon national bidding for a single buyer. These changes might be tempered by policies of the Authority in distributing new equipment, repair and reconditioning work.

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Alternatives:

The alternatives appear to be either to do nothing or to stimulate railroad equipment purchases through loans to railroads from the R. F. C., on favorable terms.

It is said that if the R. F. C. should announce that it was prepared to purchase equipment trust certificates

(a) up to 100 percent of the cost of new equipment,

(b) at a $2\frac{1}{2}$ percent rate,

(c) for comparatively long maturities,

(d) the offer to be available for a limited period only,

a very large amount of anticipatory railroad equipment buying would be induced.

While this alternative is far better than doing nothing at all, it appears inferior on various counts to the proposal under discussion.

1. It Lacks Flexibility.

The chief objection, from the compensatory fiscal policy viewpoint, is that an emergency loan operation does not provide a mechanism through which the Government could operate continuously, and outside the budget, to smooth out fluctuations in expenditures in an important field.

With reference to the immediate situation, it is almost impossible to forecast the extent to which a favorable loan offer would be taken up. Once announced, it would be difficult to change the terms. If a big rush of orders ensued, deliveries would have to be spread over a future period, or else a temporary bottleneck would occur. If few

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orders came in, the terms could not be lowered further or the offer extended without arousing a sense of grievance on the part of those who had already availed themselves of the offer.

2. <u>There are definite obstacles in the way of offering terms that will really be effective.</u>

The R. F. C. must consider the soundness of each individual loan and cannot explicitly rely upon averaging and upon higher interest returns in good years offsetting low returns in bad, as could the proposed Authority. The most favorable terms offered to date by the R. F. C. were in connection with the purchase of equipment trust certificates of the Southern Railroad for 100 percent of the cost of freight cars, at 4 per cent, and for fifteen years.

In bad years, when on national economic grounds expenditures on railroad equipment are most desirable, the credit of the railroads is weakest and, confronted with surplus equipment on the one hand and financial difficulties on the other, they would be most reluctant to borrow and purchase new equipment even on the most favorable terms.

3. <u>A loan operation does not offer a good possibility for securing cost reductions and efficiencies.</u>

Each loan being an individual loan, there does not exist the same opportunity to derive the economies arising from large, continuous orders of standardized equipment, or from research, or from car pooling.

4. <u>Other implications</u>

Further large loans to the railroads would involve the Government still more in the complex financial structure of railroads, and would

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result in a further increase in railroad debt and fixed charges. Moreover, it would be difficult to refuse to other borrowers the particularly favorable terms that would have to be offered to the railroads.

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December 3, 1938.
9:30 a.m.

Operator: Operator.

HMJr: Allan Sproul, Fed. New York please.

O: Right.

HMJr: Hello.

O: Mr. Sproul. Go ahead.

HMJr: Hello.

Allan Sproul: Good morning Mr. Secretary.

HMJr: Good morning. You have an audience here.

S: Yes.

HMJr: Including Mr. Ronald Ransom.

S: Yes.

HMJr: How do you feel this morning on what we did last - talked about last night?

S: I feel all right about it.

HMJr: Now, I tell you what I'd like you to do a minute, supposing you talk to Mr. Ransom, will you? I think he'd like to talk to you.

S: Yes.

Ronald Ransom: Allan, I just raised a question with the Secretary as to the three way plan as being somewhat different from what we were discussing in the Board room, when we were there a day or two ago.

S: Yes.

R: He says that you think the three-way plan is entirely satisfactory.

S: That's right.

R: And you share Wayne Taylor's view that he's just expressed that it's just right.

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S: The way we figured out the prices again this morning, and it looks as if it would be just about right.

R: I see.

S: The two and three-quarters, the long two and three-quarters and the nine year too, on the basis of present markets would sell for about the same premiums, the trading arrangements could be about 101.8 to 101.20.

R: Yes.

S: But on both of them.

R: Yes.

S: And so that there would be no great advantage in going into either one from a speculative standpoint.

R: Yes.

S: With four hundred cash on the long bond, but conversion there of anything up to say four hundred million, you wouldn't get an unwieldy amount of long bonds in the market and yet you'd achieve the objective of putting out a substantial amount for as long a period as possible of this good market.

R: Yes.

S: The two per cent nine-year bond on that basis would be around five hundred million, a little more, satisfying what all our checks indicate is a strong bank demand for that sort of obligation.

R: Yes.

S: And the five year note with three hundred cash, and perhaps fifty conversion would give you a decent size issue in the five year note and it looks as if the prices there would be around - the price there would be around 101.

R: Yes.

S: So that the whole thing seems to fit together pretty well.

R: Yes. The Secretary wants to know how many long bonds in all you think you would have on this.

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S: Well, it looks to me as if you'd have about three-quarters of a billion to eight hundred million on it.

R: Uh-huh. Seven fifty to eight.

S: What's that?

R: From seven hundred and fifty to eight.

S: Yes.

R: (aside)(Does that answer your question. Is there anything else you want to say.) - The Secretary says he is going to put this right on the ticker. Now did you have anything else Allan?

S: Not a thing.

R: O.K. The Secretary says many thanks.

S: All right.

R: All right.

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December 2, 1938.
10:55 a.m.

HMJr: Hello.

Operator: Mr. Sproul.

HMJr: Hello.

Allan Sproul: Hello Mr. Secretary.

HMJr: How did the market take the announcement please?

S: Very well, so far.

HMJr: Very well.

S: Yes.

HMJr: Uh-huh.

S: The - there's been a little moving around, but not a great deal, there's a two way market in most obligations and in the rights.

HMJr: I see.

S: The notes have gone off - went off a sixteenth about at the opening and then some buying came in and they've come back a little.

HMJr: Uh-huh.

S: The intermediate - the bonds in the intermediate areas have held with a firm tone.

HMJr: Uh-huh.

S: The long bonds are off about a sixteenth, there's been some selling of the long bonds and buying of rights.

HMJr: Well that's good isn't it? That's all right isn't it?

S: That's all right. Yes.

HMJr: I say that's all right.

S: Yes, I think it is. The rights are quoted now at 19.21 and that's up a little.

HMJr: You mean a hundred - one nineteen twenty one.

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S: That's right.

HMJr: They're up a little bit.

S: A hundred and one nineteen to twenty one. That's up a little from last night's close.

HMJr: They're up a little bit.

S: Yes.

HMJr: Well, that's the best answer isn't it?

S: I think it's been taken very well so far.

HMJr: Now -

S: The one thing the market seems to be talking about and figuring on is just where these twos fit in and whether it's going to be an eight and a half or a nine year and I think that's what we'll watchtoday to see how the market finally dopes that out and what sort of an answer it gives and then that will give us a cue as to what should be done.

HMJr: That's - well that's really the only thing we've left for the market to guess on, isn't it?

S: That's right.

HMJr: The reason that I gave as much information as I did was on account of that leak yesterday.

S: You didn't want - you mean favored individuals around.

HMJr: That's right. Now on going over it I found that we also told Garner yesterday that it was 322.

S: Garner, yes. That's right.

HMJr: He knew that in the morning when he left here.

S: Yes.

HMJr: So - there's two people it could have come from. It could have come from either Garner or Devine.

S: That's right.

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HMJr: And I didn't want to leave the impression that it might only have come from Devine.

S: No. Well, I think we might keep that in mind on both of them next time.

HMJr: Yes. One or the other must have talked.

S: Yes.

HMJr: Well, I think it sounds all right for eleven o'clock.

S: It does.

HMJr: And you fellows will all have to sharpen your pencils and find out on the two.

S: That's right.

HMJr: And Ronald Ransom is perfectly happy.

S: Good.

HMJr: Yes.

S: That's good.

HMJr: Well, I'll talk to you again between four and five.

S: All right, and I'll have a full check up made after the close of the market.

HMJr: Thank you.

S: All right.

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December 2, 1938.
3:28 p.m.

HMJr: Hello.

Operator: Mr.Corcoran. Go ahead.

HMJr: Hello.

Tom Corcoran: Mr. Secretary, this is Tom Corcoran, sir.

HMJr: No, really.

C: Harry Hopkins talked to me the other day about a talk you had with him about the present District Attorney in Chicago.

HMJr: Yes.

C: The new one.

HMJr: That's right.

C: That fellow is the Cardinal's personal counsel.

HMJr: So I understand.

C: Is absolutely straight.

HMJr: Grand.

C: And absolutely honest.

HMJr: Fine.

C: And has got the nerve of a lion.

HMJr: He'll need it.

C: Now, what I wanted to suggest was this. What you were talking about is such precious freight that you don't want to take any chances unless you're absolutely sure.

HMJr: Right.

C: I'm going to meet the Cardinal on that cutter that's being sent out to meet him on Sunday.

HMJr: Fine.

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C: I'll bring that fellow back here on Monday.

HMJr: Fine.

C: To see Bob Jackson and to see Ickes about some other things, and I wondered if without your telling him what you wanted, I could bring him in to you, and you could take a look at him and talk to him long enough to get your own feeling of him, and then you can talk with Bob and with -

Operator: Hello.

C: Hello, please. You could talk with Bob and with Harold Ickes, and get an idea of whether you want to take your chances.

HMJr: Well, it's very funny that our minds should be running in the same channel because this morning I told Herman Oliphant to get in touch with Bob Jackson.

C: Yes.

HMJr: And tell Campbell to come down, I wanted to get acquainted.

C: Yes.

HMJr: I wanted to have a heart to heart talk with him.

C: Well, he'll be in on Monday, sir.

HMJr: Fine.

C: All right, sir, and I'll call you when we get in?

HMJr: Will you?

C: Thank you.

HMJr: Now wait a minute, you'd better let me give you an appointment now, because -

C: All right, sir.

HMJr: I've got, I've got a very tight day on Monday.

C: What I thought was you might want to make the appointment pretty late so that you could get a check on him from the other two people that talked to him before you talked to him.

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HMJr: Well, it's a question of - I can see him around - you mean late?

C: I thought you might want to sir. I mean anytime, of course, that you want to see him, but I thought you might want to have a telephone contact with Bob Jackson and Iokes after they'd talked to him.

HMJr: Oh!

C: Before you talked to him. So you'd have a pretty decent judgment of what other people thought of him before you spoke to him.

HMJr: Well, I've got to do business with him anyway.

C: That's right.

HMJr: And what I want to do is to paint the picture to him.

C: Yes.

HMJr: And show him that inside of twelve months if he will take this opportunity which I'm putting on his doorstep.

C: Yes.

HMJr: He - his name will be as well or better known than Tom Dewey.

C: That's right.

HMJr: It's entirely up to him.

C: Yes, sir.

HMJr: But if he will play along with us and see this opportunity his name will be known as well as Tom Dewey, inside of twelve months.

C: That's right, it's the greatest chance he's ever - a fellow has ever had.

HMJr: If - and we need a Democratic Tom Dewey.

C: Yes.

HMJr: Right?

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C: And there he is. He's handsome and he was the head of the Youth Administration out there and an excellent trial lawyer.

HMJr: I'm very glad he's handsome.

C: Well I mean that helps.

HMJr: (laughter.)

C: That helps like the deuce.

HMJr: All right.

C: In front of a jury, sir, -

HMJr: Listen, you're a little serious tonight.

C: (laughter)

HMJr: That's better, that's better. Listen I can't be serious all day long. You fellows come in here, I tell you what you'd better do, it'll be either three-thirty or four-thirty.

C: All right, sir. Either one.

HMJr: You call up Monday morning.

C: All right, sir.

HMJr: And has he got blue eyes?

C: He's got blue eyes.

HMJr: Wonderful.

C: (laughter)

HMJr: All right, that's better.

C: All right. Thank you, thank you.

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Mr. Arakawa's visit.

December 2, 1938

3:30 p. m.

Present:

Mr. Gibbons
Mr. Taylor
Mr. Oliphant
Mr. Cairns
Dr. White

HM,Jr: I have just seen Mr. Arakawa and I made the poor fellow sweat by not answering any of his questions, and as he went out he bumped into Mr. Chen.

And Mr. Arakawa said if I will just tell him what I have on my mind, he will be glad to communicate it to the Minister of Finance, who is a very important person. So I said, "You write out some questions you want to know and I will be glad to consider it. I think it would be nice for you to meet Mr. Butterworth, who was our Financial Attache in London, and Mr. Cochran." And then he goes out and trips over Mr. K. P. Chen!

(Note: The above group came in to discuss a memorandum addressed to the President on the possibility of imposing German countervailing duties. That meeting is transcribed separately.)

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December 2, 1938

3:30 p. m.

Present:

Mr. Gibbons
Mr. Taylor
Mr. Oliphant
Mr. Cairns
Dr. White

HM,Jr: (Reading memorandum to the President, attached hereto).

"In the course of the Treasury Department's administration of the customs laws, there has come to my attention, particularly in reports made available to the Treasury by the Departments of State and Commerce, evidence that American trade and enterprise in the areas of China now under Japanese control are being discriminated against ....."

If you don't mind, Mr. Cairns, if you wrote this, I would like to start it definitely. Instead of saying "In the course of the Treasury Department's administration" I would like to say about my responsibility under the law.

Mr. Oliphant: I worked that formula up there and the reason for putting it that way is as follows. What you are doing is calling the President's attention to facts, on the basis of which he may want to exercise his pwoer and authority under the law. This is the case of the policeman on the beat.

HM,Jr: It's not up to me to act, like we did on the German situation?

Mr.Oliphant: No. It's different. You observe these facts.

HM,Jr: Right. That does make a difference. Tell me -- oh, here are instances. Here is the appendix.

Mr. Oliphant: Referred to as an appendix in page

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one. "Instances of the foregoing."

HM,Jr: And have these never been called to his attention?

Mr. Oliphant: No, not in this form. I suppose they showed him before the note was sent to Japan.

HM,Jr: Well, now, let me put myself mentally in the President's place. Aren't we putting him sort of on the spot when I send him this thing? I will put the question another way. In the case of Austria, or any other, have we ever followed the procedure to bring it to the President's attention this way?

Mr. Cairns: Not that I am aware of. The President is not required to act upon receipt of this memorandum by any duty imposed on him by Statute. He has to be satisfied it's in the public interest.

Mr. Oliphant: And you are not authorized to act even though you have the information. The only thing you are authorized to do is call it to the President's attention so he will have a chance to make up his mind whether he wants to act.

HM,Jr: You mean to say in the whole world there has never been any occasion like this before?

Dr. White: Many instances where there have been discriminations and Tariff has cooperated with the State Department and the State Department has had discussions with the respective Governments and it has never been necessary to invoke this and modification made consequent upon the discussion usually satisfied the State Department and action usually not taken -- has never been taken under 338.

HM,Jr: In no case?

Dr. White: No negotiations have taken place.

Mr. Cairns: Section 338 was not enacted until 1922 and when it was enacted even the situation as it exists in China was unknown to the legislators. In

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drafting 338 they had no situation in mind. It's unique.

HM,Jr: Where is it unique?

Mr. Cairns: Japanese operations in China.

HM,Jr: 338 was not passed with that in mind because it did not exist at that time?

Mr. Cairns: It had not existed and you can see it was not in mind in 1922.

Dr. White: No precedent. There is a distinction -- if communication of that kind were made public, that would definitely put him on the spot; if it is merely between you and the President, if he does not want to take action, it dies.

HM,Jr: I ought to hand it to him.

Mr. Gibbons: I think you ought to hand it to him.

HM,Jr: "Do you want this, Mr. Prsident?"

Mr. Gibbons: When will he be back?

HM,Jr: Tuesday.

Mr. Taylor: Funny situation here, haven't you? Because you have got all the puppet States, etc., which supposedly have an entity of their own. No one has recognized them as existing, but they supposedly have. Actually they will be the people who would be discriminating against our commerce.

Mr. Cairns: The law covers any foreign country, county, subidivision, part. We had up to 22 discriminations in a country against another country. Japan in Japan against the United States. Now we have Japan in North China against the United States.

Mr. Taylor: Which, supposedly, has an entity of its own.

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Mr. Gibbons: The State Department has not recognized the Japanese. Same thing in Ethiopia, the State Department does not recognize the .....

Dr. White: That's true and that's the interpretation of the Legal Department.

HM,Jr: I think the thing to do is show it to the President and show him there is such a thing as Section 338, so when he gets into the discussion he can or cannot use it if he wants it. But I would not want to send it down to Warm Springs cold, especially when we know this thing is coming to a head. I just think, hand it to him and say here it is; if you want it, it is available.

Mr. Cairns: It's a powerful weapon.

Dr. White: If they withdraw the most favored nation clause it would have no effect against Japan because all imports thereby affected is less than 1% of our imports from Japan.

HM,Jr: Why should that not be included? Why this is more preferable than to impose the most favored nation. It seems to me the argument, when he sends it over, Well this is all too drastic. The thing to do is the most favored nation clause. That there is no reason for doing that because it affects only 1% of the goods.

Dr. White: We can put it in one paragraph and include it in the appendix. Very important also, would be a study, if he is interested, how we would be affected, how our economy would be affected, and we have a study partly prepared and can easily finish it in two or three days.

HM,Jr: He only gets back on Tuesday. I have no plans, but the earliest I could see him would be Tuesday. Could you have it all by Tuesday?

Dr. White: Have that ready in case he asks for it?

HM,Jr: Yes, the whole business. Say this: Mr. President, here are alternatives. If you are going to act, you can invoke the most favored nation clause which would only affect 1%; (2) you can use Section 338. This is what it

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will do to Japan and this is what it will do to us. I think you have the whole thing complete.

And put a little cover on it and give him the whole thing.

Mr. Taylor: Haven't you got enough cases about Japan? It's discriminating.

Dr. White: Just one, possibly one good case. The State Department may have more. We didn't want to go there for additional information.

Mr. Taylor: You did send over some stuff sometime ago about the Japanese themselves.

Dr. White: It was their discrimination in Manchukuo and North China. One case in Japan. Strength of the case would have to rest on the interpretation that Japan is responsible for what's happening in North China, despite, or in view of the fact they are puppet Governmets. They might technically claim that if Manchukuo does something, it's not their fault.

HM,Jr: Have we recognized Manchukuo?

Dr. White: No. Even our import statistics still call it Manchuria, but that does not weaken the case; it strengthens it.

HM,Jr: Anyway, I would get it in, wrapped with pink ribbon for the outside.

Dr. White: (presenting list of names) Those namesof men are selected from the list given us by the Tariff Commission.

Mr. Oliphant: What's the idea?

Dr. White: To get a group of men down, leaders in their field, who will come to an opinion of economic criterion. In most cases we are not finding injury, and we want to protect the Secretary against any future claims that he is not acting legally.

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Mr. Oliphant: There is a question, I think, of the wisdom of calling in a group of outsiders for your own protection.

HM,Jr: That's all right. I will walk part way home and you (Dr. White) can explain it to me. I will be ready in 10 or 15 minutes.

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Note:

Appendix A, referred to in first paragraph of this memorandum, is attached to complete memorandum for the President dated 12/5/38.

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MEMORANDUM FOR THE PRESIDENT

In the course of the Treasury Department's administration of the customs laws, there has come to my attention, particularly in reports made available to the Treasury by the Departments of State and Commerce, evidence that American trade and enterprise in the areas of China now under Japanese control are being discriminated against, directly and indirectly, by Japan through exchange control, the establishment of monopolies, the granting of special preferences and by the imposition of restrictions upon American trade and shipping, all of which operate to favor Japanese commerce and to hamper American commerce. Instances of the foregoing are set forth in the attached list marked Appendix A.

This evidence having come to my attention, I deem it my duty to lay it before you in order that you may consider its sufficiencey and, if deemed sufficient, to determine whether to take that action you are authorized to take in the premises. Inasmuch as those reports show that Japan discriminates in fact against the commerce of the United States in areas of China under Japanese control, there is occasion for you to determine whether, under the authority of section 338 of the Tariff Act of 1930 (U.S.C. title 19, sec. 1338), new or additional duties should be imposed upon Japanese products imported into the United States. The Treasury Department construes this section to mean, in its applicability to the present situation, that whenever the President finds that Japan discriminates in fact in China against the commerce of the United States, directly or indirectly, in such manner as to place the commerce of the United States at a disadvantage compared with the commerce of Japan, or of any other country foreign to China, he shall by proclamation declare new or additional duties upon articles wholly or in part the growth or product of Japan if he finds that the public interest will be served thereby.

Section 338 further provides that, if the foreign country maintains or increases its discrimination against the commerce of the United States after the issuance of the proclamation authorized by section 338, the President, if he deems it consistent with the interests of the United States, may issue a further proclamation directing that such products of the foreign country or such articles imported in its vessels as he shall deem consistent with the public interests shall be excluded from importation into the United States.

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In addition, it seems clear that the acts and policies of Japan in evidence tend to defeat the expansion of foreign markets for products of the United States. Therefore, there is also occasion for you to determine whether, under the authority of section 350 of the Tariff Act of 1930, as amended, (U.S.C. title 19, sec. 1351), the application of the reduced rates of duties established pursuant to the trade agreements entered into under that Act should be made inapplicable to the products of Japan. You have exercised this authority on fourteen occasions in connection with discrimination by Germany and the higher duties so imposed are still in effect. It was exercised in the case of Australia on five occasions. The discrimination in this case has been discontinued.

Confirmatory of my impression of the existence, the wide extent, and the serious effects of the practices to which I have referred is the text of the note of October 6, 1938, in which the United States protested to Japan against the direct and indirect discrimination now being applied by Japan to American commerce in the areas of China under Japanese control. The intention of Japan to adhere to the policies and practices complained of by the United States in its note of October 6 is evidenced by the Japanese reply of November 18 to that note, as published in the press.

Attached is a list of:

(a) Leading items of import from Japan that would be affected if all goods imported from Japan now free of duty were made subject to 50 percent ad valorem duty under section 338 of the Tariff Act of 1930.

(b) Leading items now imported from Japan under existing tariff rates which would be subject to a duty of 50 percent ad valorem under section 338 of the Tariff Act of 1930 in addition to the duty now imposed by law.

(c) The percentage of Japanese imports that would be subject to higher rates if trade agreement rates were withdrawn from Japan under Section 350 of the Tariff Act.

(d) Items imported from Japan indispensable for the United States and difficult to obtain directly form sources other than Japan.

HC/cp 12/2'38

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December 2, 1938.
4:09 p.m.

HMJr: Hello.

Operator: Mrs. Wathey.

HMJr: Oh. Mrs?

O: Mrs. Yes.

HMJr: Hello

Mrs. W: Hello.

HMJr: Mrs. Wathey?

W: Yes.

HMJr: This is Mr. Morgenthau.

W: Yes Mr. Morgenthau.

HMJr: I'm so sorry to hear that my dog stepped on your dog.

W: Yes.

HMJr: And if the dog is at all ill, or there's anything that I can do, I'd like to do it.

W: Well, that's awfully kind of you Mr. Morgenthau. So far the dog seems to be all right.

HMJr: Yes.

W: I took her to the doctor immediately afterwards and had her examined.

HMJr: Yes.

W: And other than the scratch and a little sprained ligament in her side that he says will be all right unless it abscesses.

HMJr: Yes.

W: And so far there has been no signs of anything else.

HMJr: Well if anything turns up I wish you'd let me know, or if there's anything that I can do.

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W: Well that's quite nice Mr. Morgenthau and Mr. thought that you'd like to know about the dog.

HMJr: Yes.

W: So I appreciate you calling and I think the dog is going to be all right.

HMJr: Well I hope so.

W: Thank you so much.

HMJr: Goodbye.

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December 2, 1938.
4:21 p.m.

HMJr: Hello.

Operator: Mr. Sproul.

HMJr: Hello.

Allan Sproul: Hello, Mr. Secretary. Sorry I wasn't - couldn't get on the phone before.

HMJr: I supposed you had somebody with you.

S: That's right.

HMJr: I wanted to go home.

S: Yes.

HMJr: Tell me, how does it look tonight?

S: Well the market acted very well today I think. There's no question about it. It took the announcement very well. It was strong in all parts of the market.

HMJr: Good.

S: And it looks good to me tonight.

HMJr: Good.

S: As I see it tonight we could go ahead on the basis we discussed last night.

HMJr: Nine years?

S: Yes.

HMJr: You still think so.

S: Yes. I could take another look at it in the morning, but that's the way I see it now.

HMJr: Good for you. I thought maybe somebody had been giving you the works today.

S: Well I've heard so much talk on the other side I must admit.

HMJr: Well you're a better man than I thought Gunga Din.

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S: (laughter)

HMJr: It's all right.

S: There's been some pressure on the other side but I still see it that way.

HMJr: Good for you. I thought you might succumb.

S: Well, I haven't yet.

HMJr: All right. Well, we'll be talking in the morning.

S: Right.

HMJr: But certainly everything that happened today makes the thing - the proposal that much sweeter.

S: I think so. I think it was taken very well. The market acted very well today.

HMJr: Did you hear anything about the leak, about yesterday afternoon?

S: No, I stirred around here a little but I haven't been able to/uncover anything on it.

HMJr: All right. Well I'll be talking to you in the morning. As of tonight I haven't changed.

S: Well, neither have I.

HMJr: Fine.

S: All right.

HMJr: Thank you.

S: Goodbye.

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December 2, 1938.
4:26 p.m.

HMJr: Hello

Operator: Dr. Burgess. Go ahead.

HMJr: Hello.

Randolph Burgess: Hello Henry.

HMJr: How are you?

B: I'm pretty well.

HMJr: What did you hear about our proposed issue?

B: Well the market - the market says that it likes it.

HMJr: Yes they do don't they.

B: That is all the prices went up.

HMJr: Yes.

B: Right along the line, almost frightens me, it went up too much.

HMJr: You don't frighten as easy as all that do you?

B: Well I don't really, not really frightened about it, so they'll take - they'll take it all right.

HMJr: Well the only really place for an argument right now is, as is between an eight and a half and a nine year.

B: Yes, that's the only question I should think.

HMJr: Have you got any feelings?

B: Well, I'd lean toward the eight and a half, Henry.

HMJr: Uh-huh.

B: Because I think it's a little bit safer.

HMJr: Yes.

B: As far as the long bond is concerned.

HMJr: How do you mean?

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B: That is I think with the nine year you might get too heavy subscriptions for the long bond.

HMJr: Yes.

B: That is, a lot of people would figure it out, say, well, the long bond is worth a hundred and two.

HMJr: Yes.

B: And the nine year is only worth a hundred and one and a quarter.

HMJr: Uh-huh.

B: So I'll take the long bond and then sell it again.

HMJr: Uh-huh.

B: Just thinking what we'd do for example.

HMJr: And what would you do?

B: With a nine year I'm inclined to think we might take the long bond and try to make three quarters of a point.

HMJr: Uh-huh.

B: Or a point.

HMJr: Uh-huh.

B: So there's a little danger of getting too many of the long bonds.

HMJr: I see.

B: I think they like the short one pretty well. There'd be a lit of fellows who'll take it even if it's nine years in preference, but I think you'd be just a little bit safer on an eight and a half, and then you'd avoid the possible danger of too large a subscription for the long bond.

HMJr: Uh-huh.

B: Which might be a little bit subject to some sort of a jam if something happens. I don't think it's a great matter, but I would think the eight and a half a little bit safer.

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HMJr: Are you going to be in your office tomorrow?

B: What's that?

HMJr: Are you going to be in your office tomorrow?

B: I wasn't going to be but I will be if you'd like me to.

HMJr: No. No.

B: I'll be at home, I'll be in touch with things.

HMJr: You will be.

B: I'll be in my apartment, yes.

HMJr: Well, I may give you a ring.

B: All right. Fine. I'll be in touch.

HMJr: But the market certainly took the thing awfully well, didn't it?

B: Oh very well indeed.

HMJr: Yes. I think it's all right.

B: So it's going to be a success either way you do it.

HMJr: Oh yes, it's just a question -

B: That's right.

HMJr: - of, I mean eight and a half or nine, which way we throw it.

B: Yes. That's right.

HMJr: Righto.

B: All right, sir.

HMJr: Thank you.

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C A B L E

From: Bankers Trust Company of N. Y.
London Office

Date: December 2, 1938
Friday

#369.

No pronounced tendency spot dollars forwards strongly wanted. Spot forward Paris wanted. Estimated Banque de France obtained about 8,000,000 pounds. Spot forward belgas strongly offered on rumors possible Cabinet crisis and suggestion Belgium might enter sterling bloc. De Castellane reports sanctions taken by Government against strikers causing agitation by Left Parties to create unrest. Gold beginning flow to banks exchange being sold by all classes including individuals and commercial firms. Bourse stocks and bonds very strong call money 1/2-0-0. Talk further lowering bank rate.

CONFIDENTIAL

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REB

GRAY

London

Dated December 2, 1938

Rec'd 3:03 p. m.

Secretary of State,

Washington.

1385, December 2, 6 p. m.

FOR TREASURY.

After yesterday when the British fund operated both ways but lost dollars on balance the rate falling from 4.69 to 4.68, today some support was given to sterling until gold fixing when the rate was 4.67-1/8. Since the fixing the British fund has apparently not operated, the dollar being offered around 4.67-1/2 to 3/4 most of the afternoon and latterly going to 4.68-5/8 on New York dollar sales.

Gold turnover was heavy today 546 bars being sold as compared with 267 yesterday. The price was increased by four and a half pence to 148 shillings 11 pence giving a premium of one-half pence. 208 bars were married the remainder being supplied by the British fund. About 340 were taken for arbitrage.

The French authorities bought probably over pounds 6,000,000 of sterling today moving the price from 178.18 by

stages

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REB

2- #1385, From London,Dec.2,6p.m.

stages to 177.80. The rate reacted, however, slightly after the Bank of France's operations closed down in the late afternoon to 177.93.

The treasury bill rate at today's tender was about 18 shillings 1 penny per cent as compared with 17 shillings 7.8 pence per cent last week.

KENNEDY

WWC

HTM

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: December 2, 1938, 4 p.m.

No.: 2036

On the Paris market today there was again a very strong demand for francs because of the covering of short positions in francs and substantial French capital repatriation. This morning at the Bank of France it was learned that before 11 a.m. almost 3,000,000 pounds had been acquired by the fund. It was also learned that about 3 billion francs in gold had been retrieved since the beginning of the present favorable movement. The Bank could not foresee that there would be any immediate slackening of this movement.

The rate for sterling is now 177.80, having been 178.20. The fund is the principal supplier of francs. One month sterling is par and the rate for three months is 50 centimes. In today's transactions the belga showed some weakness. Good tone for security market. Fair progress in rentes and other French securities.

December 8 is the date for the reassembling of Parliament. It is believed that by that date the preparation of the budget for 1939 will be sufficiently advanced to permit discussion. However, it is not believed that Parliament will give final approval before the end of 1938. It will be necessary, under such circumstances,

to

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to get parliamentary approval of one or two "provisional monthly credits" for the Government.

In financial circles the opinion appears to prevail that when the Government appears before Parliament it will secure a comfortable majority; nevertheless, the press is urging the administration as well as private employers to avoid harshness in applying sanctions to strikers as it is feared that otherwise there may result troublesome labor unrest.

Today a decree was published reducing the interest rate for 75 to 105 day ordinary Treasury bonds to 2-1/4%; it was formerly 2-3/8%. The new rate is 1/4% under the official discount rate.

END MESSAGE.

WILSON.

EA:LWW

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(Draft.)

12/2/38
149

Dear Sir:

The Secretary of the Treasury is reexamining his responsibilities under the Antidumping Act of 1921. To aid him in the formulation of policy with respect to the administration of that Act, he is calling to Washington a small group of experts and businessmen whom he feels would be helpful in advising him.

The Secretary has asked me to invite you to participate in a conference to be held at the Treasury on ____ at ____ o'clock.

A copy of the Antidumping Act of 1921 is enclosed for your information. You will note that Section 201(a) of that Act requires that when the Secretary of the Treasury "finds that an industry in the United States is being or is likely to be injured or is prevented from being established" by reason of the importation of merchandise of a kind which is being sold or likely to be sold at less than its "fair value" (as defined in the Act), then he shall issue a public finding of dumping. This conference is being called to consider only those problems concerned with the determination of injury to the domestic industry.

The Secretary desires to keep highly confidential both the fact of the conference and the nature of the subject matter.

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Prof. Melvin G. de Chazeau - University of Virginia

Prof. Alvin H. Hansen - Harvard University

Prof. Frank A. Southard - Cornell University

Prof. Jacob Viner - University of Chicago

Sewell L. Avery, President, Montgomery Ward Company, Chicago, Ill. President, U. S. Gypsum Co. Member of Board, U. S. Steel Corp.

Col. Harry L. Bailey, Wellington, Sears Co., 65 Worth Street, New York, N.Y. Is in charge of operations of this firm which reputedly processes about 5 percent of domestic cotton crop.

An outstanding figure in the industry; is generally fair-minded but inclined to a protectionist view.

Is very active in the Cotton Textile Institute and in activities bearing on relationship of the cotton textile industry to the public.

Company a leading exporter of cotton textiles.

Carl F. Danner, President, American Hide and Leather Co., Boston, Mass.

An outstanding personality in the tanning industry and highly respected in the business world.

Has been president of his company since 1925.

Mechanical engineer by training, was in the steel business until called in to reorganize Continental Leather Co.

Was president of the Tanners' Council of America in 1936-37.

The industry with which Mr. Danner is connected is both an important importer and exporter of hides and leather.

The Commission has found Mr. Danner well able to understand both sides of the import question.

W. J. Donald, Managing Director, National Electrical Manufacturers Association, 155 E. 44th St., New York, N. Y.

Progressive trade association executive. Leader in his field.

Enjoys the highest reputation among manufacturers and trade association executives.

Wide knowledge in problems of domestic production, import and export.

Canadian by birth; naturalized American citizen.

Ph.D. in economics, University of Chicago, 1914.

Curt G. Pfeiffer, President, National Council of American Importers, New York, N.Y.

Although the designation given here is that of a trade association, Mr. Pfeiffer is more properly identified as a businessman.

Was for many years vice president of George Borgfeldt and Co., New York City, one of the largest houses in the United States importing general lines of merchandise.

He had studied practically all phases of the import trade and is also familiar with conditions in domestic manufacture.

Is very well informed on tariff problems and matters of customs administration.

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Q. F. Walker, Economist, Macy Department Store, New York, N.Y.
Well versed in merchandising problems. Familiar with import problems and also conditions in domestic industry.
Able; fair.

Walter S. Tower, American Iron and Steel Institute, 350 - 5th Ave., New York, N.Y.
Secretary, American Iron and Steel Institute since 1933. Former professor of economics at the University of Chicago.
Trade expert, U. S. Shipping Board, 1918-19.
Served with Peace Commission, 1919.
Commercial Attache, American Embassy in London, 1921-24
Advisor, Consolidated Steel Corp., 1919-21
Executive, Bethlehem Steel Corp., 1924-33
Republican
Commission believes Mr. Tower one of the best informed persons on general conditions in the steel industry in the United States and foreign countries; his opinions are fair and well balanced.

Mr. Oscar Ryder - Tariff Commission

Mr. Leslie Wheeler - Department of Agriculture

Hon. Francis B. Sayre, Department of State

Mr. Alexander V. Dye, Department of Commerce.

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GROUP MEETING

December 2, 1938.
9:45 A. M.

Present: Mr. Oliphant
Mr. Gaston
Mr. Taylor
Mr. Haas
Mr. Duffield
Mr. Hanes
Mr. Gibbons
Mr. Lochhead
Mr. White
Mr. McReynolds
Mrs. Klotz

H.M.Jr: Herman, I may - I think I am responsible for this. Hanes isn't here, is he?

Duffield: He's coming in.

(Mr. Hanes comes in.)

H.M.Jr: I'll read it out loud.

"Treasury to offer 2 3/4 per cent bonds and five year notes for cash in December financing program.

"The Treasury announced today that it will offer 2 3/4 per cent long term bonds.

"The Treasury announced today that it will offer 2 3/4 per cent long term bonds for 400,000,000 dollars of the new cash to be borrowed in the December 15 financing and five year notes for $300,000,000 of the cash required.

"In connection with the conversion of the March 15 note maturities of 942,000,000 dollars the Treasury is making a three-way offer including the 2 3/4 per cent long term bonds, the five year notes and in addition a bond of a shorter maturity bearing two per cent.

"The final announcement of the financing program will cover the term of the bonds and the interest coupon on the notes.

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"The coupon on the 2 3/4 per cent bonds offered for cash is 1/4 of a per cent greater than the interest given on the 10-12 year bonds sold in the September financing."

That is O. K., Herbert; a good job. Here is the U. P.

Gaston: Not one and a quarter; it's a quarter per cent.

H.M.Jr: "The Treasury announced that the cash offering ..." That is U. P. ".... of its December financing program will consist of $400,000,000 two-and-three-quarters...."

They've just got a "bee" in it here. Dow Jones is all right. That 942, that is O.K. Just a nice little job.

What I wanted to say was this, Hermàn. Is Hanes here?

Hanes: Yes sir.

H.M.Jr: I asked, some time ago, - this is one of these triple confidential things - to get me a lawyer, who could try the Moe Annenberg case, and that was when Mr. Igoe was still United States District Attorney. It was on that assumption I asked for someone. Since then they have designated Mr. Campbell. I suppose Campbell doesn't take office until - when?

Oliphant: I think he has taken office.

H.M.Jr: All right. Therefore, the reason I had to get a special attorney, I think, has disappeared. Well, this fellow isn't - who is - who's going to appoint the other fellow?

Oliphant: Well, they have appointed him Special Assistant Attorney General. The other fellow is a nice man, a capable young fellow, but this requires a technical, criminal .....

H.M.Jr: I don't want, if you don't mind, - this is the way I'd like to do it, and I'd like to talk to Bob Jackson.

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Oliphant: That requires a technical lawyer.

H.M.Jr: I'd like to tell Robert Jackson to invite Campbell to come down; I'd like to meet him next week; I'd like to sit down with him and tell him the whole thing; I'd like to paint the picture of it, and explain to him that in a year he can be an international figure in law enforcement; and let him pick his own assistants. I want to tell him that Henry Morgenthau, Jr. is counting on Mr. Campbell to do this, and I don't want to put anybody in his hands. I want to appeal to him, this being his first case, he can be as good or better than Dewey in one year. I want to put it right up to him and not tell him who his assistants should be. "No one told Dewey who he should pick as his assistants; you don't want me to tell you who to pick for your assistants."

I say, let Bob Jackson bring Campbell down here next week. I'd like to talk to him personally.

The whole picture is changed since Igoe is out. I want to appeal to him, "This is your responsibility; you go to it," and not have us pick special fellows, and I don't like the fellows you picked, anyway. I don't want some fellow who is a partner - even though he is not a partner, he was on the payroll....

Mrs. Klotz: You talking about Anderson?

H.M.Jr: I want to appeal to Campbell in that way, and I want to get to know Campbell and work with Campbell and show him the horizon.

Gibbons: You know anything about Campbell's political background? I don't. The only thing I know, he's head of the National Catholic Youth movement.

H.M.Jr: Not only that, but he is the President of .... (organization not heard); he's a grand young fellow.

Gibbons: The only thing I had in mind was the fact that anybody might get in on his former practice and bring pressure to bear on him.

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H.M.Jr: They tell me he's as clean as a whistle. Of course, time only can tell.

This having a special attorney was my idea. I want to withdraw it; I want to meet Campbell and talk to him.

Gibbons: I think you can get a good idea, based on his antecedents. He's all right. He is not a trial lawyer.

H.M.Jr: In other words, I want to withdraw my suggestion. Does it make sense?

Oliphant: Yes, it does. It is subject to this qualification. You have to bear in mind, in order to win a case you have to have a technician. It's like picking a man for a formal appendix operation; a groceryman just can't do it. Regardless of how good Campbell's heart is.......

H.M.Jr: All true, but the Superintendent of the hospital doesn't want a surgeon forced on him.

Oliphant: Yes.

H.M.Jr: I want to talk to the Superintendent of the hospital, and when he comes down, in a very nice way, we can say, "We'd appreciate it if you let us go over with you who you are going to have, because it means so much, but we are looking to you, Mr. Campbell."

Oliphant: I think it's a good idea and I'll talk to Bob as to when he can be down.

H.M.Jr: (To Mrs. Klotz:) And will you tell Irey I've changed my position on this idea.

Everybody happy?

And Hanes, this comes under you.

Hanes: Yes, fine.

Oliphant: The more reports we get about Campbell, the better they are.

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H.M.Jr: (To Mr. Taylor:) Remember the fellow at your house?

Taylor: Absolutely, and he mentioned to me - for instance, I think I told you, or Dan - no, Herman it was, that Bill Douglas knows him extremely well and thinks he is just tops, and that's good enough for me.

H.M.Jr: Right. Well, I think - well, I am going to put myself in the position - I wouldn't want to start out and have him feel the Treasury is suspicious of him, which we are not, but if we have him come on down and take him into the Treasury family......

Oliphant: We ought to visit with him a while, and maybe have lunch with him.

H.M.Jr: Check, Herman?

Oliphant: Sure; I'll have lunch with him and arrange a dinner for him with some of the lawyers.

H.M.Jr: If he will be here next Thursday I'd like to have him for lunch - next Thursday.

(To Mr. Gaston:) Merger accepted?

Gaston: I didn't telephone him; I wrote to him. I expect to hear from him today. I also sent him that other material.

H.M.Jr: Mr. Bell?

Bell: I have nothing.

H.M.Jr: Aren't you a little nervous, with all the people down at Warm Springs?

Bell: No, I have kind of gotten used to that.

H.M.Jr: All right. Mr. Oliphant?

Oliphant: (Nods "Nothing.")

H.M.Jr: I hear there were empty seats yesterday afternoon. Were you there?

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Oliphant:	Not in the afternoon.
H.M.Jr:	Just as the papers said?
Oliphant:	It was just like a university lecture, elementary.
H.M.Jr:	Wasn't what they expected. Being strictly in the room, I preferred Professor Lubin's lecture to Professor Eccles' lecture. He did a much better job than Professor Eccles.
Oliphant:	Yes, I think so. My only objection was, he crowded into one day what should have been spread over three.
Bell:	Both got their figures on the air.
H.M.Jr:	That is the way they make nitrates. (Laughter)
Taylor:	That's what was expected, I think.
H.M.Jr:	Wonderful, Dan. That takes - we ought to have a prize for the week.
	(H.M.Jr. pins paper clip on Mr. Bell's lapel.)
Bell:	Well, I certainly ought to get one of those springs.
Gaston:	That is clipping; that isn't allowed on the 1938 rolls.
Klotz:	You have been decorated.
Bell:	All right.
Oliphant:	All right.
H.M.Jr:	(Points to Mr. Gaston.)
Gaston:	I have a letter from the Treasury Correspondents Association on the subject of Mr. Wilcox.
H.M.Jr:	All right.
Gaston:	And they went over the situation with Mr. Wilcox, with the result Mr. Wilcox made certain changes and he says - and he has a letter from his

Regraded Uclassified

publisher saying this is not his private venture; that it is a publication of the American Banker. They have changed the title of the thing to show it is by The American Banker, and not by U. B. Wilcox and associates. He has agreed to give me copies, and anybody else in the Treasury who wants copies; he has agreed to post copies on the Treasury bulletin board in the press room.

I had a talk with Mr. Wilcox and he agreed he would give me a chance to talk with him about anything he proposed to include, which was questionable, and he would let me see it regularly, and he would be very careful in what he said.

The Treasury Correspondents Association, in view of these changes, recommends that - says that they believe Mr. Wilcox is still entitled to a status as a reporter and representative of the American Banker in the Treasury Department and that this letter, in the new form which he is getting out, is not any violation of ethics or rules.

And I think that in view of Wilcox' different attitude and the changes made in the publication, it would be better to let him go along with it and see how it works out, rather than to throw him out and make a real enemy.

H.M.Jr: What will the new letter be called?

Gaston: It is called the same as it has been called. The November 27 is the first sample of the new style issued from the Washington A. B. Bureau and is still called "Weekly Review of Washington Banking Trends and Backgrounds", and he tells me it is their purpose, eventually, to print this thing. It is not going to be secret any more; it is going to be available to anyone who wants to see it. It is practically a weekly publication.

H.M.Jr: And you recommend we let him stay on?

Gaston: I recommend we let him stay on. I cautioned him on this paragraph (indicating) - said it was a dangerous thing. It is the last thrust at Giannini; that's what made Giannini mad.

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H.M.Jr: Well, I accept your recommendation.

Herbert, read this, will you, and see what it is all about. Excuse me just a minute, will you, and let me read these.

(Pause)

Gaston: O. K.

H.M.Jr: Uh huh. I'll talk to you about that afterward.

Oliphant: Can I get copies of that, Herbert?

Gaston: Yes; yes.

H.M.Jr: Is U. P. all right?

Gaston: U. P. is all right. The last sentence is all right; it says, "The term of the two per cent bond in the conversion offering, a Treasury official said, obviously will be shorter than the one offered for cash."

H.M.Jr: What is that?

Gaston: The term of the two per cent bond in the Treasury will be shorter. That is, a two per cent bond is bound to be shorter than the two and three/quarters.

H.M.Jr: (Aside, to Mrs. Klotz.)

Klotz: Yes, uh huh.

H.M.Jr: O. K. Anything else, Herbert?

Gaston: That is all.

H.M.Jr: George?

Haas: I have nothing this morning.

H.M.Jr: (Nods to Mr. Duffield.)

Duffield: Nothing.

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Taylor: It seems that the nineteenth is a Monday and the twentieth is a Tuesday.

H.M.Jr: That is right.

Taylor: So I said the twentieth.

H.M.Jr: Tuesday; that is all right.

Taylor: Right.

H.M.Jr: Tuesday.

Did you ever take up with Agriculture the question of this mang-.- how do you pronounce it?

Taylor: Manganese.

H.M.Jr: Manganese. I am always thinking of magnesium. ..... the question of swapping. Have you opened that up at all?

Taylor: I didn't push it; I just mentioned it in this rather long conversation I had.

H.M.Jr: Can you give it a little push? Whether they are talking to them or not?

Taylor: Yeah.

H.M.Jr: Huh?

Taylor: I think you're going to be disappointed on it.

H.M.Jr: Well, I'd just like to find out whether they are or not, you see. Huh?

Taylor: Yes.

H.M.Jr: Will you ask them?

Taylor: Uh huh?

H.M.Jr: Let me know?

Taylor: (Nods "Yes.")

H.M.Jr: (Nods to Mr. Hanes.)

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Hanes: (Nods "Nothing.")

H.M.Jr: (Nods to Mr. Gibbons.)

Gibbons: Monday the C. I. O. crowd is coming in - another conference on this training by the Coast Guard for the Maritime. I am having Waesche and Gardner Jackson, preliminary, for lunch tomorrow.

H.M.Jr: Good. Good.

Gibbons: I don't know where we will get, but Waesche hasn't been able to find anybody agreeable to both sides; one crowd says he is no good and the other crowd says he's fine.

H.M.Jr: Just do the best we can.

Gibbons: It is a very delicate thing; we don't want to move too fast on it.

White: Some time ago you spoke of having a group of men down to consider our responsibility under the Anti-Dumping Act. I have drawn up a group of names and a letter, and I'd like to check with Gaston and McReynolds; then, if you'd like to see the list that emerges after that, it will be ready to go forward.

H.M.Jr: Let me see it now. No, not today. But before we do that, when are you and Oliphant going to be ready on the Japanese dumping?

Oliphant: Today, or any time you want.

White: Today.

Oliphant: You said Monday.

H.M.Jr: Are you ready today?

Oliphant: Yes.

H.M.Jr: How would three thirty be?

Oliphant: Fine.

H.M.Jr: Three thirty.

White: (Nods assent.)

Regraded Uclassified

Gibbons: I got a letter yesterday from Max Wold, which I sent Oliphant, through Johnson, to be acknowledged, asking how soon we could have anything on this situation that is going down to the President - you know.

Oliphant: I didn't see it; if you'd send it to me it would be a little better, Steve.

Gibbons: I sent it to Cairns' office.

H.M.Jr: We'll do Japanese dumping at three thirty. Wayne, you'd better be here.

Gibbons: Three thirty, today.

H.M.Jr: And (Mr. White) bring up that thing at that time. Will you, Harry?

White: At three thirty.

H.M.Jr: Yes. I mean, that is my last appointment today.

White: Archie may have told you about the continued inflow of capital for the weekend of November 23; it was thirty-eight million dollars. It keeps rising.

Lochhead: I have a report on it.

White: If you are interested - increasing continued.

H.M.Jr: All right. Mr. Aldridge told us yesterday that the Chase was averaging sixty or sixty-five new accounts a week.

White: Foreign?

H.M.Jr: Of refugees, that average from a hundred to a hundred fifty thousand dollars a piece. Sixty or sixty-five accounts a week - new accounts, averaging from a hundred to a hundred fifty thousand dollars a piece - refugees.

Gibbons:
White: (Simultaneously) How do they get out? (Laughter)

Taylor: Sounds like that thing you gave Dan the clip for, doesn't it?

Regraded Uclassified

Lochhead: Refugee money?

H.M.Jr: Refugees' money.

Gibbons: How many a week?

H.M.Jr: Sixty to sixty-five new accounts a week - sixty to sixty-five.

Lochhead: I think I'll have Knoke check with that, because if that is German refugees' money they probably want to carry it on a refugee ledger; it won't show up in "Foreign Capital."

H.M.Jr: He told me his foreign deposits were.....

Bell: Two fifty-six.

H.M.Jr: Two fifty-six. You were here; was my figure - what did he say?

Bell: That he had sixty or sixty-five; I thought it was a month instead of weekly; I may be wrong.

H.M.Jr: Get this: He was here; two hundred fifty-six million was the aggregate of the foreign deposits at the present time in the Chase National Bank. And did he say sixty or sixty-five?

Bell: That is right; I thought he said a month; you said a week. Definitely German refugees.

Lochhead: My experience has been, in banking, that a fellow over there in Germany who puts his money over here, he's beating the laws and regulations of Germany; he takes care it is not listed as a German account. He comes in and gives a New York address, sets it up as a New York address so it can't be reported back. That is why I say I'd like to check on that.

White: We'd also like to find out, if possible, how that transaction is consummated.

H.M.Jr: Well, anyway, we are passing it along for what it is worth. Without saying which bank - I don't like to tell one bank from another - I asked Burgess, but Burgess didn't seem to know.

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For you Bank of America fellows - check me on this -- Aldridge told me that the Chase National Bank has a very large loan to Transamerica, and the collateral for this loan is National City Bank stock. But he said a very large loan - a frozen loan. It is a frozen loan - been on for years. And I pass that along to you fellows.

Aldridge was swell on everything except the Government bond market.

Bell: And policies.

H.M.Jr: We are just one step behind France and he is not sure we are not abreast of them.

White: He and Viner ought to get together.

Taylor: Maybe they have.

Oliphant: Got any more clips?

H.M.Jr: (Nods to Mr. Lochhead.)

Lochhead: No change in the rates; sterling is still at about 4.67 3/8. France is still making their rates strong, but can't prove yet whether they are getting exchange in today, but the rate is strong; and Merle Cochran arrived this morning.

H.M.Jr: Hurray! I'll see him.

Lochhead: I did tell him we found what we wanted in France, and that was Merle Cochran.

H.M.Jr: I'd like Oliphant, and Gaston to stay, please.

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December 15th Financing

December 2, 1938

Present:

Mr. Hanes
Mr. Taylor
Mr. Bell
Mr. Haas
Mr. Seltzer
Mr. Harris
Mr. Hadley
Mrs. Klotz
Mr. Ronald Ransom
Mr. Gaston

Mr. Haas: Start with $400,000,000 cash. That's fixed. And the rest of the cash is in the $300,000,000 note. Then you have $942,000,000 to divide. We divide the $942,000,000 this way: $100,000,000 only in the 9-year.

HM,Jr: What? How much?

Mr. Haas: Only $100,000,000. And $642,000,000 in the long bond and $200,000,000 into the note.

Mr. Bell: I can't see that.

Mr. Murphy: That's chiefly because you have such a big spread in the premiums.

Mr. Haas: These other two are just alike.

HM,Jr: I am listening, but they don't agree with you at all on the 9-year.

Mr. Harris: I don't see how under any circumstance you can expect a 2% 9-year to sell at less on the basis we have. It will probably go to a point, but I can't see a 2% 9-year going. If you give a 1½% 6-year, the bulk will go into

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HM,Jr: How many points do you give to a fixed maturity? Now these people figure 15 or 16 points extra to the fixed maturity.

Mr. Haas: That's about right.

Mr. Saltzgr: But on the curve -- we took alower curve for those. What is the basis, George?

Mr. Haas: 190.

Mr. Bell: I figure 182.

Mr. Haas: We are allowing 19 points below the curve for maturity.

HM,Jr: They figure 16. Do it once more, George. You figure on the conversion we are giving people the right to convert into three things.

Mr. Haas: That's right.

HM,Jr: And you figure $100,000,000 will go into the note.

Mr. Haas: No. $200,000,000 into the note.

Mr. Bell: No, $100,000,000 into the bond, Mr. Secretary.

HM,Jr: How much to the note?

Mr. Haas: $200,000,000. $100,000,000 into the 9-year bond and the balance in the long, $642,000,000.

HM,Jr: Tell you how the Discount people figured. That is, before they talked to Burgess. They said: the note, $50,000,000. They said: into the long, $200,000,000 and the balance into the $652,000,000 9-year.

Mr. Haas: I would agree on the 8½, but not on the 9.

HM,Jr: I have Ronald Ransom coming in at 9:30. (Mr. Gaston came in at this point.) This is what I can say at 9:30, because there was a leak on the street yesterday. I can say at 9:30 that for cash, $400,000,000,

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2-3/4% bond. You don't have to give the years. This is what I am proposing to announce at 9:30.

(Mr. Ransom came in at this point.)

Ronald, the reason I asked you to come, this picture shifted up to 11 o'clock last night and this is the way the picture looks now. We are proposing for cash to offer $400,000,000. This is what I propose to have Gaston say to the newspaper men at 9:30 or a quarter of ten: $400,000,000 for cash, a 2-3/4% long bond. I will leave the yearage open. Could make it a 60-65, if everything looks all right by tomorrow. That's what we have in mind. $300,000,000 cash, a 5-year note. Then on the conversions, the fellows can convert into a 2-3/4% long bond, into a 5-year note and either an 8½ or 9-year 2% bond. Now the reason for that is, in my announcement, I will just say a 2% bond.

Mr. Hanes: "new".

HM,Jr: New. The reason we are doing that is to please you fellows (Federal Reserve) and the rest, to keep the number of long bonds down, but not to exceed three-quarters of a billion, because that was the sentiment of your people. I want your support and help. There is complete disagreement between Burgess, the Discount boys, my people, your people, as to the effect of whether it's an 8½ or 9. They are off $600,000,000 in their estimate. One crowd, the Discount boys, said on a 9-year bond the conversions would be $692,000,000, into the 2%. These boys have been here since 8 o'clock and say that into the 2% I will only get $100,000,000. So we all have to re-sharpen our pencils, because the whole purpose of the 2% is to keep faith with you fellows (Federal Reserve) and to try to keep it down. So on this announcement, if I just say a 2% bond we have until tomorrow to argue and fight over whether it's an 8½ or 9. But I am trying -- I want to keep you fellows happy so that we don't get over three-quarters of a billion. If it $800,000,000 or $850,000,000, you are not going to get excited, but if it's $1,000,000,000 you are not going to like it. Check?

Mr. Ransom: Yes.

HM,Jr: As to the 9:30 announcement, leaving it open whether it's 8½ or 9, as I have explained?

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Mr. Ransom: I think it's all right.

HM,Jr: It's different from anything we have been talking about.

Mr. Ransom: Yes, entirely different.

HM,Jr: Entirely different. And the reason why I am doing three things, it's $1,700,000,000. It's a lot of money.

Herbert, phone your office and tell them to have the men in your office at 9:35. Then come back.

But with such a difference as between 8½ or 9, these fellows have got all today; you fellows (Federal Reserve) have time; the Fed in New York have time. They can play with that from now until 11 o'clock tomorrow.

Mr. Ransom: I don't see why there is that wide difference of opinion.

HM,Jr: Niether do I.

Mr. Seltzer: The reason for the discrepancy was the 1½ point premium against the 7/8ths point. Both the note and short bond you gave 7/8ths of a point; on the long bond, 1½. And we figured that was too great for people to take the short bond.

Mr. Taylor: The 8½ one figured that?

Mr. Seltzer: On the 8½, o. k.

HM,Jr: Well, I am not going to sweat between now and 9:30, because on our announcement I am all right.

Mr. Seltzer: You don't commit yourself on any of this.

HM,Jr: I am not committing myself as to the length of the new bond and so you fellows have got to get together. We can't be $600,000,000 off, I mean, as between this office, the Federal Reserve office here and the one in New York. They have got to get together.

Mr. Ransom: I should think they could.

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Mr. Seltzer: I wonder if you would consider one other point: making your note a little sweeter by giving overlapping interest on the refunding. You want some pretty good note subscriptions on the refundings.

HM,Jr: You mean pay double interest?

Mr. Seltzer: Amount to about 11/32nds. The coupon is only 1-1/8th.

Mr. Bell: 1½.

HM,Jr: I don't think so, but that also would not in any way interfere with my announcement. That's a refinement that could go in.

The main thing I am trying to get is this: the Federal Reserve would rather not see more than three-quarters of a billion of this long bond out. I have got to rely on this man (Ransom) to help me. Therefore, I want to keep it as near three-quarters of a billion as the human brain can forecast. Right, Ronald?

Mr. Ransom: Yes.

HM,Jr: Knowing the picture, see what this does to the market, we can come back tomorrow morning and get our pencils out between 10 and 11 and take another look at it, but knowing what the picture is we can all do some figuring. Somebody is wrong. Somebody is off. Because here's the Discount fellows figure on the 9-year bond the bulk will go into the 2% . You fellows figure on the 9-year note, the bulk will go into the long bond. Somebody is wrong.

Mr. Haas: We think the 9-year makes it too narrow in the premium.

Mr. Harris: I think the market, after this announcement, ought to help us get the answer.

HM,Jr: Herbert, see if I can word it properly.

Mr. Gaston: Do you want me to say it?

HM,Jr: Please.

Mr. Gaston: You want to announce that the offering

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for cash will be divided between a long term bond and a five year note. $400,000,000 cash .....

HM,Jr: Herbert, will you wait a minute, please. I want to give the coupon.

Mr. Gaston: Yes. I was going to add that. You want to give them the coupon rate on the long bond, which is 2/34s. You don't want to give them the coupon on the 5-year note. There will be three ways. They will have the opportunity to take this long bond, also the opportunity to take this note and also the opportunity to take a shortern term bond, 8½ or 9.

HM,Jr: No. No.

Mr. Gaston: A 2% bond and you don't want to say anything about the term?

Mr. Bell: "A 2% new short bond."

HM,Jr: It's a new 2% bond.

Mr. Hanes: "Short"bond.

HM,Jr: A new 2% short bond.

Mr. Gaston: Of course, a bond can be 5 years.

HM,Jr: A new.

Mr. Bell: We said new short bond.

Mr. Gaston: What I said -- a shorter term. You have already talked about long term.

HM,Jr: I want to say 2%.

Mr. Bell: I think that's fine when things are normal. But I would like to take you back to September when we were afraid to let loose everything on Saturday and have it lie in the mails Monday and announce Tuesday, so we deferred our announcement. Here you are in effect announcing Friday morning and you have Saturday and Sunday and you announce it officially Monday and you are tying yourself to your rates. I am afraid of giving the market everything we can in normal conditions, but

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I am afraid something might happen over the week-end and you might want to change it.

HM,Jr: Suppose I say 2% and we go an 8 year.

Mr. Bell: Yes, but you say a long 2-3/4s.

HM,Jr: Right.

Mr. Taylor: That's all right.

Mr. Bell: Supposing you wanted to come down to 2½.

HM,Jr: I don't.

Mr. Bell: Of course you don't. I am thinking of the worst.

HM,Jr: The reason I am doing this is unfortunately there was a leak and I want to give the market the most accurate information I can.

Mr. Bell: I realize that.

HM,Jr: On account of the leak. That's why. It was all over the Street it was to be 300, 200, 200. I am willing, with the way it is now, to say this, Herbert: that we are going to offer $400,000,000 long 2-3/4s bond for cash; we are going to offer $300,000,000 5-year note for cash ....

Mr. Gaston: Not naming the coupon.

HM,Jr: ... not naming the coupon. And on conversion they will have the right to convert into the long 2-3/4 bond, the right to convert into the five-year note and the right to convert into a new 2% short bond. Do you have to put in "short"?

Mr. Gaston: It's a shorter bond.

HM,Jr: I am very much annoyed over this leak and, therefore, I want to get this thing out and I am not worried about this week-end, because if the market goes to pot today or tomorrow, I can make it a 7 year or make it 55-60, anything within that range, at 2-3/4s.

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Mr. Gaston: There is no 2% issue. Leave out the word new.

HM,Jr: Leave it out. Is that all right with you?

Mr. Ransom: Leave out the word new? That's all right.

HM,Jr: Do you think I am taking an undue risk by naming the coupon?

Mr. Ransom: I don't think so. I don't see why that you are taking a needless risk.

HM,Jr: You see, the reason Dan is asking -- last night we all agreed we shouldn't, but on sleeping on this over night I want to give the market all the information we had last night because when the Discount fellows go up they don't know anything we don't know and the other way round, everybody knows what they know. The Discount boys were there until 10 o'clock. Haven't got an advantage over anybody. I want to kill any advantage for them.

Mr. Ransom: I want to ask one question. When we met, the other morning, before the Committee came over here there was discussion as to whether there would be a three-way choice or not and I don't recall anything that was said at our meeting particularly on that subject. My impression was that the weight of opinion favored only two issues as a choice rather than three, so I don't know what took place over here in your conference with the Committee.

HM,Jr: I am going to get Allan Aproul on the phone. Last night he was at the house and you can hear him. At 9:30 the next voice will be Allan Sproul!

Mr. Bell: I raise one question. On the note you are going to give the 5 year note with norate; in the other cases, you are going to give them out with no rate?

HM,Jr: I thought that through purposely, because I am a little doubtful about 1-1/8. I want that much flexibility. I can put it up to 1-1/4. Unfortunately

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my brain has been working all night. When this is on the ticker, the fellows in the street will know just as much as the Discount boys.

Mr. Bell: That's right. That's very good.

HM,Jr: And I am not mentioning the rate on the note because it is just a possibility I might make it 1-1/4.

Mr. Haas: That's right.

HM,Jr: You fellows got any doubts?

Mr. Hanes: All right with me.

Mr. Taylor: I think it's just right.

(At this point, HM,Jr and Mr. Ransom spoke to Sproul and copy of their conversation is attached.

HM,Jr: Anybody got any last doubts?

Mr. Ransom: I have none, Sir.

HM,Jr: As I say, my fellows don't agree and they have to figure, and will you have your people figure?

Mr. Ransom: Yes, I will.

HM,Jr: But you are perfectly satisfied?

Mr. Ransom: Yes.

HM,Jr: If he (Sproul) is right, $750,000,000 or $800,000,000, it will get you just about what you want. Last call as far as the announcement goes.

Mr. Gaston: We are giving the coupon on both bonds, but not the term. We are giving the term on the note, but not the coupon.

HM,Jr: That's right.

Mr. Ransom: Do you want a conference tomorrow?

HM,Jr: I think if you will come over here tomorrow about 10:30.

Mr. Ransom: I will.

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December 2, 1938.
9:30 a.m.

Operator: Operator.

HMJr: Allan Sproul, Fed. New York please.

O: Right.

HMJr: Hello.

O: Mr. Sproul. Go ahead.

HMJr: Hello.

Allan Sproul: Good morning Mr. Secretary.

HMJr: Good morning. You have an audience here.

S: Yes.

HMJr: Including Mr. Ronald Ransom.

S: Yes.

HMJr: How do you feel this morning on what we did last - talked about last night?

S: I feel all right about it.

HMJr: Now, I tell you what I'd like you to do a minute, supposing you talk to Mr. Ransom, will you? I think he'd like to talk to you.

S: Yes.

Ronald Ransom: Allan, I just raised a question with the Secretary as to the three way plan as being somewhat different from what we were discussing in the Board room, when we were there a day or two ago.

S: Yes.

R: He says that you think the three-way plan is entirely satisfactory.

S: That's right.

R: And you share Wayne Taylor's view that he's just expressed that it's just right.

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S: The way we figured out the prices again this morning, and it looks as if it would be just about right.

R: I see.

S: The two and three-quarters, the long two and three-quarters and the nine year too, on the basis of present markets would sell for about the same premiums, the trading arrangements could be about 101.8 to 101.20.

R: Yes.

S: But on both of them.

R: Yes.

S: And so that there would be no great advantage in going into either one from a speculative standpoint.

R: Yes.

S: With four hundred cash on the long bond, but conversion there of anything up to say four hundred million, you wouldn't get an unwieldy amount of long bonds in the market and yet you'd achieve the objective of putting out a substantial amount for as long a period as possible of this good market.

R: Yes.

S: The two per cent nine-year bond on that basis would be around five hundred million, a little more, satisfying what all our checks indicate is a strong bank demand for that sort of obligation.

R: Yes.

S: And the five year note with three hundred cash, and perhaps fifty conversion would give you a decent size issue in the five year note and it looks as if the prices there would be around - the price there would be around 101.

R: Yes.

S: So that the whole thing seems to fit together pretty well.

R: Yes. The Secretary wants to know how many long bonds in all you think you would have on this.

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S: Well, it looks to me as if you'd have about three-quarters of a billion to eight hundred million on it.

R: Uh-huh. Seven fifty to eight.

S: What's that?

R: From seven hundred and fifty to eight.

S: Yes.

R: (aside)(Does that answer your question. Is there anything else you want to say.) - The Secretary says he is going to put this right on the ticker. Now did you have anything else Allan?

S: Not a thing.

R: O.K. The Secretary says many thanks.

S: All right.

R: All right.

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TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

OFFICE OF THE DIRECTOR

Chauncey

December 2, 1938

MEMO. TO MR. MC REYNOLDS:

Subject: Meeting of Temporary National Economic Committee

The first public meeting of the Temporary National Economic Committee was held at 10:30 A.M. in the caucus room, Senate Office Building, December 1, 1938. The meeting adjourned about 4:00 P.M.

The entire day was taken up in the presentation by Dr. Lubin.of the economic situation as presented in the accompanying minutes.

The Committee adjourned to meet at 10:30 A.M. today and adjourned at 5:15 P.M. to meet again tomorrow, Saturday, December 3.

The entire day was devoted to a testimony of Dr. Willard L. Thorpe, Advisor on Economic studies in the Department of Commerce as shown in the accompanying minutes of the proceedings.

Director of Procurement

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Verbatim Record

of the Proceedings of the

Temporary National Economic Committee

Vol. 1, No. 1—Section 1. WASHINGTON, D. C. Dec. 1, 1938 1

THURSDAY, DECEMBER, 1, 1938.

THE TEMPORARY NATIONAL ECONOMIC COMMITTEE MET AT 10:30 A. M. PURSUANT TO CALL ON THURSDAY, DEC. 1, 1938, IN THE OLD CAUCUS ROOM, SENATE OFFICE BUILDING, WASHINGTON, D. C., SENATOR JOSEPH C. O'MAHONEY, PRESIDING. COMMITTEE MEMBERS PRESENT:

SENATOR JOSEPH C. O'MAHONEY, OF WYOMING, CHAIRMAN.

REPRESENTATIVE HATTON W. SUMNERS, VICE-CHAIRMAN.

MR. THURMAN W. ARNOLD, ASSISTANT ATTORNEY GENERAL, REPRESENTING THE DEPARTMENT OF JUSTICE; ALTERNATE: MR. WENDELL BERGE, SPECIAL ASSISTANT TO THE ATTORNEY GENERAL.

SENATOR WILLIAM E. BORAH, OF IDAHO.

MR. WILLIAM O. DOUGLAS, CHAIRMAN, SEC, REPRESENTING THE SECURITIES & EXCHANGE COMMISSION; ALTERNATE: JEROME N. FRANK, COMMISSIONER, SEC.

REPRESENTATIVE EDWARD C. EICHER, OF IOWA.

MR. GARLAND S. FERGUSON, CHAIRMAN, FTC, REPRESENTING THE FEDERAL TRADE COMMISSION; ALTERNATE: MR. EWIN L. DAVIS, COMMISSIONER, FTC.

SENATOR WILLIAM H. KING, OF UTAH.

DR. ISADOR LUBIN, COMMISSIONER OF LABOR STATISTICS, REPRESENTING THE DEPARTMENT OF LABOR; ALTERNATE: A. FORD HINRICHS.

MR. HERMAN OLIPHANT, GENERAL COUNSEL, TREASURY DEPARTMENT, REPRESENTING THE TREASURY DEPARTMENT; ALTERNATE: REAR ADMIRAL CHRISTIAN J. PEOPLES, DIRECTOR OF PROCUREMENT DIVISION.

MR. RICHARD C. PATTERSON, JR., ASSISTANT SECRETARY OF COMMERCE, REPRESENTING THE DEPARTMENT OF COMMERCE.

REPRESENTATIVE B. CARROLL REECE, OF TENNESSEE.

MR. LEON HENDERSON, EXECUTIVE SECRETARY.

ALSO PRESENT

SENATOR JOHN G. TOWNSEND, JR., OF DELAWARE.

DIRECTORS OF STUDIES: DR. WILLARD THORP—COMMERCE; MR. HUGH B. COX—JUSTICE; MR. WILLIS J. BALLINGER—F.T.C.; MR. THOMAS C. BLAISDELL—S.E.C.; MR. J. J. O'CONNELL—TREASURY.

STATEMENT BY SENATOR O'MAHONEY, Chairman of the Committee

The CHAIRMAN. I will call the meeting to order.

[illegible] of this, the first publication of the Temporary National Economic Committee, which was formally [illegible] by resolution of Congress, approved [illegible] 1938, it is appropriate [illegible] should be incorporated in the [illegible] the message of the President recommending the study which is now in progress, and second, the text of the resolution itself.

I offer these documents so that there may be, at the outset, a clear understanding of the nature and the function of this Committee as well as of the purpose for which it was called into existence.

(The President's message was received in evidence and marked "Exhibit No. 1" and is included in the appendix to this issue.)

(The resolution was received in evidence and marked "Exhibit No. 2" and is included in the appendix to this issue.)

The President, in his message, declared that:

"Generally over the field of industry and finance we must revive and strengthen competition if we wish to preserve and make workable our traditional system of free, private enterprise."

TWO METHODS

To accomplish this purpose, the President, in his message, recommended: First, an increased appropriation to enable the Department of Justice to enforce more effectively existing anti-trust laws; and, second, a comprehensive study of concentration in industry, of industrial price policies and of existing Government policies, and the effect of both of these policies upon trade and commerce.

With the first of these recommendations—the better enforcement of existing anti-trust laws—this Committee has nothing to do. Law enforcement is the function of the Department of Justice, not of this Committee, though we are authorized to make recommendations with respect to anti-trust policy and procedure. The function of the Committee is merely to study facts and to make report thereon with its findings and recommendations.

The Committee is comprised of twelve members, six from the legislative and six from the executive branch of the Government. The Executive Departments and Commissions represented on the Committee are, by the resolution, directed to appear before the Committee, or its designee, and present evidence or reports on matters within their jurisdiction under existing law.

It is this phase of the work which is now beginning.

SOURCES OF EVIDENCE

The presentation of any evidence or report by any agency of the Government does not, of course, exhaust the power of the full committee. It may receive evidence on the same subjects from any other source or from any other witnesses. In due course, that will be done.

In the meantime, it should be clearly understood that no Department or Commission, no member of the Committee, no employe or agent, no witness speaks for the Committee. Such evidence as is presented is either on the authority of the agency which offers it or is received be-

See Last Page For INDEX OF CONTENTS

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gains the Committee believes it will be useful in developing the facts which are later to be analyzed when the Committee undertakes to make its report.

Whether this study will be fruitful of benefit to society or altogether futile depends largely upon two factors:

1. The manner in which it is conducted, and

2. The manner in which it is received by the public.

COMMITTEE OBJECTIVES

Let me say, therefore, in the language of a resolution unanimously adopted by the Committee at its last session:

> "That it is the unanimous sense of this Committee that its function and purpose is to collect and analyze, through the medium of reports and public hearings, available facts pertaining to the items specified in Public Resolution 113 (75th Congress), in an objective, unbiased, and dispassionate manner, and that it is the purpose of the Committee to pursue its work solely from this point of view."

The members of the Committee are deeply sensible of the responsibility that rests upon them to utilize the broad powers with which they have been invested solely for the public good. No personal, partisan or factional program is controlling here. The processes of the Committee will not be used for any purpose save to develop economic facts which in the very nature of things must be widely comprehended before any constructive recommendations may be outlined.

WIDE LATITUDE

The Committee has approached its task with an open mind and with the intention to afford to interested persons the widest possible latitude for the presentation of evidence or suggestions.

The hearings begin today with a preparatory presentation to be made by Dr. Isador Lubin of the Bureau of Labor Statistics. He will be followed by Dr. Willard Thorp, who has been associated with the Department of Commerce, and by Mr. Leon Henderson, Executive Secretary of the Committee. Next week the formal presentation of evidence will be begun by the Department of Justice.

When that presentation is undertaken, the Committee will be acting under rules of procedure which were adopted at the last meeting of the Committee to apply to those portions of the hearing which are carried on under Sec. 3(b) of the resolution. It seems appropriate that these rules of procedure should also be filed at this point in the record.

(The rules referred to were received in evidence and marked "Exhibit No. 3" and are included in the appendix to this issue.)

The prefatory statement which is about to be made by Dr. Lubin was undertaken because in the judgment of the Committee it was desirable that there should be first an analysis of the facts of our economic system as they have appeared to the various government bureaus.

As everybody connected with the Government and most of those connected with business understand, the Department of Commerce and the Department of Labor, as well as other departments in the Government have for many years been collecting official information with respect to our economic structure.

The question, which it is now to be undertaken to answer with the testimony first of Dr. Lubin and then of these other gentlemen is: "What exactly has been the effect of our industrial and economic system upon the community life of the nation?"

I now introduce Dr. Lubin as the first witness of this public hearing.

TESTIMONY OF DR. ISADOR LUBIN, COMMISSIONER OF LABOR STATISTICS, DEPARTMENT OF LABOR, WASHINGTON, D. C.

Dr. LUBIN. Mr. Chairman, Members of the Committee: Any attempt to measure the performance of our economy must be in terms of meeting the requirements of our citizens. To maintain our standards as our population grows we must increase the output of the goods and services produced at least proportionately with the incoming population.

I shall attempt to portray the growth of our population and attempt to measure the amount of goods and services that have been available to that population over a period of years for which official and unofficial but authoritative data are available.

POPULATION GROWTH

I want to first turn to this chart, which deals with the population of the United States, and I want to point out a few significant facts.

(The chart referred to was received in evidence and marked "Exhibit No. 4" and is printed on Page 3.)

If you go back to 1850, the middle of the last century, you will note that the increase in population from there to 1935, the last year for which official estimates of the Department of the Census are available, was from 23,000,000 people at this point to 127,000,000 in 1935, and such estimates as are available place the population in 1940, two years hence, at approximately 132,000,000 people.

The significant fact that should be brought out is that between 1850 and 1880 our population doubled. Between 1880 and 1910, thirty years later, population increased by 80 per cent.

FUTURE TRENDS

Between 1910 and estimated 1940 a similar period of thirty years, it is estimated our population will have increased 43 per cent and the estimated increase in population from 1940 to 1960 will be less than ten per cent. In other words, the rate of increase of our population has been steadily going downward, so that in 1960 it is estimated that there will be but ten per cent more people in the United States than there will be in 1940.

(A chart depicting growth in national income was received in evidence and marked "Exhibit No. 5" and is printed on Page 4.)

Contrasting that growth of population with the goods and services that are available for that population, which is measured in terms of our national income, you will note that our national income increased from $2,000,000,000 in the [illegible] to $61,500,000,000, which is our estimate for the year 1938. But the significant thing there again is that between [illegible] and 1919 the average annual national income was $42,500,000,000. Between [illegible] and 1929, however, the national income averaged $69,000,000,000 per year or an increase in that period of ten years of approximately 55 per cent.

INCOME DEFINED

The CHAIRMAN. Dr. Lubin, won't you, for the benefit of all who may hear or read what is testified here, give your definition of the national income? I find sometimes that that phrase is confused with the income of the Government.

Dr. LUBIN. The national income is the total amount of goods, namely, clothing, automobiles, food, houses, and things of that sort, the total sum of all the goods plus the total sum of all the services, which means laundries, garages, electric utilities, and every service sold—the sum total of all the goods and services produced in the United States in any one year, and in terms of dollars this chart portrays what has happened to the value of all of those things that were made and all the things—

Senator KING (interposing). Including agriculture, of course.

Dr. LUBIN. Goods, of course.

Senator KING. Agricultural commodities and production.

Dr. LUBIN. Anything that is produced.

The CHAIRMAN. That covers all mining production, all agricultural production, all industrial production and all the activities of trade and commerce.

Dr. LUBIN. Yes.

As I was saying, between 1920 and 1929 the average annual income was 55 per cent greater than it was in the decade preceding.

DECLINING TREND

If you go from 1930 to 1938, that national income averaged $50,000,000,000. In other words, there was a decrease in the income available, goods and services produced available to the American people, from an average of $69,000,000,000 per year between '20 and '29, to $50,000,000,000 per year between 1930 and 1938.

Of course we want to bear in mind that in 1937 our national income was estimated by the Department of Commerce at $69,000,000,000. For this year the estimate is about $62,000,000,000 roughly, so that despite the fact that our national income was relatively high as compared to the past, when you take into consideration the drop in national income during the early years of the decade you find that mark fell from $69,000,000,000 to $50,000,000,000.

THE CHAIRMAN. How reliable are those estimates?

Dr. LUBIN. They are the most reliable estimates that are available. They are made by the Department of Commerce and are accepted by economists, statisticians and business people of the country as the most reliable figures that are available.

BASIS OF ESTIMATES

The CHAIRMAN. What is the basis of the various estimates?

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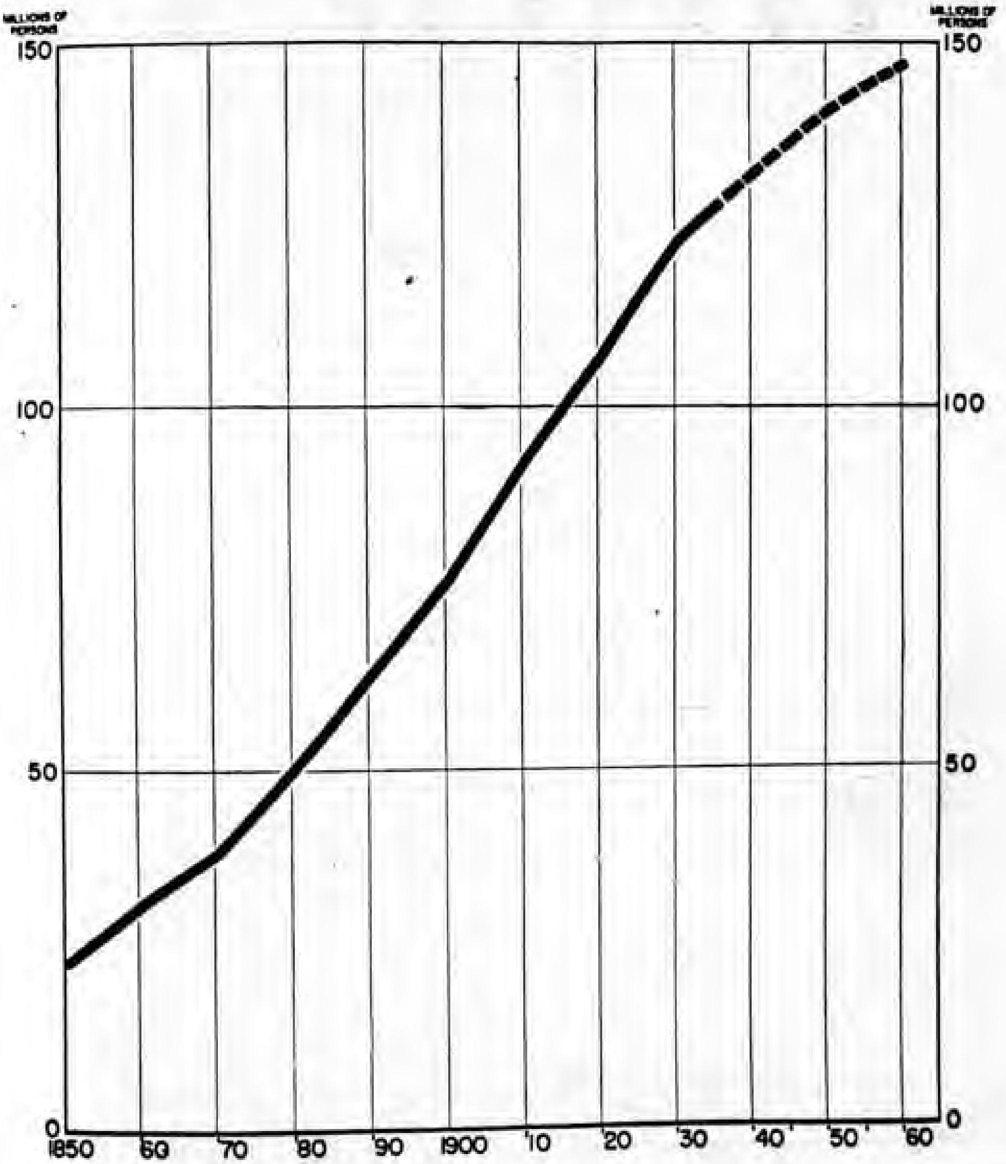
(Exhibit No. 4)

UNITED STATES POPULATION



NATIONAL RESOURCES COMMITTEE ESTIMATES

America's population is increasing much more slowly at present than in the past. From 1870 to 1900 population doubled, increasing at an average rate of two and one-third percent a year. From 1900 to 1920, just before the new immigration laws became effective, the average annual rate of increase was one and two-thirds percent; from 1920 to 1935, slightly over one percent. From 1940 to 1960 it is estimated that the rate of gain will be only one-half of one percent per year.

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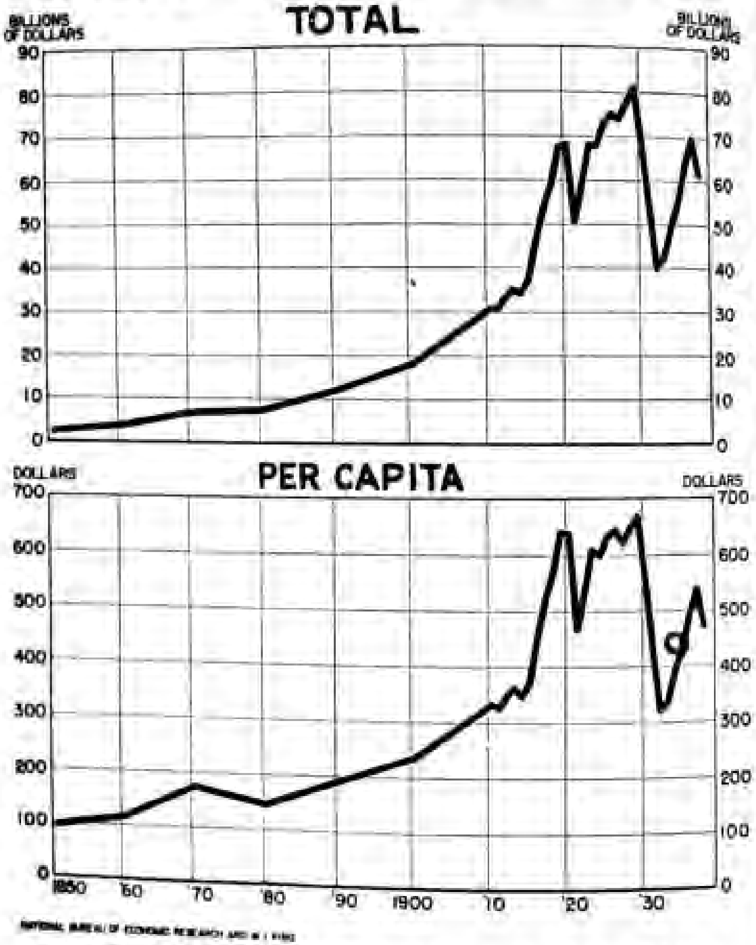
(Exhibit No. 3)

UNITED STATES NATIONAL INCOME



The national income is a reasonably accurate measure in dollar terms of the total net volume of goods and services made available to the people of the United States in each year. There was an almost uninterrupted increase from 1850 until 1929 both in total national income and in per capita national income. After 1929, however, both figures dropped off sharply and have in no succeeding year approached the 1929 level. Even if allowance is made for price changes, the decline in national income during the recent depression was impressive.

Dr. LUBIN. What the Department does is to get such figures as are available, the amount paid out in wages, the amount paid out in salaries, the amount paid out in interest, the amount paid out in dividends and other things of that sort, to estimate the total amount of income paid out. The income paid out is not always equal to the income produced. Some of it is saved by corporations, and otherwise. What they do is add up the value of everything they know of that has been produced, the value of the agricultural output, manufacturing output and so forth.

The CHAIRMAN. Over what period has the Department of Commerce been making these estimates?

Dr. LUBIN. I think they originally started in 1929 but they worked back—either '30 or '31—and have been keeping it since.

CENSUS FIGURES

Senator KING. The Census Bureau has also made a contribution to the determination of the income.

Dr. LUBIN. Very definitely, because of the Census of Manufactures and Census of Agriculture.

Senator KING. They make up a survey every two years now, formerly five, and before that ten.

Dr. LUBIN. After all, one thing should be borne in mind, that the national income can increase without more goods being produced. If the price level the following year is twice as high, if prices have gone up 100 per cent, the national income goes up 100 per cent, but the goods available in the country do not increase in amount.

Representative SUMNERS. May I ask a question, please? Take the manufacturing of a house, for instance. The people who sell the tree, that is income, is it?

Dr. LUBIN. That is part of the national income, yes; in other words, the value of the tree.

Representative SUMNERS. When the tree is manufactured into lumber and the lumber is sold, is the total value of the lumber figured in the income?

Dr. LUBIN. It is the amount added to the value of the tree when it is in the form of lumber.

DUPLICATION AVOIDED

Representative SUMNERS. Do they subtract from the price of the lumber the value of the tree?

Dr. LUBIN. Yes.

Representative SUMNERS. There is no duplication?

Dr. LUBIN. No, there is no duplication.

Representative SUMNERS. When you build a house, the house is worth, say, seven, but that is not regarded as income at that?

Dr. LUBIN. No. In other words, that house appears in the picture in the sense that you have the trees plus the value added in turning them into lumber plus the value that was added when labor was put to it to build a house.

Senator KING. There are bound to be some duplications.

Dr. LUBIN. Due to the fact that we haven't refined our statistical methods to the extent we would like to, but the amount of duplication is relatively insignificant.

The question arises as to what the increase in national income has meant to our people in terms of the amount of goods that has been available to us. The lower chart shows the trend of national income in terms of the people of the country, namely, how much is available for each person in the country.

THE AVERAGE INCOME

There again you will note that between 1919 and 1919 the average was $423 per person. Between 1920 and 1929 that average was $604 per person. In other words, the income available for every man, woman and child, were it equally distributed, increased 40 per cent over a ten-year period, as opposed to a total increase here of 58 per cent. In other words, part of that increase, the difference between the two, was due to the fact that the population was increasing.

You had to divide your national income among more people. The result was that your actual total income increased, as I said, by 58 per cent, whereas the amount that was available for each person increased by 40 per cent. But the significant thing to notice, however, is that we were increasing our output faster than we were increasing our population. In other words, there were more and more goods available for our citizens despite the fact that the number of those citizens were increasing.

The CHAIRMAN. Have any estimates of this character been made with respect to other nations?

Dr. LUBIN. There are very few, sir. I have some figures for the year 1934-1935 that shows the per capita.

Representative SUMNERS. Dr. Lubin, you just stated that the charts show there were more and more goods. Now does that mean necessarily more and more in volume and more and more in days' work, does the value of labor and the value of commodities enter in at all? Has that been broken down so you can really speak in quantity?

Dr. LUBIN. This, of course, is entirely in dollars value. My next chart will show you what it means in terms of actual physical goods to get the change of prices up.

Representative SUMNERS. While you are interrupted would you mind indicating, if you have the figures, to what extent the volume of immigration and the policy of this Government with regard to immigration laws had to do with the increase of population? Do you have that?

Dr. LUBIN. We have the figures, that is, showing the relative per cent of increase in the population that is attributable to natural growth and the percentage attributed to immigration.

Representative SUMNERS. You have broken that down?

Dr. LUBIN. Yes, it is as follows: Net immigration into the United States 1910-1934:

1910-14	3,510,000
1915-19	467,000
1920-24	1,888,000
1925-29	1,289,000
1930-34	86,000

Representative SUMNERS. Thank you very much.

Dr. LUBIN. Between 1920 and 1932, from there to there, (indicating on chart) that per capita income, the amount of goods and services available to our people as individuals, fell to an average of $397.

The CHAIRMAN. That was from 1930 to—

Dr. LUBIN (interposing). 1932.

The CHAIRMAN. 1932?

Dr. LUBIN. Yes. In 1932 the per capita national income of this country had fallen to $320, which you will notice is considerably less than it had been in the decade from 1910 to 1919 and the decade 1920 to 1929.

Today, for this year, it was estimated that that income per capita, the amount available in terms of goods and services for every man, woman and child in the country will be about $479, which is about $60 less than was available last year and $130 more than was available in 1932.

Congressman SUMNERS. You raised the question about prices. What we have done here is try to eliminate the changes in this big chart I have here that were caused by price changes. As I said, you might have exactly the same amount of goods available, but if prices doubled, the national income would.

What we have done is converted this into a 1929 dollar and thrown out all changes in national income caused by price changes. You will note, although there was a sharp rise, despite this fact the changes were not as great as appeared on the preceding chart. In other words, between 1910 and 1919 the increase in the national income in terms of physical goods now—we are forgetting the prices—was 10 per cent. Between 1920 and '29, it was 34 per cent. In other words, we almost doubled the amount of goods and products—I am sorry, yes, 34 per cent. Forty-nine at this point to 119 up here—almost doubled the amount of goods over that period of ten years.

(Chart No. 3, "National Income in Constant Prices," was received in evidence and marked "Exhibit No. 6" and is printed on Page 6.)

Between 1930 and '37 the difference was an increase of only 2 per cent.

Representative SUMNERS. Dr. Lubin, do you have anything to indicate the relative amount of carry-over from year to year? I suppose you wouldn't.

Dr. LUBIN. I think there are some figures, of course, of certain types of products. We have certain inventory figures for certain industries.

(Chart No. 4, representing National income annually 1919 to 1938, was received in evidence and marked "Exhibit No. 7" and is printed on Page 7.)

This chart gives you the picture of the answer to what you ask in the way the line did, but it gives you both curves. The black one being the change in terms of the current price level, the dotted one being in terms of actual physical units forgetting what happened to the price system.

Senator KING. Wouldn't it be wise

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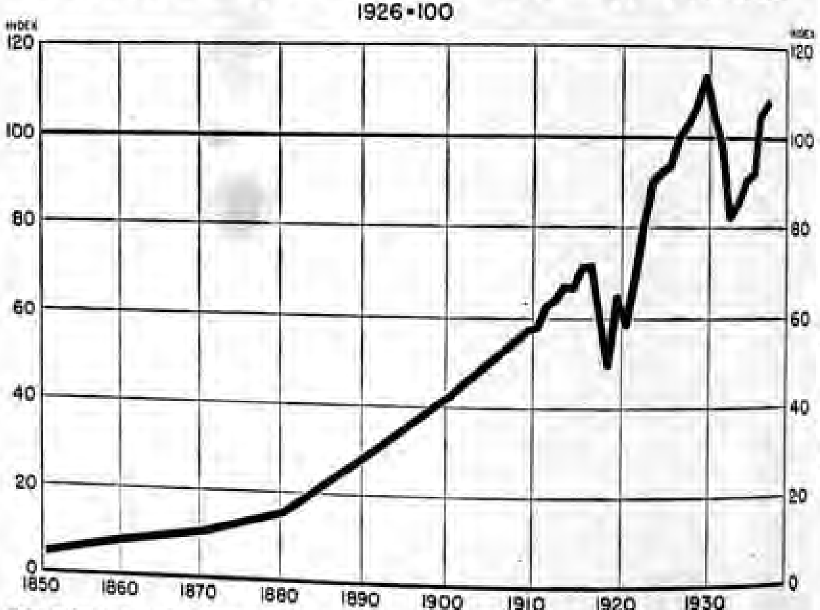
(Exhibit No. 6)

NATIONAL INCOME IN CONSTANT PRICES

1926=100



SOURCE: U S DEPARTMENT OF COMMERCE, NATIONAL BUREAU OF ECONOMIC RESEARCH, W. I. KING, AND BUREAU OF LABOR STATISTICS

to identify your charts, the first one No. 1, and so on?

Dr. LUBIN. I think this is No. 4. I will identify them; I have a list of them.

(Chart No. 5, representing per capita national income, 1934-35, in U. S., Germany, England and France, was received in evidence and marked "Exhibit No. 6" and is printed on Page 6.)

After portraying what had happened to our national income in this tremendous drop that took place in contrast to the tremendous rise in the last decade, it is interesting to see what the situation is in the United States as compared with other countries. The most recent authoritative data of other countries are for 1934-5, and they are only available for four countries. You will note the average income in '34 and '35 in the United States was $423, as compared to $401 in England, $345 in Germany, $321 in Sweden, and $267 in France. In other words, despite that marked decline in the amount of goods and services available to our people over the past nine years in terms of individuals, we are still in a far better position than many of these foreign countries. As a matter of fact, if we had the figures for 1937, this line would be even larger.

Senator KING. Wouldn't you strike out the word "many" and say "all"?

Dr. LUBIN. I think these are the four important ones.

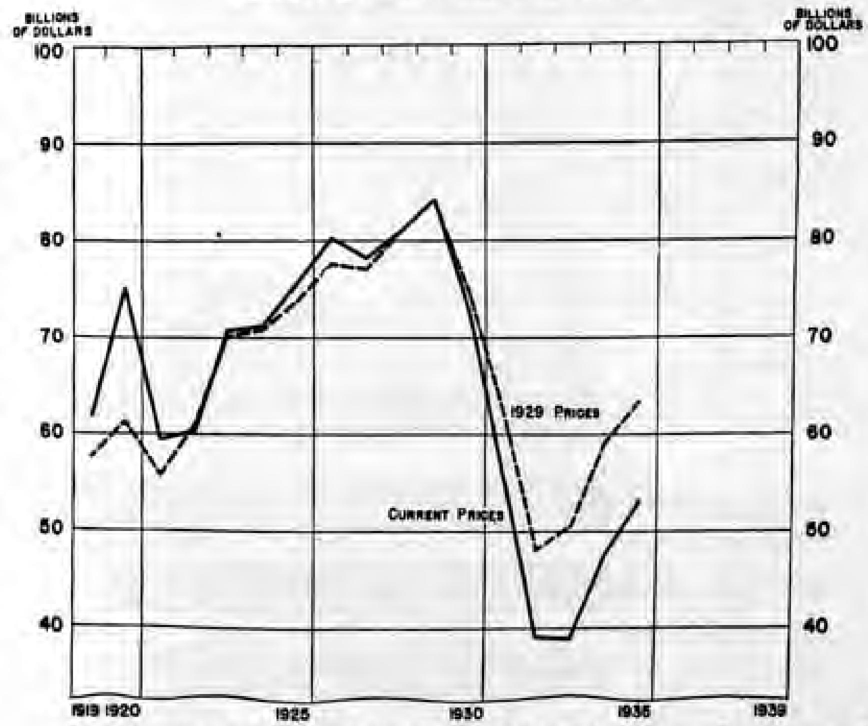
Mr. OLIPHANT. Has the price factor been eliminated?

Dr. LUBIN. They are adjusted. In other words, you adjust your relative price levels between your different countries, but it is for one year. We adjust

(Exhibit No. 7)

NATIONAL INCOME

ADJUSTMENT FOR PRICE CHANGES



Prepared by the staffs of the Central Statistical Board and the National Resources Committee

Source—National Bureau of Economic Research

Regraded Uclassified

[illegible]

FOREIGN WAGE SURVEYS

[illegible]

LOSSES IN EMPLOYMENT

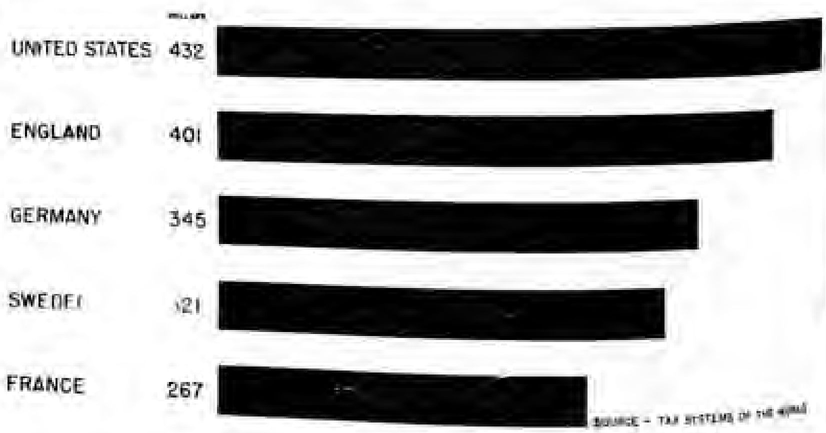
[illegible]

THE ARMAMENT PROGRAM

[illegible]

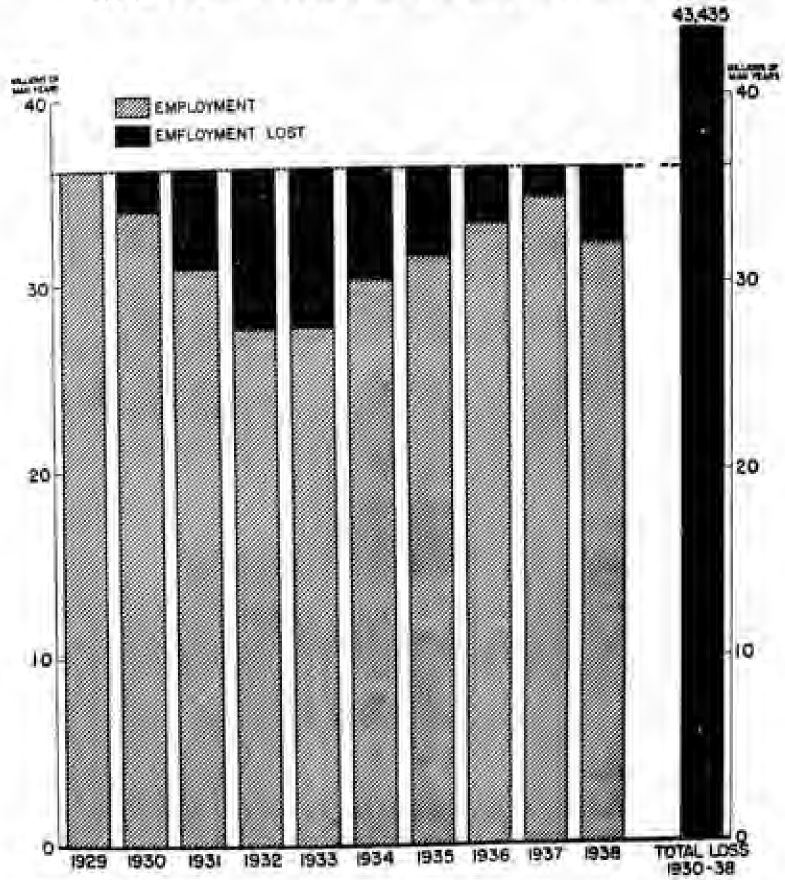
(Exhibit No. 8)

PER CAPITA NATIONAL INCOME, 1934-5



(Exhibit No. 9)

EMPLOYMENT LOST IN DEPRESSION
IN NON-AGRICULTURAL OCCUPATIONS



U.S. BUREAU OF LABOR STATISTICS

The reduced level of industrial activity since 1929 is equal to the loss of more than one full year of employment for the entire working population engaged in non-agricultural occupations. The loss shown, a full year's work for 43,000,000 men, is conservative. It does not allow for the addition since 1929 of about 5 million to the potential working population nor for the nearly 2 million persons unemployed in 1929.

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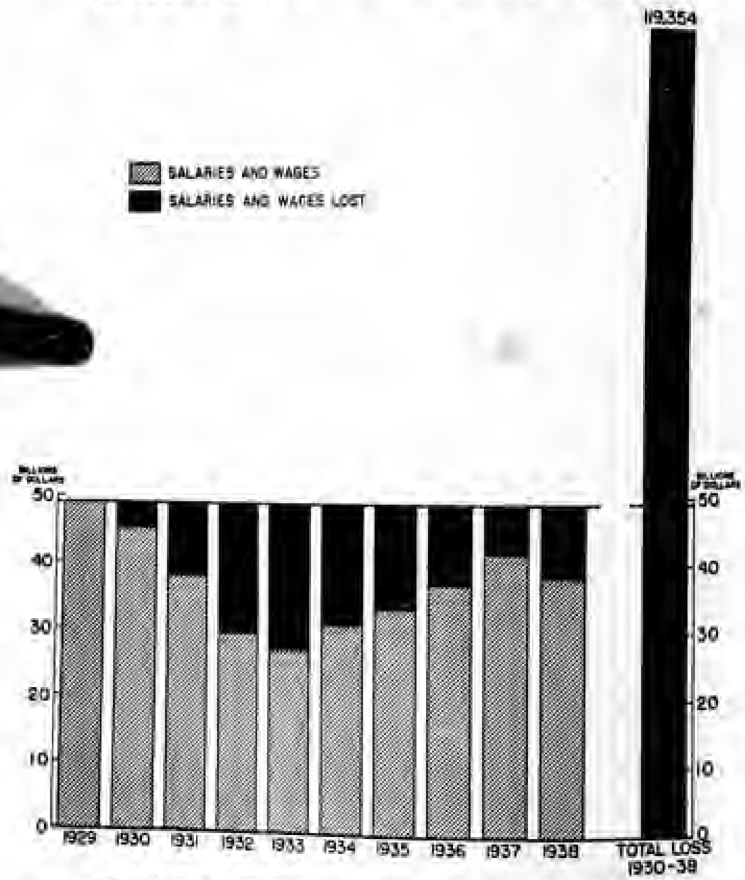
(Exhibit No. 10)

SALARIES & WAGES LOST IN DEPRESSION
IN NON-AGRICULTURAL OCCUPATIONS



The pay loss to American wage-earners and salaried workers was nearly $120,000,000,000 from 1930 to 1938. This equals two and one-third years' earnings at 1929 pay rates and 1929 levels of employment and yet is a conservative figure. It does not allow for the addition since 1929 of about 5 million to the potential working population.

... wage and salaried workers would have been $119,000,000,000 more than it actually was—

The CHAIRMAN (interposing). How much?

Dr. LUBIN. One hundred and nineteen billion dollars. In other words, our loss during these years was 140 per cent of the actual amount that was paid out in salaries and wages in 1929, and that loss was 40 per cent greater than the total national income paid to farmers and merchants and business men and labor and everybody else in 1929.

The CHAIRMAN. Let me ask it this way. What was the total national income in 1929?

Dr. LUBIN. Approximately eighty-one billion.

The CHAIRMAN. And what is the total of the last column?

Dr. LUBIN. One hundred and nineteen billion for wage and salaried workers alone.

The CHAIRMAN. So it is one hundred nineteen billion compared with eighty billion, you say?

Dr. LUBIN. Eighty-one billion for everybody.

The CHAIRMAN. Eighty-one billion, the largest single year in the history of the country.

Dr. LUBIN. Exactly right, and this is the loss only to wage earners and salaried workers.

(The chart showing dividends lost in depression was received in evidence and marked "Exhibit No. 11" and is printed on Page 13.)

INVESTORS', FARMERS' LOSSES

Now, in terms of losses to investors, assuming again you could have maintained your 1929 level of dividends paid out, the cumulative loss is nineteen billion eight hundred million, which is three times the amount that was actually paid out in '29, the peak year of large dividend disbursements.

(The chart showing gross farm income lost in depression was received in evidence and marked "Exhibit No. 12" and is printed on Page 13.)

If we turn to the farmers, the total loss in the gross income that went to farmers, adding all of these together, as compared to what they got for '29, was [illegible] billion, six hundred million, which is three times the amount that all the farmers got for everything they sold in the year 1929. In other words, the net loss over this period of years is equal to three times the amount they actually got in 1938.

Representative SUMNERS. It doesn't look like anybody is doing very well.

Dr. LUBIN. The fact is this: that when we talk about national income, it doesn't mean much unless we are talking about the groups affected, and there are the three groups, the investors, laborers and farmers. What I am attempting to do is to show the relative loss in each of these three groups.

The CHAIRMAN. Have you made a chart comparing the loss of each group with the other, as, for example, the loss incurred by investors as compared with the loss incurred by wage earners, as compared with the loss incurred by farmers?

Dr. LUBIN. We haven't such a chart, but I could easily add them together. We have them all.

The CHAIRMAN. It could easily be read from these charts?

Dr. LUBIN. Yes. If you add all those together, the losses to labor, the losses to agriculture, the losses to investors, assuming all the time that we maintain the level of 1929, it amounts to $170,000,000,000, which compares with a national income in 1929 of $80,000,000,000. This is a cumulative loss, and incidentally in this chart I have eliminated the effect of price changes; in other words, I am dealing now in terms of physical units of goods, eliminating such changes in the national income as arose from price changes.

(The last chart referred to, National Income Lost in Depression, was received as "Exhibit No. 3" and is printed on Page 14.)

Senator BORAH. Dr. Lubin, have you the farm income or agricultural income for 1928?

Dr. LUBIN. Yes, right here, sir.

Senator BORAH. And then in 1929? The farmers were pretty nearly as bad off in '28 as they were in '29.

CHANGE IN THE DOLLAR

Senator KING. That last answer you made I didn't quite understand. Did you take into account in determining these prices the fact that we had changed our dollar?

Dr. LUBIN. I did here, yes, definitely. This is a stable dollar, the 1929 dollar, in terms of the purchasing power of the '29 dollar.

The CHAIRMAN. Now you are referring to the chart entitled "National Income Lost in Depression?"

Dr. LUBIN. Yes.

Senator KING. Taking into account that the gold dollar had a certain quantity? It has been inflated so that thirty-five dollars is paid for an ounce of gold.

Dr. LUBIN. Taking into account not that fact, Senator, but the fact as to how much a dollar buys as compared to 1929. In other words, it is the purchasing power of 1929 prices of the dollars that are in existence today, in '33, and in '29.

Representative SUMNERS. Dr. Lubin, in using the figures for '29 as a base, were those prices and incomes and figures for '29 above normal, considering the general situation?

Dr. LUBIN. Well, of course I wouldn't want to discuss the concept of normal; they were higher relatively than they had been.

Representative SUMNERS. Would you permit a clarifying statement? If as a matter of fact in '29 prices were stimulated beyond where they ought to be, would it be a structural base upon which to calculate these other changes?

Dr. LUBIN. It doesn't make much difference, Congressman, which year you pick as long as you keep the thing constant. In other words, we could have taken '26 and gotten the same result, or '25 or '31. The idea is to convert them all into the price level of a single year.

Senator KING. Your figures are not based upon the quantity of production, not upon prices.

GROSS FARM INCOME

Dr. LUBIN. This is throwing out all price changes; this is quantitative. Senator Borah, in reply to your question, the gross farm income of '28 was $11,741,000,000; in '29 it was $11,941,000,000; in 1930 it was $9,400,000,000, so that in 1928 and 1929 they were about on a par. In '30 the first drop came.

Senator BORAH. The point is, if you permit me, that in 1928 and 1929 the income of agriculture was not sufficient for agriculture to maintain itself.

Dr. LUBIN. Exactly so. In other words, you have got a double loss; you have got a loss that existed in '28 and '29 in the sense, as you say, that there wasn't sufficient income to maintain the whole agricultural area, plus a further loss that took place because of the loss in gross income that arose in those years.

Senator KING. I suppose you haven't attempted to determine—it probably would be beyond the scope of your activities—the contributing factor to the decline in agriculture resulting from diminution in our foreign market.

Dr. LUBIN. That question, Senator, will probably be discussed later on in the hearings, but I don't want to give any reasons for why this happened. All I am trying to do is to say what did actually happen.

Senator KING. Speaking objectively.

Dr. LUBIN. Getting back to this chart, as I said, the total national income was $81,000,000,000. The loss in national income accumulated over this period of years was $133,000,000,000 which means you have accumulated loss which was about 165% of the 1929 level. However, I want to point out one thing. In 1937 we almost got back to the 1929 level. The great losses came here; they became constantly less and we almost got back to that point, and again you had this loss in 1938.

Senator KING. Is that volume of production or prices?

Dr. LUBIN. This is volume, taking the prices out. If you converted that into the amount of goods available to the people of this country, this loss over the last nine years is equal to a thousand dollars over the period for every man, woman and child in the country. In other words, if this amount of income in terms of physical goods had not been lost there would have been available, as a present to every man, woman and child, if we wanted to give it, a thousand dollars more than was actually available during that period of nine years.

FARM VS FACTORY

Representative SUMNERS. Would it interrupt you to ask this question: Whether or not you have a chart or study that would indicate the relationship between the breaking down of the purchasing power of one group and the general effect upon the whole group for the total?

Dr. LUBIN. We do have that relationship between the amount paid out to workers in factories and gross farm income. That we do have. I haven't

Regraded Uclassified

[illegible] amount it will be for that is a chart that has been put out by the Department of Agriculture and shows a very close correlation. The lag is in agriculture. In other words as pay roll go down, [illegible] income in agriculture income starts and falls.

As payrolls go up agriculture income starts going up. The reason is simple. Our [illegible] primary [illegible] agricultural products is the United States and in the largest single group in the United States are wage and salaried workers and as their incomes go up because of more work and more income they buy more farm products, the farm situation is very much improved.

EFFECT OF WORLD PRICES

Representative SUMNERS. Isn't the farmer's economic condition, though, determined perhaps as much by price as by quantity?

Dr. LUBIN. It is and of course the prices of some of his products are determined in the world markets. On the other hand, prices of other types of commodities, vegetables, milk and dairy products of one sort or another and other commodities of that sort are primarily local, they are very little affected by world prices.

Representative SUMNERS. But the vicinity which produces for agricultural export, may swing to dairy, trucking and that sort of thing. I don't want to get into any argument about it, but it makes it practically standard. I don't want to lead you too much into that.

Dr. LUBIN. I would like to point out this one fact. The important thing is that in terms of dollars that are available to farmers they do move up and down with the number of dollars available to wage earners, which gives you some idea of the part the domestic market plays in our economy.

Senator KING. I don't want to interrupt, but isn't it a fact, however, going back for many, many years prior to the discovery of gold, for instance, in California, when there was a great output of gold and precious metals, that prices had gone up and down and there had been radical and material changes in not only the volume of production but in the price of the commodities? So there is no [illegible] situation where the wage [illegible] same and the volume of production [illegible] same.

Dr. LUBIN. No, there isn't. The only thing you can do, however, is to throw out those fluctuations in prices and convert your national income, as we have on this chart, in terms of physical units. That is what you are virtually doing.

EFFECT OF INFLATION

Senator KING. Isn't it a fact that the monetary situation, the monetary system hasn't much to do with prices?

Dr. LUBIN. I am not going to speak as an authority on prices.

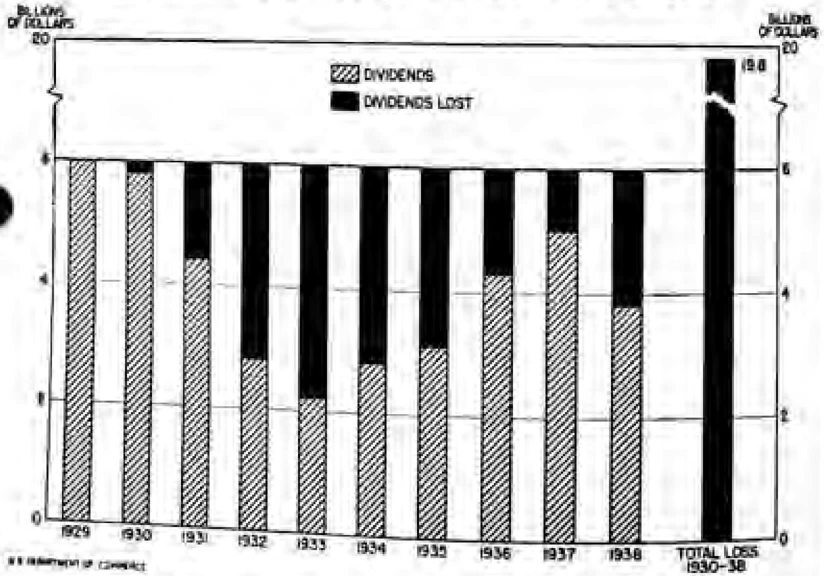
Senator KING. It is obvious if you have inflation your prices will go up.

Dr. LUBIN. Yes, that is what [illegible].

Mr. OLIPHANT. I would like to get a little further information on the basis of comparison. You mentioned the fact that you could have eliminated the price factor by choosing any other year. Isn't it true from the standpoint of these primary industries with the largest values

(Exhibit No. 13)

DIVIDENDS LOST IN DEPRESSION



The bar at the right shows that stockholders would have received 20 billion dollars more in dividends in the years 1930-38 if the high level of 1929 dividend disbursements had been maintained. The figures have not been adjusted for price changes since 1929, an adjustment which would make the loss smaller. Even allowing for price changes, stockholders' losses over this period from the relative inactivity of industry were probably more than twice their total dividends in 1929.

[illegible] is very significant because in that [illegible] to some extent to capacity?

Dr. LUBIN. It was the peak year in terms of using our resources [illegible] period.

Representative SUMNERS. One point I wish you would put in the record, as I [illegible] put in the record. I [illegible] a question since historically it is a fact that the prices of agricultural commodities [illegible] they move as low [illegible] the buying power of the [illegible] they can amount buy. It was [illegible] a product of this economic [illegible] with the purchase of [illegible] the buying power of the farmer. It seems to me that [illegible] at some point, if you [illegible] good enough, to put something in at that point.

Dr. LUBIN. As a matter of fact, we have available, have prepared for the committee a [illegible] series of charts and tables dealing with what has happened to prices during the last hundred years and particularly in the period from 1920 to date, and I understand that at a later date, tomorrow, we shall discuss the whole trend of prices.

Representative SUMNERS. I hope you will pardon me for anticipating that discussion.

Dr. LUBIN. Now the question was raised by Senator O'Mahoney as to what proportion of this income of ours goes to the different groups.

(The chart representing "Monthly Income Payments" was received in evidence and marked "Exhibit No. 14" and is shown on Page 16.)

You will notice there has been a very marked shift over a period of years in the total portion of the national income that is going to different groups.

The CHAIRMAN. May I interrupt you just to make a suggestion that when you refer to a new chart, it would be well to identify the chart so that it will appear in the record what particular chart you are referring to?

Senator KING. That is the reason I asked that they be numbered.

Dr. LUBIN. This chart shows the Monthly Income Payments from 1929 to date; in other words, the incomes of actual amounts paid out each month to labor, to farmers, business men and country merchants, amounts paid out in interest, amount paid out in direct relief, and the amount paid out to veterans by the Government. Back in 1929, 63 per cent of that amount went to labor. That was 1929.

The CHAIRMAN. In other words, this is an analysis of the distribution of income payments during the years from 1929 to 1938 among the various groups?

Dr. LUBIN. Yes. In 1937 it is estimated to be 57 per cent. The next group, an entrepreneurial group—that was included, as I said, business men, farmers and so forth.

The business men got twelve billion, that includes agriculture at that time. In 1937 they got about fifteen billion. The people who received dividends and interest received about 11.3 billion in '29, and last year they got to receive about 9.8 billion. The balance, you know, is relief and payments to veterans. The significant thing is that the amount going to labor decreased, as I say, from 51.5 to 46.7 billion; business men and farmers from 12 to 10.4. Dividends and interest, 11.3 to 9.8, which is less than a sixth of the total, and the amount being paid out in direct relief, of course, growing larger over those years, although you note there was an item of relief—private and otherwise—in the earlier years.

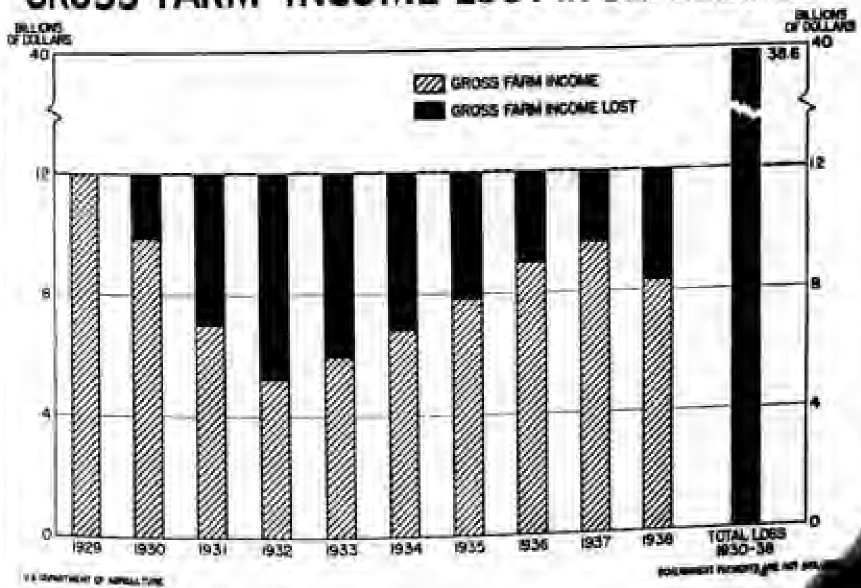
Senator KING. I didn't quite understand your statement as to the percentage received in wages and salaries for 1938. Did you give that?

Dr. LUBIN. No, it was 63 per cent in 1929 labor got 51.5 billion dollars; in 1938, October, the rate would be about 44 billion a year.

Senator KING. In percentage would

(Exhibit No. 12)

GROSS FARM INCOME LOST IN DEPRESSION



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[illegible] wages and salaries [illegible] per cent of the total income?

Dr. LUBIN. In 1929 it was 67 per cent, and [illegible] according to our figures.

Senator KING. The figures which I have here were 70 per cent. [illegible]

Dr. LUBIN. Senator, I will put in a [illegible] chart [illegible]

Senator KING. [illegible] Mr. King [illegible] I have given here.

Dr. LUBIN. [illegible] United States Department of Commerce.

The CHAIRMAN. Dr. Lubin, may I ask whether you would prefer to go through without interruption in the development of your statement and then submit to questioning later?

Dr. LUBIN. Frankly, it makes no difference. If there is anything that might be clarified at any given moment, I would prefer it brought up. It makes no difference to me.

Senator BORAH. I suppose it would be better, however, if you would go ahead and make your statement. Of course questions can be asked afterwards.

It seems to me there ought to be a continuity of statement from the witness.

The CHAIRMAN. If there is no objection, we will permit Dr. Lubin to proceed without interruption unless it should be for some major reason, continue.

Dr. LUBIN. Now, with this check in national income with the change in amount of goods that have been available to our people has come a very definite shift in certain parts of our economy. And this chart which shows national income by type of industry gives us a very good picture of the relative importance of the industries that produce goods, commodities, as compared to all other industries, such as produce services, power, light and things of that sort.

(Chart showing "National Income by Type of Industry" was received in evidence and marked "Exhibit No. 15" and is shown on Page 16.)

You will notice very definitely that in 1919 about half of the value of things produced in the United States were produced by factories, farms and other organizations that produced physical goods. About half of the value was contributed by the so-called service industries of the country, like retail merchandising, wholesale distribution and things of that sort.

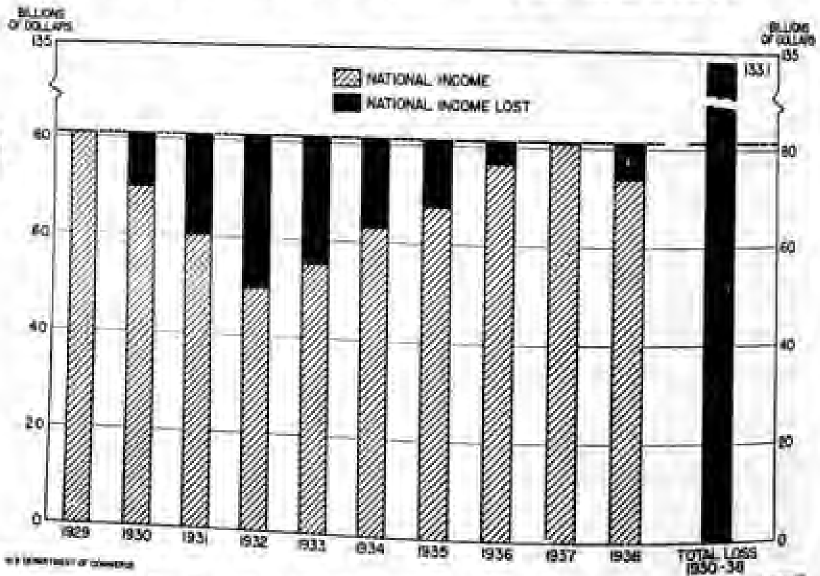
By 1929, this part contributed by the producers of physical goods had fallen to 42 per cent, and the group of industries other than commodity-producing had increased their proportion of the value to 58 per cent. By 1932, the value contributed to our national economy by the commodity-producing industries had fallen to 29 per cent of the total, whereas the value of the things produced by the so-called service industries constituted over 70 per cent of the total. In other words, more and more these other industries had become greater contributors proportionately to the national income of the country.

One thing, however, should be kept in mind. When you have a depression, the factories curtail their output faster than other business. I mean, people still use electricity; they still use gas, and the result is you get a situation where proportionately these industries become much more important.

On the other hand, too, there is a price factor there that must be borne in mind. Public utility rates don't go down as quickly as other prices. A lot of other service prices do not go down as quickly as commodity prices, and the result is that the total value here rather than commodity-producing industries becomes greater relatively to the total value there in commodity-producing industries.

(Exhibit No. 13)

NATIONAL INCOME LOST IN DEPRESSION



If our economic system had functioned as effectively in the nine years from 1930 to 1938 as it did in 1929, the people of this country would have had 133 billion dollars more real income than they actually had. The American people lost approximately one and one-half times as much goods and services as was produced in 1929.

INDUSTRIAL PRODUCTION

Now I would like to compare on this chart the total production of industries, on a total and a per capita basis.

(Chart showing "United States Industrial Production" was received in evidence and marked "Exhibit No. 16" and is shown on Page 17.)

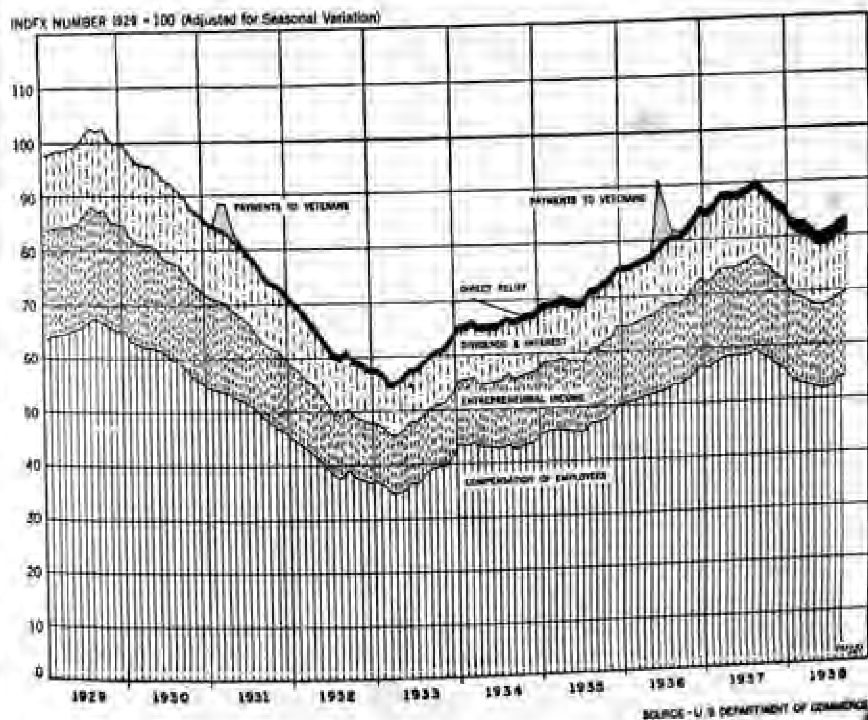
Our industries, mining, manufacturing, and so forth—this is industrial production only and omits agriculture—our industries in 1899 produced a relatively small proportion of the total as compared to the year 1929; but there was a very marked increase in the growth of manufacturing and mining during that period of time. As a matter of fact, the increase in the total goods produced by our industries was from about 100 in 1899 to 187 in 1910, whereas the per capita output of our industries increased from 100 to 135. In other words, our factories and mines were growing at a rate much faster than our population, with the result that in 1910 every consumer in this country was using about 35 per cent more goods than in 1899. In other words, the amount of goods available to the individuals of this country per capita was 35 per cent greater, at least in terms of products of mines and factories, than it had been in 1899, the answer of course being that industry was growing at a much more rapid rate than population with the result that you had gotten to the point where each person had more goods.

In 1929 our manufacturing industries were producing approximately three times as much as they had been in 1899, and despite the increase in our population the per capita production also increased with the result that twice as much goods were being produced for each person in the year 1929 as had been produced for each consumer in 1899.

In 1932, however, our total production fell back to 171, which put us back to just about where we had been in 1914. In terms of per capita, the amount of production fell from 197 in 1929 to 103 in 1932, so that in terms of the products of our factories and our mines, the aver-

(Exhibit No. 14)

MONTHLY INCOME PAYMENTS



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age citizen in this country had about as much available as he did in 1899. In other words, we were set back exactly thirty-three years in terms of the production of our mines and factories and the goods they produced that were available to each of our people. We reached 157 last year—and at the present time we are down to about 128, which puts us back at the level of about 1905.

(Chart showing "Physical Volume of Industrial Production" was received in evidence and marked "Exhibit No. 17" and is printed on Page 19.)

In this chart on "Physical Volume of Industrial Production" I have attempted to repeat the preceding chart, but to simplify it in order that you might see more clearly the tremendous drops that have taken place during the last twenty years.

If you start with 1919, which is the first year here, you will notice that our physical production rose in 1920, followed by the depression of 1921, revived again and by 1929 we were producing 25 per cent more goods than we were producing in 1922 and 1923. However, this 25 per cent more output declined to 42 per cent below where it had been at the beginning of the decade. By December, 1936, however, we had regained virtually all of the loss from 1929 and we were within three per cent of the peak of 1929. Then followed another decline in physical production during which the actual amount produced fell to approximately the level of 1922, back here, and for this year we estimate that the level will run something around 95 or 96. As a matter of fact, for last month it is estimated we produced 103 per cent of what we formerly did during this period here (1923-25) which was more or less a period of the last decade.

Senator KING. Physical production?

Dr. LUBIN. Physical production.

Now, the question is what caused these drops not in terms of what was responsible for the drops but what made that curve of physical production fall as it did.

(The chart showing "Output of Commodities" was received in evidence and marked "Exhibit No. 18" printed on Page 19.)

Here I attempted to break down the output of our factories and our mines in terms of the relative importance in American economy of the so-called durable goods and the so-called non-durable goods.

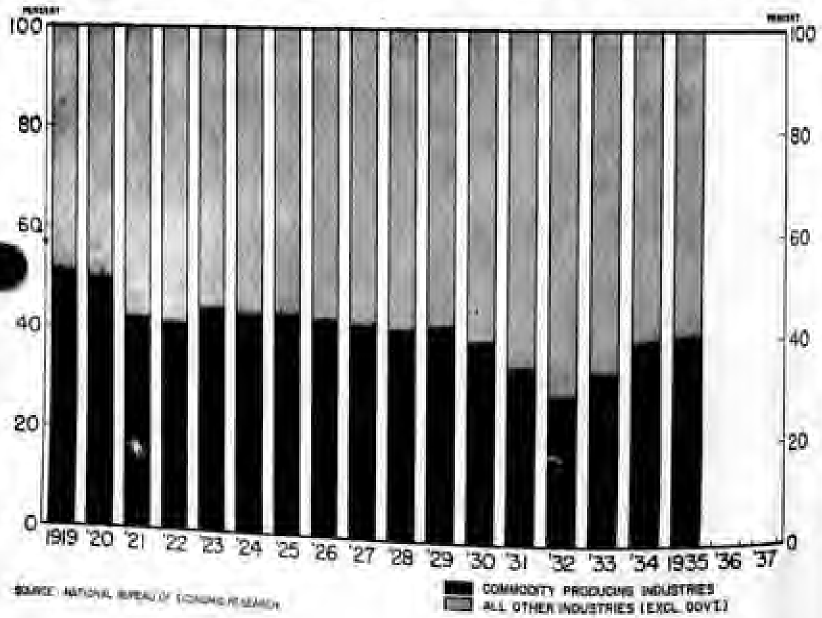
Now, durable goods, as we define them are any goods that are consumed over a period of years or period of time: in other words automobiles for consumers, refrigerators, locomotives, machinery, buildings and things of that sort, houses, of course, being the most significant of the latter, some of them being used directly by consumers, some of them being used in producing other goods.

I think it is rather important that we note the relative increasing importance of the so-called durable goods in the American economy. You will note that between 1879 and 1929, the importance of durable goods industries which contributed 31 per cent of our output in '79, had risen to the point where they are producing almost half of our output, 44 per cent. By 1932, however, their importance in the economy had fallen relatively only; I shouldn't say their importance. I will say that the amount they produced which accounts for that other drop in the manufacturing chart.

I might say for the record, Mr. Chairman, that this is not a government chart. It was prepared by the National Bureau of Economic Research in New York, and made available to us by

(Exhibit No. 15)

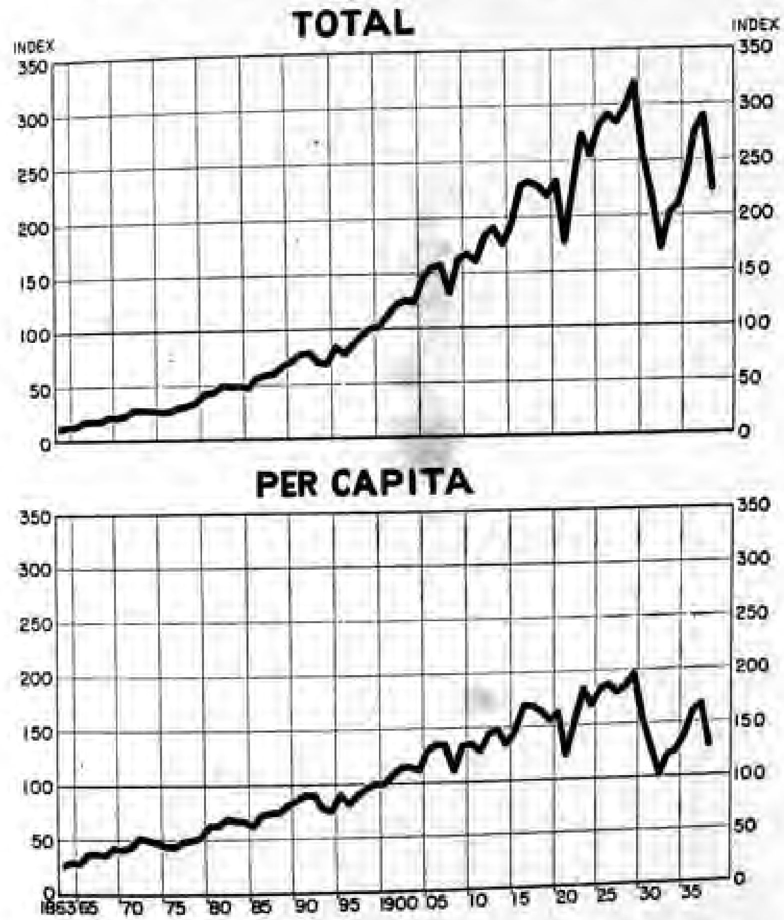
NATIONAL INCOME BY TYPE OF INDUSTRY



(Exhibit No. 16)

UNITED STATES INDUSTRIAL PRODUCTION

1899 = 100



From the Civil War to 1929 output of factories and mines increased much more
rapidly than the population, with the exception of a few scattered years. Since 1929, des-
pite an increasing population, production has been smaller. From 1870 to 1900 total out-
put (upper curve) multiplied five times; per capita output 2½ times (lower curve). From
1900 to 1929 output increased three-fold, and nearly doubled on a per capita basis. In
the nine years, 1930-38, industrial production has averaged nearly 15% smaller than in the
preceding nine years.

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its Director, Dr. Wesley C. Mitchell and I feel they should get credit for that chart.

(The chart on "Federal Reserve Index of Manufacturing Production" was received in evidence and marked "Exhibit No. 19" and is printed on Page 20.)

DURABLE GOODS

Here this picture is brought out more clearly. Here is your total manufactures. You will note that your non-durable goods production varied very little throughout this whole period of time. However, every break in the index (total manufactures) was primarily caused by a break in the durable goods industries.

Compare this break (durable) to that (non-durable) and you can see the importance this break in durable had in this total drop here (1929-32).

Similarly during the rise of the past few years you will note that the continued virtually static (non-durable), then went up (durable), which affected the total. In other words, apparently the modern depression is a durable goods depression; that is, housing and refrigerators and automobiles are among the first things that people apparently stop buying, plus the fact that industries stop investing in new equipment and plant.

Now compare this line here of the output of our factories and mines with this line here which shows the output of agriculture.

(The Chart showing United States Agricultural Production was received in evidence and marked "Exhibit No. 20" and is printed on Page 20.)

In other words, farmers don't start producing when other people stop producing. As a matter of fact, there has been a steady increase with little declines here and there, but amounting to more than 50 per cent, a large increase in the total agricultural production, a drop here during the period 1934, '35, '36, but again another increase with a total output in 1937 was almost as high as we had in any previous time.

Senator KING. This is still volume?

Dr. LUBIN. Yes.

Representative REECE. Is it your intention to explain what causes the demand for goods? For instance: the cause that gave demand for agricultural goods was introduced, and those that give demand for other commodities.

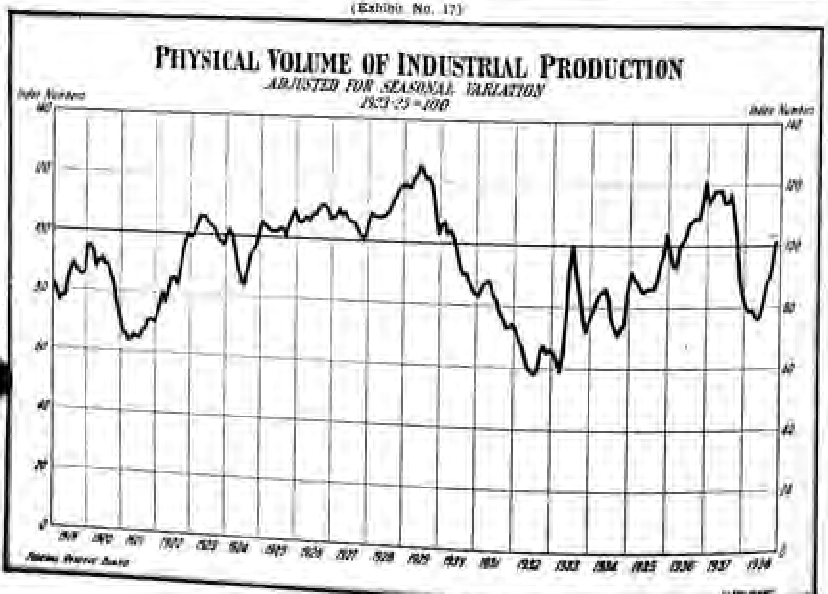
Dr. LUBIN. I am not intending to explain it today but I think sometime in the course of the hearings that question ought to come into the picture. All I am attempting to do is to show how the economy has failed in certain segments to produce the goods that we ought to have really to maintain our standard of living, and I have attempted to point out the weak spots in the system in terms of factory production, durable goods, non-durable, agriculture, and so forth.

Representative REECE. It seems important that agriculture has produced too much and industry has produced too little. In other words, whether the legitimate demand for goods has been over supplied or under supplied.

Dr. LUBIN. Of course, I don't think that one could answer that specifically for this reason: The reason agriculture may appear to have produced too much is because these other folks are producing too little, or vice versa. I don't think that one can say that at any time too much is produced because there is always a possibility of increasing the standard of living. Of course there may be a limit to certain types of goods that people will consume, but I don't think we have ever reached that stage either in cotton, wheat or any of those products in the United States in terms of what they would consume if they were going to maintain a standard of living we think of as an American standard of living.

Mr. OLIPHANT. I have a question on this, a further word of explanation on the significance of the chart headed "Federal Reserve Index of Manufacturing Production." Are there particular non-durable goods, the volume of which fol-

(Exhibit No. 17)



low the pattern of the lower line and also [illegible] durable goods which follow the [illegible] of the other line?

Dr. LUBIN. I am going to break that down in a few minutes into individual commodities so you can see what that [illegible] has been.

Mr. OLIPHANT. That is, the difference there is a rough and ready difference.

Dr. LUBIN. Yes.

Senator KING. If I may be pardoned, having referred to agricultural production, did you discover in your investigation that [illegible] the exports of agricultural commodities such as cotton, wheat, corn and beef lard, and so on, had been reduced during the past eight or ten years?

Dr. LUBIN. Very, very definitely. The Secretary says that Mr. Thorp is going to deal with the export and import problem.

The CHAIRMAN. Have you made a chart showing the per capita production of agricultural commodities?

Dr. LUBIN. We have the figures. I haven't a chart of them. I could put them in the record.

The CHAIRMAN. Don't you think that would be an interesting thing to show in the record?

Dr. LUBIN. Yes. It will follow that (index of total agricultural production). The curve will keep straight up.

Mr. Oliphant raised the question as to various types of industries and whether their pattern follows the pattern of the manufacturing industries as a whole. There is the pattern for the last twenty years of building construction, and you will note that the peak was in '25 where the peak in manufacturing was in '29.

(Chart "Value of All Construction" received and marked "Exhibit No. 21" and is printed on Page 21.)

You will note that the low point in total production was reached in '33-'34, where the low point in industrial production was reached in 1932. You will note that, on the other hand, your peak of residential building was reached about the same time the peak in total building was, whereas the peak in private nonresidential, which means factories, plants and so forth, wasn't reached until three years later, whereas the peak in public works wasn't reached until 1936. In other words, even in the building industry you have a varying pattern of output produced.

(Chart entitled "Residential Units Provided for in New Non-Farm Construction" was received and marked "Exhibit No. 22" and is printed on Page 22.)

If you take this figure of residential construction, which, after all, is the most significant factor in the American building industry, you will note some rather significant things. You will note that the annual number of residences that were built fell from 937,000 units in 1925 to 54,000 in 1933. Your industrial production, of course, never traveled at such terrific rate. Even in 1937 it is only up to 284,000. In terms of one-family units, the drop was proportionate to the other although the rise had been not so great, and we are back to the point where we are producing approximately 230,000 or 240,000.

On the other hand, the number of two-family houses built in the United States is still virtually zero. It is so small that we can hardly see it there.

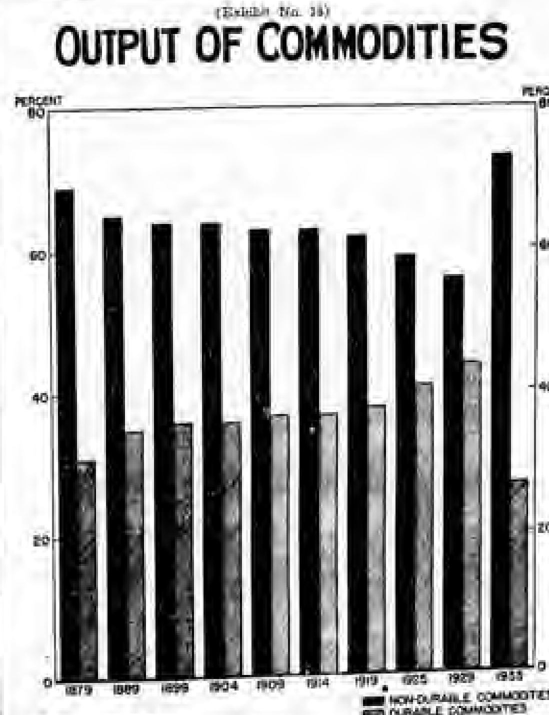
As a matter of fact, the actual number of two-family houses built in 1934 was 3,800. The actual number of apartments built in 1931 was only 7,000, 7,000 dwelling units in apartment houses, whereas one-family houses never fell below 30,000 units and in 1937 aggregated in excess of 213,000.

It might be interesting to compare the trend of housing in various parts of the country. You will note that the northeast got far above the rest of the country, fell to approximately 5,000 units per year, but is gradually going up. You will notice, on the other hand, that the South is moving much faster relatively than the Northeast in new housing. You will find that the North Central States come in some place between the Northeast and the South, but in terms of the speed of development the South is moving faster in new housing than any other part of the United States.

Coming back again to this question of the course of production in various industries as compared with industry as a whole, you will note here again, Mr. Oliphant, the curve of production from 1919 to cement.

(Chart entitled "Production and Capacity of Portland Cement Mills, 1910-1937," was received and marked "Exhibit No. 23" and is printed on Page 23.)

(Exhibit No. 18)



NATIONAL BUREAU OF ECONOMIC RESEARCH

Throughout the fifty years, 1879-1929, durable commodities increased in importance as compared with non-durable commodities, largely as the result of increased expenditures by consumers for such durable articles as automobiles, electric refrigerators, etc. Since 1929 there has been a sharper drop in these postponable expenditures than in purchases of non-durable necessities like food and clothing.

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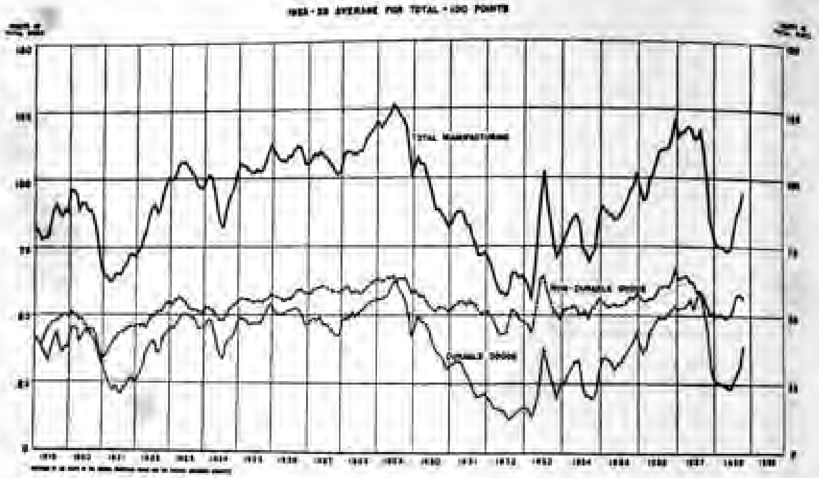
(Exhibit No. 19)

FEDERAL RESERVE INDEX OF MANUFACTURING PRODUCTION

ADJUSTED FOR SEASONAL VARIATION

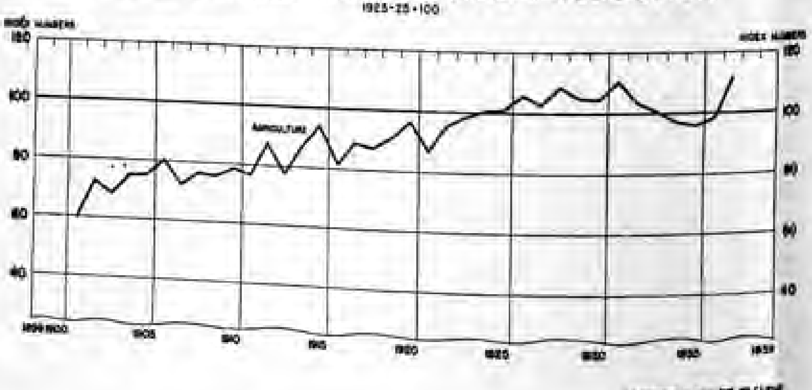
1923-25 AVERAGE FOR TOTAL = 100 POINTS



(Exhibit No. 20)

UNITED STATES AGRICULTURAL PRODUCTION

1923-25 = 100



You will note that starting out with the capacity of approximately a hundred million barrels a year, that capacity kept increasing steadily up through 1932, when the capacity was 225,000,000 barrels a year. On the other hand, the production reached its peak in 1928, went down then, and has not come back as fast as industry as a whole came back, where you note income came back almost to the level of 1929. Similarly, pig iron is exactly the same in status.

(Chart entitled "Pig Iron Production and Capacity of Blast Furnaces, 1919–1937," was received and marked "Exhibit No. 34" and is printed on Page 33.)

There capacity kept increasing and then flattened out. Production varied up and down, reached a peak of 42,000,000 gross tons in 1929, fell from 42,000,000 to 9,000,000 by 1932, and it is now back to 37,000,000 for last year and for the first ten months of this year will probably be close to 14,500,000.

THE CHAIRMAN. Dr. Lubin, what is your explanation of the fact that this chart would indicate that some time in 1916 or '17 production exceeded capacity?

Dr. LUBIN. War orders. You had a tremendous demand for steel, with war orders from all over the country, and capacity was stepped up to take care of them. They opened blast furnaces that had been shut down for years in order to fill the orders.

SENATOR KING. There were demands from abroad, from the warring nations, and then we took it on ourselves.

THE CHAIRMAN. My thought was, how could production exceed capacity to produce?

Dr. LUBIN. My assistant says that is "practical" capacity—in other words, working efficiently, this is what production would be.

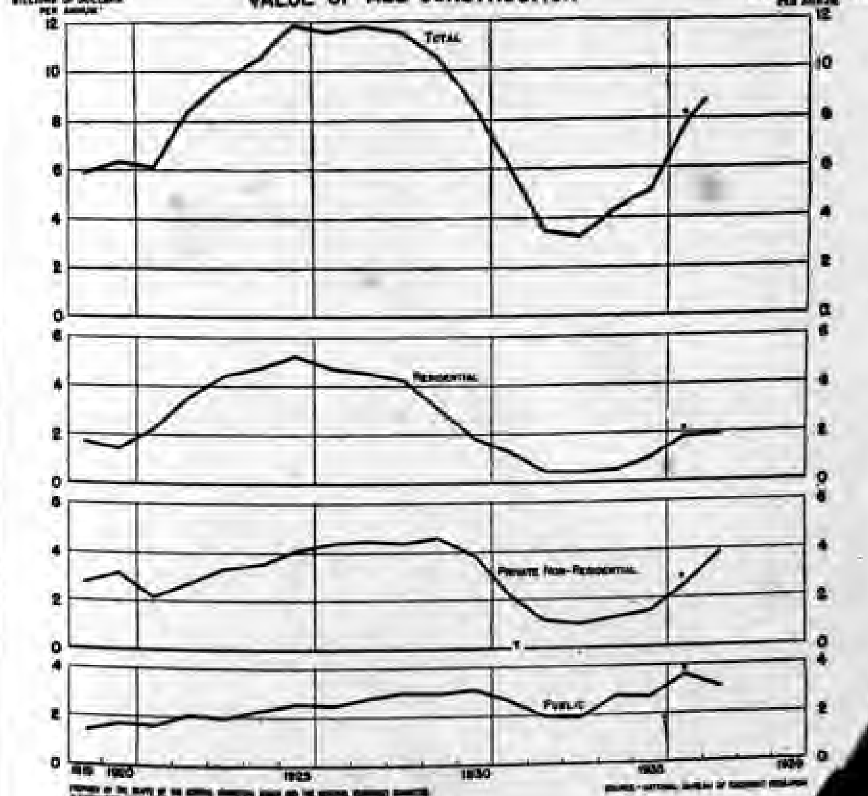
THE CHAIRMAN. I see. I couldn't see the word "practical" from this point.

(Chart No. 26, "Annual Production of Automobiles," was received in evidence and marked "Exhibit No. 35" and is printed on Page 34.)

Dr. LUBIN. You find the same thing true of automobiles, rising from less than 2,000,000 in 1919 to 5,350,000 in 1929, fall-

(Exhibit No. 21)

VALUE OF ALL CONSTRUCTION



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ing to only 1,370,000 in 1932, which was less than they produced even in 1919, thirteen years previously, and here again in 1937 to 4,800,000 and much less than that for the present year.

Senator KING. Those two charts show a close relation between the production of pig iron and the increase in the production of automobiles.

Dr. LUBIN. There isn't really a close correlation for the simple reason that during periods of high activity the demand for steel is caused not only by automobiles but by building construction, railroads and other big users of steel and things of that sort. The production of automobiles has moved at a much faster rate, relatively, than the increased demand for the other products, so although the automobile industry is increasingly becoming important as a factor in steel production, there was a long period here where other industries played a tremendously important part in the production. If these other industries get back to the levels of previous years, of course the relative effect of automobiles will be even less than it is at the present time.

Dr. LUBIN. You see the same thing, of course, in the case of bituminous coal.

(Chart No. 24, "Annual Production of Bituminous Coal," was received in evidence and marked "Exhibit No. 27" and is printed on Page —.)

You have a situation where, in 1920, we produced 569,000,000 tons of coal. In 1929, when industrial activity was far greater than in 1920, we produced 535,000,000 tons less, in spite of the fact that industry was producing something like 25 per cent more goods. Of course the answer there is competition of other fuels, water power, oil and things of that sort. In 1932 the production of bituminous coal fell to 310,000,000, which is slightly less than half of what it had been. In 1937 it was 442,000,000, and we estimate about 350,000,000 for 1938.

The significant thing is that physical production has been going up during the period from 1923 to 1937, but the increase in coal production did not move at anywhere near that same rate.

Of course, one other factor should be considered, the efficiency of coal utilization has gone up tremendously. It takes a lot less coal to do a given amount of work than a decade ago.

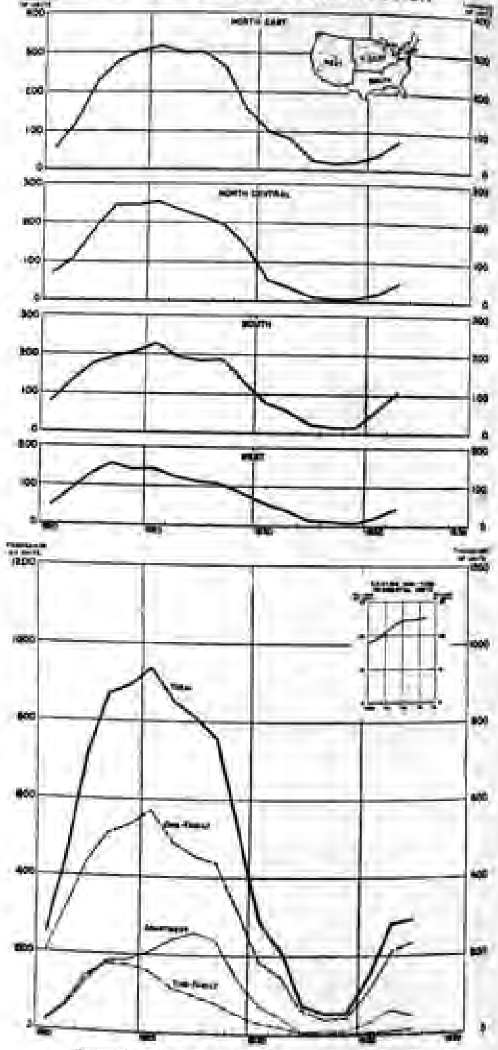
(Chart No. 25, "Annual Production of Lumber," was received in evidence and marked "Exhibit No. 28" and is printed on Page —.)

Here is another industry that is tremendously significant. Forty-one billion feet of lumber were produced in 1909, which fell to 10,000,000,000, a drop of 75 per cent, in 1932, and in 1937 we were not even back to the 1921 level. There is still that tremendous difference here and that despite the fact that industry as a whole was up here. Of course building is the big factor there on lumber production and of course there is this other factor, that there have been substitutes for wood used, particularly in paper containers, which have almost entirely displaced wood boxes in the past ten years.

(Chart No. 26, "Annual Production of Shoes," was received in evidence and marked "Exhibit No. 29" and is printed on Page —.)

(Exhibit No. 22)

RESIDENTIAL UNITS PROVIDED FOR IN NEW NON-FARM CONSTRUCTION



Prepared by the staffs of the Central Statistical Board and the National Resources Committee

Source—National Bureau of Economic Research

In contrast to these industries I have been showing you, which produce for the most part durable goods, look at the shoe industry which produced far more shoes in 1936 and '37 than produced even in '29. There you have a non-durable consumer goods, something that wears out fast, plus the fact that there has been a very marked style change in the industry. If you want to wear out a shoe fast, change the style that women use quickly, and they automatically create a new demand; there also has been a tremendous change in the technic of shoemaking, the price at which certain styles are available, and the number of new styles.

Mr. OLIPHANT. Do you know of any durable goods that will follow that line?

Senator KING. There is less leather used in the manufacture of shoes than ten years ago.

Mr. HENDERSON. I think if you had a refrigerator chart, that would be inclined to be comparable in consumer durable goods.

Dr. LUBIN. Yes. It is a new product coming into the market.

Senator BORAH. What are the figures there on importations?

Dr. LUBIN. This is '36 and '37. I don't know the exact figures, but I know in 1937, when they were holding hearings on the Wage and Hour Bill, the question of shoe importations was raised, and I took it at that time that it was about 1,800,000 pairs per year that they were importing, while on the other hand we were producing something in excess of 400,000,000 pairs.

Senator KING. And it has been reduced during the past year, the imports from Czechoslovakia, particularly.

Dr. LUBIN. We could go on through a whole series of these.

(Chart No. 27, "Textile Fiber Consumption by United States Manufacturers, 1870-1937" was received in evidence and marked "Exhibit No. 29" and is printed on Page 27.)

Here is the case of cotton, another non-durable goods made into clothes. We consumed more cotton in the year 1937 in our factories than in any other year in our history, despite the fact that at the same time silk was going up and rayon was taking this tremendous jump here, and wool also, was expanding in terms of consumption.

Representative SUMNERS. May I ask you, please, have you any figures to show whether or not that increase of production in any of those years added to the carry-over, added to the surplus?

Dr. LUBIN. There were surplus inventories in textiles, very definitely, this past fall.

Representative SUMNERS. I am afraid I didn't ask my question properly. Is there any way to show what percentage of those increases added to the surplus? Do you show whether there gets to be a momentum of production so that you run your surplus up beyond what your consumption is over a given period.

Dr. LUBIN. I think very definitely that happened in 1937, in cotton. We were not absorbing our production. I think it was also partly true in wool.

(Chart No. 28, "Annual Production of Cigarettes," was received in evidence and marked "Exhibit No. 30" and is printed on Page 28.)

Now I would like to go to one more consumers goods, namely, cigarettes, where you have the astounding situation that in 1929 we used 119,000,000 lbs. of tobacco in making them; we produced and consumed the same amount in 1930, and last year we used 103,000,000 lbs. As a matter of fact, there is a slight drop in those two years, but there otherwise has been a perfectly straight line in cigarette consumption, and I know of no more non-durable consumer goods than cigarettes.

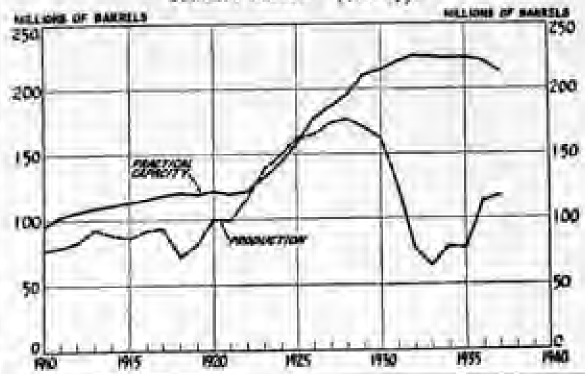
Finally in contrast with what happened in the manufacturing industries, we have this chart, with this tremendous up and down, showing your department store sales. Let's forget the red lines which are Christmas and this is August and September.

(Chart No. 29, "Department Store Sales," was received in evidence and marked "Exhibit No. 31" and is printed on Page 28.)

The CHAIRMAN. You are now ta[illegible]

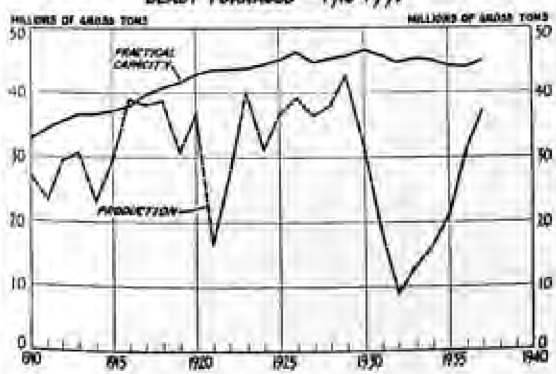
(Exhibit No. 23)

PRODUCTION AND CAPACITY OF PORTLAND CEMENT MILLS – 1910-1937



(Exhibit No. 24)

PIG IRON PRODUCTION AND CAPACITY OF BLAST FURNACES – 1910-1937



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ring to the chart on Department Store Sales?

Dr. LUBIN. Yes. You will note that we never got back to the point where we had been in 1926, '27 and '28. As a matter of fact, at the present time we find that we are doing just about 10 per cent less in terms of volume of sales, based on dollar volume, than we were doing during this period. However, that doesn't mean we are selling that much less goods, because there has been a change in the retail prices that department stores charge.

Senator KING. Where do you draw the line between department stores and small department stores, if I may use that expression, or other stores selling the same articles?

Dr. LUBIN. The Board of Governors of the Federal Reserve System has a list of representative department stores in cities throughout the country, and this chart is made from their reports.

Senator KING. Would that include chain stores?

Dr. LUBIN. No, nor mail order. It would not include Sears.

The CHAIRMAN. As I understand it that chart is prepared by the Federal Reserve System and it is rather a typical chart than an attempt to survey the entire merchandising structure.

Representative REECE. I didn't hear all the questions. This may have been asked by one of the other members. Does the chart include sales by five-and-ten-cent stores and drug stores, the activities of which appear to have been enlarged very greatly in the last few years?

Dr. LUBIN. No, as a matter of fact, it does not, but there are certain statistics available, not going back very far, showing chain store sales and also showing mail order sales. These are only department stores in selected cities in the country which have been reporting over a period of years to the Federal Reserve System.

Representative REECE. The sales of those stores have a very important relationship, however, to the total sales.

Dr. LUBIN. Similarly, you have here an industry sharply affected by durable goods production.

(Chart No. 31, "Index of Freight-Car Loadings," was received in evidence and marked "Exhibit No. 28" and is printed on Page 35.)

The story of transportation on rails is heavy itself. Of course, the percentage going over rails has been getting less and less, but the effect of the importance of the durable goods industry upon the railroads is shown here very definitely, where that drop is almost proportionate to the drop in the heavy goods industries, with the rise following pretty closely the rise in the heavy goods industry and that drop following this drop. Whether or not we ever get back to the point where we will be carrying as much freight in terms of carloads as we were before 1929, due to the [illegible] situation of this country and the trucks, of course, is a question.

The CHAIRMAN. If it is convenient to you, Dr. Lubin, we will take a recess at this time until 2 o'clock.

(Whereupon, at 12:00 noon, a recess was taken.)

The committee resumed at 2:15 p. m. on the expiration of the recess.

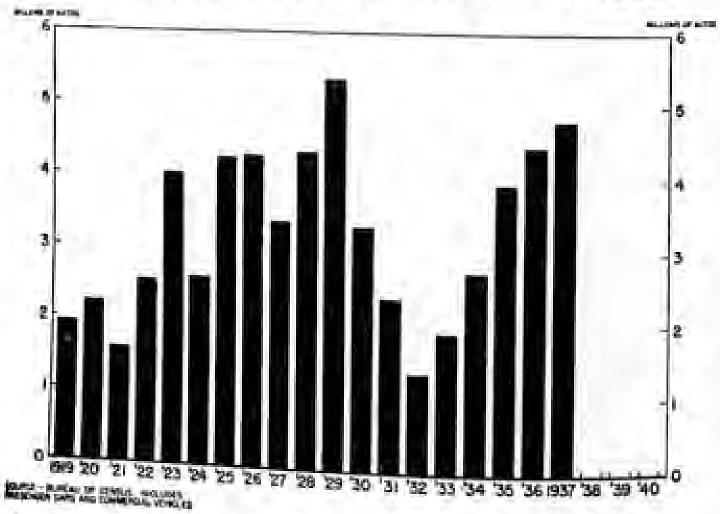
The CHAIRMAN. The meeting will please come to order. We are ready to begin, Dr. Lubin.

Testimony of Dr. Isador Lubin, Commissioner of Labor Statistics, Department of Labor, Washington, D. C.—(Resumed).

Dr. LUBIN. Mr. Chairman, if I might just sum up this morning's discussion, I would like very much to emphasize the fact that the purpose thus far has been to show what the loss has been to the American people as a result of the failure of our economic system to function smoothly and regularly. As I pointed out, the total loss in national income, adjusted to a fixed price level, was $[illegible] over the period of nine years. I would like to point out further that if you don't make the allowance for the change in price level that figure becomes $[illegible]. In other words, if you just took the total loss for each year and added them together, and did not adjust them for changes in price level, you would have really that result.

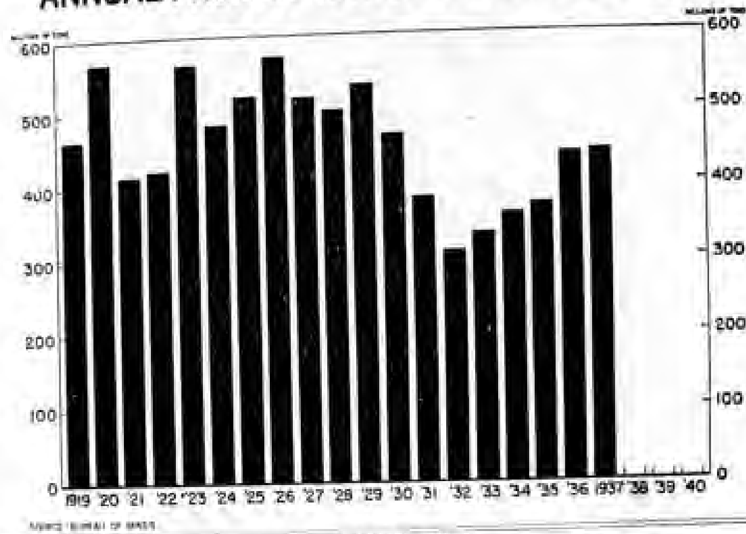
(Exhibit No. 25)

ANNUAL PRODUCTION OF AUTOMOBILES



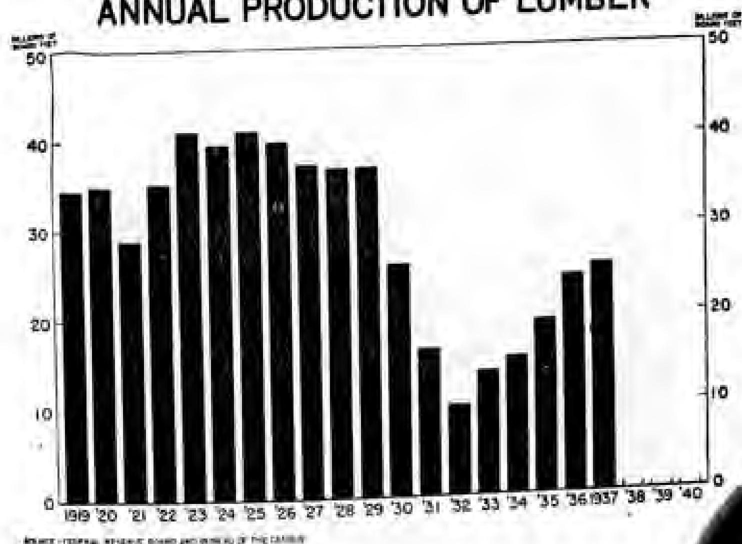
(Exhibit No. 26)

ANNUAL PRODUCTION OF BITUMINOUS COAL



(Exhibit No. 27)

ANNUAL PRODUCTION OF LUMBER



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The CHAIRMAN. What was that consumer income?

Dr. LUBIN. It was $[illegible].

I attempted to point out further what segments of the economy failed most to function, and attempted to point out further how the loss was divided among the wage and salaried workers of the country, the farmers and the investors. I pointed out further that in the manufacturing industries the great losses occurred in the durable goods industries, namely the producers of those commodities that are slow in their rate of consumption, including machinery, plant equipment, durable consumer goods such as refrigerators, automobiles and things of that sort.

The effect of these shifts in the economy as evidenced in the different branches of the economy is shown in this chart, called "Non-Agricultural Employment in the United States."

(Chart No. 32, "Non-Agricultural Employment in the United States," was received in evidence and marked "Exhibit No. 32" and is printed on Page 30.)

This lower part here gives you the number of people employed in the manufacturing, mining, construction, transportation and public utility industries, and you will note that there was a gradual decline to '32, then an upturn, and then the downturn, so that by 1938 we have 12,[illegible] people employed in these industries as compared with 17,000,000 people employed in these industries in 1929. Incidentally, the figures deal with the same month in '29 as in 1938.

On the other hand, the distance between here and here, which represents the number of people employed in trade, finance, services and the government, the distance between this line and that line, is almost the same as it is today. In other words, in terms of total number of people employed in trade, finance, services and government, the actual figure in September 1929, was about 12,000,000, and the figure today is about 12,300,000, virtually no change in the actual number of people employed in those activities.

In terms of the upper group, proprietors, self-employed and casual workers, there is actually an increase today as compared, there being slightly smaller than the distance between these two top lines at the present.

This is the proprietors, self-employed and casual workers.

GOVERNMENT EMPLOYEES

The CHAIRMAN. May I ask, before you leave that, whether you have made any, to 1929, the distance between here and break-down of the middle group, namely trade, finance and government? The question I have in mind is whether or not there hasn't been a large increase in the numbers employed by government.

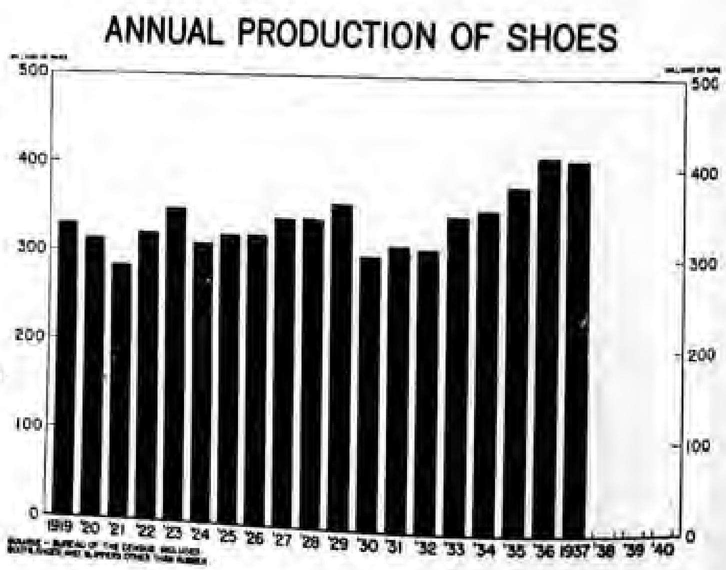
Dr. LUBIN. We have the actual figures of the numbers employed. There has been a perceptible increase in the number employed by government, but the total increase in government employment as compared with this total has been relatively small. We have the exact figure.

GOVERNMENT EMPLOYMENT
(Included in Total Non-Agricultural Employment Estimate)
(In Thousands)

	Sept. 1929	Mar. 1933	Sept. 1937	July 1938	Oct. 1938
Regular government service [1]	1426	1384	1656	[illegible]	[illegible]
Government construction [1] [2]	744	494	659	811	[illegible]
Schools and hospitals	1139	1146	1252	1323	[illegible]
Total	3309	3024	3548	[illegible]	[illegible]

[1] Federal, State and local. [2] Excluding PWA.
Source: Bureau of Labor Statistics.

(Exhibit No. 28)



Senator KING. Isn't it a fact that there are more than 2,000,000 permanent employees on the government pay rolls today, to say nothing of the enormous number in W. P. A. and the other organizations, so that the increase in the number of persons on the government pay roll or paid out of the public treasury is very much greater than it was in 1929 or any preceding period?

Dr. LUBIN. That is true, sir, but these figures do not include W. P. A. or C. C. C. They include regular government employees on the regular pay rolls of the government, and city governments, state governments, county, municipal, and others. It does not include those on relief projects.

Mr. ARNOLD. Your point is that it takes the same number of people to get that particular job done.

Representative REECE. What does "casual workers" mean?

Dr. LUBIN. Longshoremen, domestic servants, etc., people who do not have steady employment in the sense that they work month after month in the same industry.

The CHAIRMAN. How about the construction industry? A good deal of that work is casual.

Dr. LUBIN. Some of that is included here.

(Chart No. 33, "Employment & Pay Rolls, all Manufacturing Industries," was received in evidence and marked "Exhibit No. 34" and is printed on Page 31.)

I am sorry I haven't a larger chart on employment and pay rolls in manufacturing, but I want to show now, from this group here to what has happened to employment in the manufacturing industries in this country during recent years. For the sake of mathematical simplicity we have taken these three years, '23, '24 and '25, as an average, to compare them, and the thing I like to point out is that despite the fact that our index of physical production rose very perceptibly, rose by 25 per cent, during the decade of the twenties, the total number of people employed in the manufacturing industries hardly rose at all. (Referring to Exhibit No. 10.) As a matter of fact, only with the exception of a short period in 1929 the manufacturing industries of the country were employing just about the same number they were earlier in the decade, although for a short period they reached a point where they were employing 10 per cent more workers than they did earlier in the decade, while the index of physical productions went up very markedly.

The CHAIRMAN. In other words, there was a constantly decreasing number of persons necessary to produce a constant output.

Dr. LUBIN. Exactly that.

SENATOR KING. That constant output, and any improvement in it was the result in part of new technology.

Dr. LUBIN. New technology, new methods of doing things.

SENATOR KING. Greater use of machinery.

Dr. LUBIN. And greater use of management procedure, not necessarily putting in a new machine, but reorganizing your flow of goods and processes and things of that sort.

SENATOR KING. Better distribution.

THE CHAIRMAN. In other words, what you are demonstrating is that both the capacity to produce and efficiency of production have been increased.

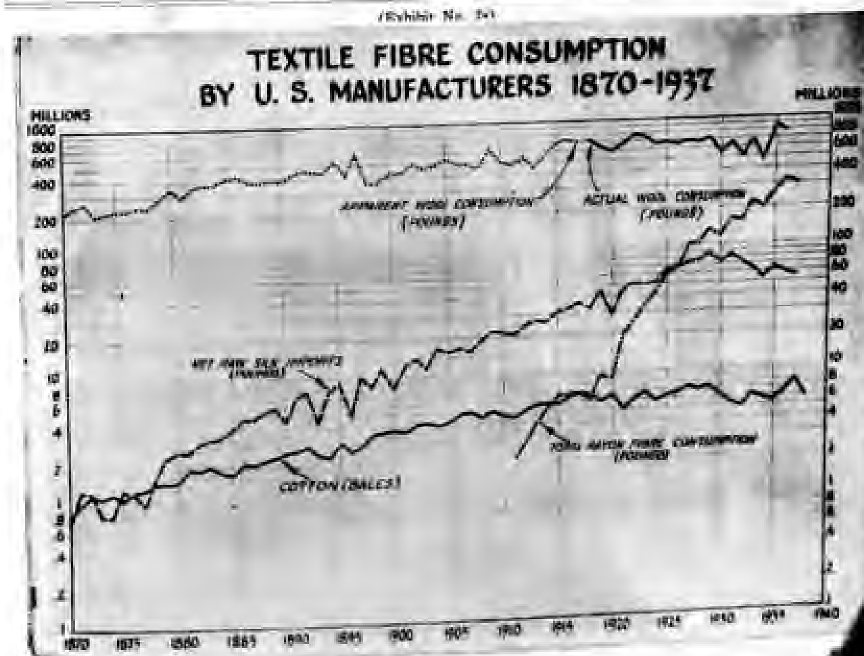
Dr. LUBIN. Exactly.

Now, the question arises how to account for the employment situation during this period of time when production was going up, employment in the manufacturing industries remaining more or less stable, and at the same time we were adding to our labor supply—by that I mean people of working age—a net increase after you deduct people who retire and die, of something like 400,000 people every year.

Senator KING. In part women?

Dr. LUBIN. Proportionately about the

(Exhibit No. 34)



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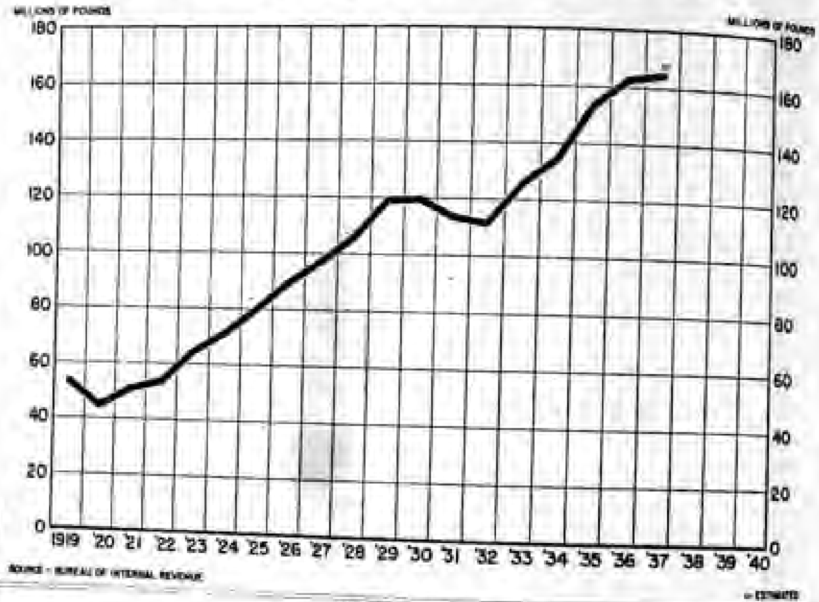
(Exhibit No. 30)

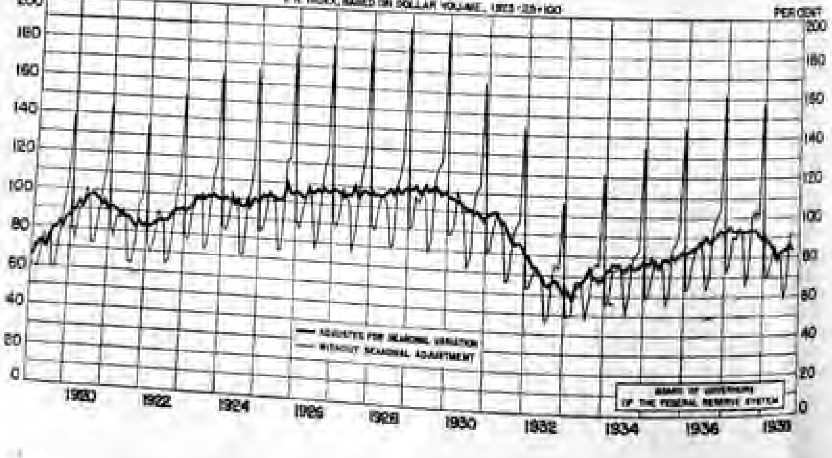
ANNUAL PRODUCTION OF CIGARETTES



(Exhibit No. 31)

DEPARTMENT STORE SALES

F.R. INDEX, BASED ON DOLLAR VOLUME, 1923-25=100



same number of women as in the previous decade. That was the net growth in the number of people of working age who normally would go to work after they reached a certain age.

The CHAIRMAN. How many per year?

Dr. LUBIN. Approximately 550,000, and they were not being absorbed by manufacturing industries.

The CHAIRMAN. That is a net increase?

Dr. LUBIN. Net increase. The answer is they went to the garages, beauty parlors, hotels, laundries, dyeing and cleaning establishments. We developed a whole series of services which added to our standard of living during that period and furnished the labor supply for it through this excess that was entering the labor market each year.

Senator KING. Isn't it contended that there are about eighteen new industries developed during the past few years which have absorbed several million employees?

Dr. LUBIN. I would say over the last decade and a half yes.

The CHAIRMAN. Has the expansion of the service group of activities absorbed this increased available labor population?

Dr. LUBIN. It did at a pretty good rate up until 1929. Since 1929 it has not been doing that at all.

If I may point for a moment to what happened to that employment situation after 1929, so we may follow it through, it reached a peak of 110 in 1929. It fell to 61 at the bottom of the depression in 1932. In other words, for every 110 people who had jobs in factories in 1929, only 61 had jobs at the bottom of the depression. Those workers were absorbed, and last year we were employing in our factories just about the same number of people as we employed at the peak of 1929. In other words, the manufacturing industries of the country had got back to the point where they were doing as well in terms of employment as they had been doing in 1929. On the other hand, your pay rolls which had got up to a point where they were 14 per cent above the average period of '23, '24, '25, fell to 38, which meant that our factories were paying out 38¢ each week for every dollar that they were paying out in this period in the early part of the decade. In other words, as far as the wage earners were concerned, they were getting, in actual pay rolls each week, approximately 62 per cent less than they had been getting in the 1923-25 period.

The CHAIRMAN. In other words, the compensation of industrial workers, factory workers, dropped to a much greater extent that the number of persons employed.

Dr. LUBIN. Yes. That, of course, was due in part to wage slashes but for the most part to irregular employment. The man who had a job had only one or two days, where formerly he worked six.

The CHAIRMAN. Apparently from that chart the compensation remained far below the employment level for several years.

Dr. LUBIN. Yes, very definitely. As a matter of fact, it remained below it until early 1937.

Senator KING. You are speaking of the aggregate number of employees, rather than the compensation per unit?

Dr. LUBIN. Yes. As I said, we did get back in employment. We also got back

(Exhibit No. 32)

INDEX OF FREIGHT-CAR LOADINGS

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[illegible]

Representative [illegible]. I understand, but still I am wondering if your pay roll line meant the proper relationship to the employment line, since the employment line includes those intermittently employed, employed on a part-time basis, whereas your pay roll line includes the total wages paid, and therefore would have a tendency to indicate that probably the daily wage was less than it actually was.

Dr. LUBIN. As I attempted to say, Congressman [illegible], the reason why this pay roll was so much lower than that [illegible] but the major reason was the fact that these people who were working were working part time, whereas before they were working full time, so that at the end of the week the amount they earned, you see, was considerably less than you would expect in view of that [illegible].

Senator KING. May I interrupt you? I have before me [illegible] tables, from which you have largely based your calculations. I find that in 1929 the entire wages and salaries paid was approximately $[illegible] and in 1932 it [illegible]. And this table shows the payments in billion dollars each of the [illegible] years between 1929 and 1932 and [illegible] it was less than the amount paid in wages in 1929.

Dr. LUBIN. Well, that is all wages and salaries, etc., which includes all of these folks here. These include only factory workers. This chart (Exhibit 32) refers only to manufacturing industries.

EMPLOYEE COMPENSATION

Senator KING. Take employee compensation, that is, $41,[illegible] in 1929.

Dr. LUBIN. That is the total paid out in a year.

Senator KING. And the total income for the year—have you those figures here?

Dr. LUBIN. Yes. Did you say [illegible]

Senator KING. So that $41,[illegible] was paid in wages and salaries out of fifty-five billion.

Dr. LUBIN. I don't know which figure he is referring to there. Employee compensation was forty-one billion; the gross national income was fifty-three billion.

Senator KING. That is what I indicated, so that nearly 80 or 90 per cent of the entire national income was paid in wages. I am [illegible].

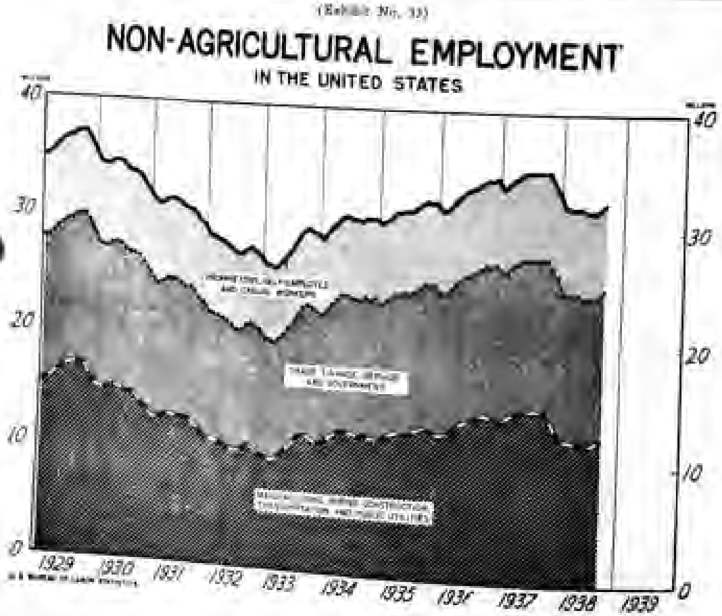
Dr. LUBIN. Sixty-six per cent approximately.

LABOR SAVING DEVICES

Representative SUMNERS. Doctor, have you anything, if I may ask you, to indicate how much the development of labor saving devices is reflected in the relative volumes of production and wages?

Dr. LUBIN. I would say they were a very significant factor, and we do have materials available dealing with speci-

(Exhibit No. 33)



industries. Some industries progressed at a terrific rate; on the other hand other industries change very little in their output per man-hour. You can't generalize. It was an important influence on what happened to the output on railroads per man-hour, bituminous coal mining per man-hour, and coal mining per man-hour, and manufacturing per man-hour.

For instance, we found in the textile industry over a period of twenty years a very marked increase in output per man. That didn't mean that every plant in the industry had increased its output. The plants that had modernized and put in more efficient equipment were the ones that accounted for the picture. As a matter of fact, we found that if you took a plant in 1908, in the cotton textile industry, which was equipped with the best machinery known in those days, and compared it with a plant in 1936, thirty years later, equipped with the best machinery known in '36, you could get almost 80 per cent more out of each worker than you could thirty years previously, but that will vary terrifically from plant to plant.

This tremendous drop, which has been so significant, again becomes significant if you break this line up into the two important groups of manufacturing industries, namely, the durable group and the non-durable group, and that I have attempted to do here.

(Chart entitled "Employment and Pay Rolls, Durable Goods Group," was received and marked "Exhibit No. 34" and is printed on Page 31.)

You will note that employment fell to the point where sixty-one people were employed for every 100 that had been employed in 1923-25. If you take the durable goods industry, you will find only 47 out of 100 were employed in 1932 and pay rolls fell to the point that only 28c was being paid out in the durable goods industries as compared with 38c for all manufacturing.

(Chart entitled "Employment and Pay Rolls, Non-Durable Goods," was received and marked "Exhibit No. 34" and is printed on Page 31.)

If you compare that with the nondurable goods you will find that employment fell only by approximately 28 per cent as compared to a drop in durable goods of 53 per cent from the 1923-25 level. You will find that pay rolls dropped in nondurable goods to the point of just about half what they had been; here pay rolls in the durable goods fell to about a quarter of what they had been, again emphasizing the part the durable goods industries play in keeping the machine working smoothly.

The CHAIRMAN. Don't you think it would be well to give a list of exactly what you call durable goods? You have mentioned three or four different types. You have mentioned automobiles, radios and machinery.

Dr. LUBIN. It includes all machinery industries, all of the metals and materials that go into making those machines which are producers' durables, all transportation equipment, all housing, all automobiles; iron and steel and steel products like hardware, etc., lumber and allied products, including furniture; machinery, including agricultural, electrical, engines, foundries, etc.; stone, clay and glass, brick, tile; transportation equipment, including not only railroads, but automobiles. And among the nondurables you have food, baking, slaughtering, leather goods and shoes, paper, pulp, rubber products, textiles, tobacco, things of that sort.

The CHAIRMAN. In the nondurable group go all of the necessities of life, and in the durable group go practically all the luxuries.

Dr. LUBIN. I won't agree that furniture and automobiles or electric refrigerators are luxuries, but in terms of past history, things which in the past have been considered luxuries and are now considered necessities, they would fit that definition.

The CHAIRMAN. I gave it as a question and not as a statement.

Dr. LUBIN. Again, we emphasize the significance of our durable goods industries, and I want to point out one further fact that in May of 1937 (referring to Employment and Pay Rolls in Durable Goods Group) the durable goods industries were employing about the same number of people they were in 1929 and they were paying out in pay rolls almost the same amount of money they had been paying out in 1929. However, in the nondurable goods (referring to Employment and Pay Rolls, Nondurable Goods) you will note that after the end of 1933 we were on a level with this period before the depression, that in August '36, we were back to where we were at the peak of '29, and that in August of 1937 we were above 1929 in the employment of people in our factories that made these so-called nondurable goods. However, we never got back to the point where we paid out as many dollars in pay rolls in these industries as we did in 1929, at this point the index being 114, and at this point the index peak being 105, which for the most part, in that case at least is a significant factor in the sense that it does reflect some thing with regard to wage rates very definitely. The wage rates increased the fastest in the durable goods industries in '36 and '37.

The CHAIRMAN. The figures you have furnished us so far seem to demonstrate that, as I recall it, production in the nondurable industries has maintained a fairly constant level. Production in the durable industries has shown a very great decline. Now you are giving us this difference between the wages and the em-

(Exhibit No. 34)

(Exhibit No. 35)

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[illegible]

(Exhibit No. 36)

hibit No. 4" and is printed on Page 33.)

It got up to about two-fifths of what it had been. Compare that with cement, where employment never got above two-thirds of where they were. On the other hand, here is cotton goods, where it twice reached the pre-depression peak.

(Charts entitled "Employment and Pay Rolls General" and Employment and Pay Rolls Cotton Goods," were marked respectively "Exhibits Nos. 39 and 40" and are printed on Page 33.)

Here is the "Woolen and Worsted" (see Exhibit 42 on Page 34) where, throughout the period 1930 until last year, they were way ahead of where they had been any time prior to 1929.

Senator KING. Isn't it true, however, that it isn't fair to compare locomotives and the diminution in this production with the other industries, because they belong to a very sick industry, the transportation industry?

Dr. LUBIN. That is the thing I am trying to bring out: that the reasons for the variations have a definite relationship to specific problems in your economy. The reason the cement figure did not go up is because we never got back to building. As a matter of fact, in 1933 every other bag of cement in the United States was purchased either by the Government or by a contractor engaged on government construction.

(Exhibit No. 37)

PRICE OF CEMENT

Senator BORAH. Did the price of cement change significantly?

Dr. LUBIN. Mr. Oliphant, I think, can tell you more about that.

The CHAIRMAN. What is the answer to the Senator's question?

Dr. LUBIN. It didn't change.

The CHAIRMAN. Isn't it a fact that a very large proportion of the output of cement is now being used in the construction of roads?

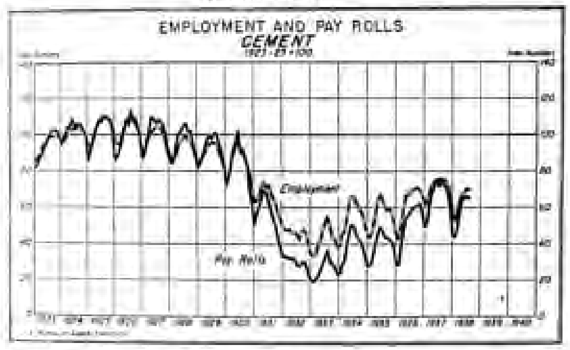
Dr. LUBIN. As a matter of fact your Public Works Program and W. P. A. program are big consumers of cement even today.

The CHAIRMAN. So that this chart on cement should not be taken to indicate that construction has come back to the extent that the use of cement has come back.

Dr. LUBIN. We want to bear in mind that public construction, state, federal and

(Exhibit No. 38)

(Exhibit No. 39)



municipal, has always been a relatively small portion of the total, but a very important one at the moment.

The final contrast, Senator, is your cigars and cigarettes.

(Chart 41, "Employment and Pay Rolls, Cigars and Cigarettes," was received in evidence and marked "Exhibit No. 41" and printed on Page 34.)

I told you what happened to cigar and cigarette production. Here is your employment. It has never got back to its 1927 level, despite the fact that output has been going up. Some of this is accounted for by cigars going from hand work to machine work.

Mr. HENDERSON. You have, Dr. Lubin, the chart on production of cigarettes.

Senator KING. That is the most concentrated of all industries, isn't it? Nearly 90 per cent of the production is in the hands of six or seven big producers.

Dr. LUBIN. Here is your production curve and here is your employment and pay rolls.

Mr. ARNOLD. Have prices dropped on cigarettes?

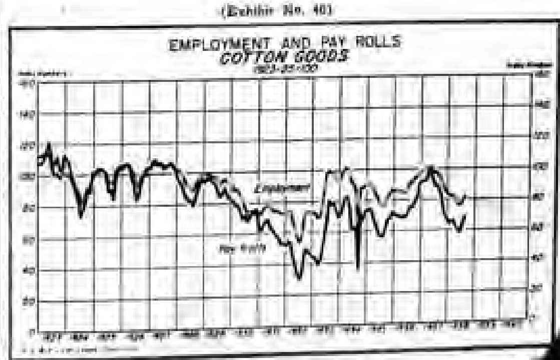
Dr. LUBIN. Technically, yes. In other words, your two-for-a-quarter price went into effect during the early part of the depression and stayed in effect in a good many parts of the country.

Senator KING. I might say the government gets nearly $500,000,000 in taxes out of the tobacco industry through the tax on cigarettes each year.

Dr. LUBIN. On the other hand, bear this in mind, that your pay roll level has never gone back to where it was. This pay roll line has kept consistently below, with the exception of that point there, whereas, it moved along with employment prior to that time.

Now, if we move from these specific industries back to the general economic producing system again, we have these figures in terms of not only what has happened to the number of people at work but in terms of the amount of work that they have got to do, and their hours of work.

(Exhibit No. 40)



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(Chart No. 43 "Employment and Average Weekly Hours in Manufacturing, Mining and Steam Railroads," was received in evidence and marked "Exhibit No. 43" and is printed on Page 35.)

I think it is rather significant that the number of wage earners in the United States in manufacturing, in mining and steam railroads combined increased between 1914 and 1920 by 20 per cent. Then it fell. That was the post-war boom. It fell and never got back again. In other words, the manufacturing, mining and steam railroads together never got back to the employment levels of 1920. The closest they got to it was in 120 in 1929 —pretty close in 120—as compared to 126 in 1920.

Senator KING. That was because of the war and the post-war problem.

Dr. LUBIN. Exactly. At the same time the number of hours worked by all of their people put together has never got back to that level, accounted for in part, of course, by the shorter workweek, that workweek having fallen by 28 per cent during this period from 1914 to 1937.

Senator KING. From 54 hours down as a maximum.

Dr. LUBIN. Some of them even more than that. In certain parts of the petroleum and refining industry worked as many as 84 hours. Petroleum is included under mining.

This shortness of hours isn't accounted for entirely by the fact that people voluntarily agreed to a cut in hours. The amount of work available was such that in some weeks they had to work 30, in other weeks 32, and in other weeks 40 hours due to the fluctuations in the demand for production. You will notice that between '34 and '37 there was an increase in the hours worked due to the fact that there was more work to be done, and the men worked longer hours.

I want to translate that into the earnings, which are a function of the hours worked, average hours worked per week, and average hourly earnings.

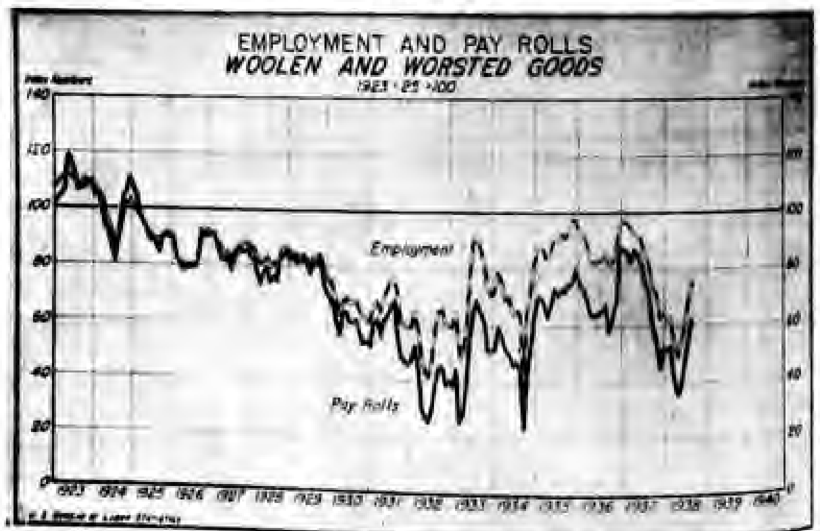
(Exhibit No. 41)

(Chart showing "All Manufacturing Industries" received in evidence and marked "Exhibit No. 44" and is printed on Page 36.)

The distinction, however, that should be made is that this is how much you get an hour; this is how much you get an hour times the number of hours you are permitted to work, this being affected both by the wage rate and the amount of work available, this being affected only by the wage rates.

Senator KING. Doubtless you regard

(Exhibit No. 42)



the fact that the oil industry fluctuates. A field will be worked out, like the [illegible] Pool. There will be a great boom, and when the reservoir has been drained [illegible] cease to operate and many will be destroyed, and the workers will go to other fields which may open up, and efforts will be made to revive the industry to increase greater production in Texas or elsewhere. So you would expect to find, in view of the uncertainty in oil production, the diminution and finally the drying up of the reservoirs, that there would be great fluctuation, not only in production but wages and number of hours worked.

Dr. LUBIN. Of course, that is just as true of all industries dealing with a wasting resource. The same is true of timber and mining—the quality of the ore, the best ore gets worked out. You know that only too well, Senator.

The first thing I want to point out is that at the low point of the depression the people in our factories were averaging almost 38 hours of work a week; today they are averaging 37 hours a week. They averaged 41 a year ago last spring when industry was moving at a very fast rate, which means, then, that this decrease in hours is primarily affected by the amount of work available, because, when work was there, they did work as much as 41 hours a week on the average for all manufacturing industries last year. In many of these industries they were paying time and one-half for overtime over 40, whereas in those early days they weren't doing that. That change in the amount of hours worked, plus the increase in the wage rate from less than fifty cents an hour on the average in 1932 to sixty-seven cents on the average last year, at the high point of production, falling down again to sixty-three cents now, affected the weekly income of our wage-earning families. Whereas they were earning $26 a week in early 1929, their earnings had fallen to $13.70 a week during the depression and rose to $26 approximately at the peak of last year, and are back to $23.27 now.

Senator KING. Where do you draw the line between wage earners, entrepreneurs, representatives, directors who are taking part in the activities of the day's work?

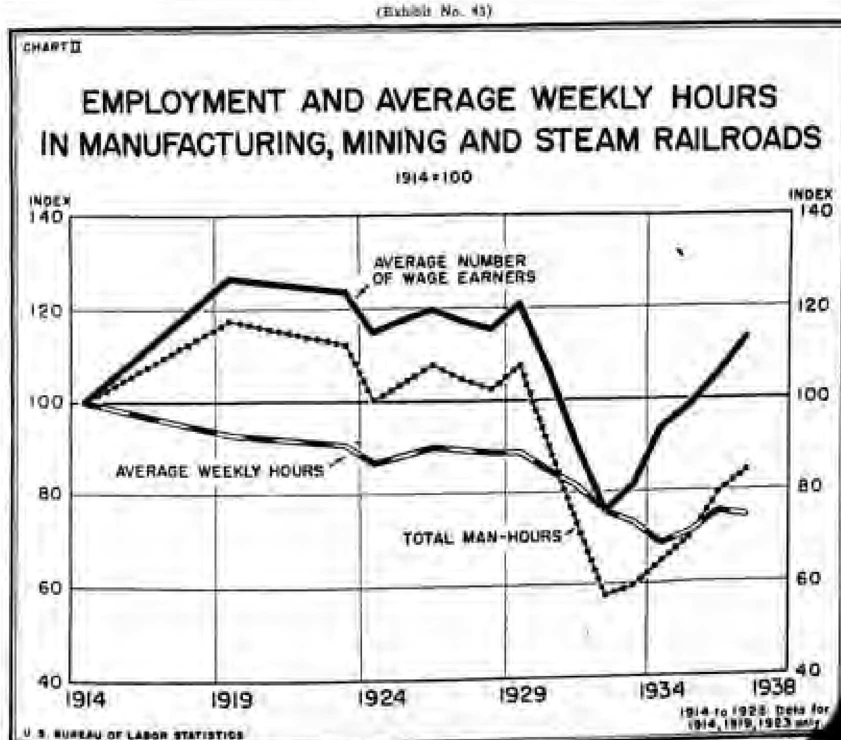
Dr. LUBIN. We have to leave that up to the employer himself. We ask the employers to give us the number of people actually on their pay roll as wage earners, and leave out certain types of professional supervisory forces, and we have to trust their judgment as to whom they think is a wage earner or supervisory official.

Senator KING. Have your investigations demonstrated that that classification has been generally fair?

Dr. LUBIN. Yes. Of course, every now and then we try to get extra data on salaried workers.

Senator KING. You don't include salaried workers in the figures you have just been giving?

(Exhibit No. 43)



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Dr. LUBIN. These are wage earners only.

The question is, how has it become possible to pay the higher wage rates per hour, and the answer is revealed here in what has happened to the amount of goods people turn out in industry today.

(Chart showing "Output per Man-Hour" was received in evidence and marked "Exhibit No. 46" and is printed on Page 37.)

You will notice in the manufacturing industry as a whole the output per man has increased from [illegible] to 140, which is an increase of [illegible] per cent between the years 1909 and 1936. In twenty-seven years the output per man had more than doubled. It had increased [illegible] per cent. In 1937 it was down a bit to 137, but still tremendously greater than it was during these periods here (indicating).

In bituminous coal [illegible] output increased from [illegible] to 122. In anthracite it increased from [illegible] to 158. I do want to qualify these figures in this sense, that one reason why these men are turning out more per hour than they did in former years is that because of the nature of the industry, more and more of the poorer mines have been shut down and, particularly in anthracite, the only ones operating to any large extent are the best mines. They concentrate the output in the better mines and the output per man automatically goes up with it. That is true in part of bituminous coal.

Senator KING. Before you leave that, isn't the fact of the greater production in part due to the new methods of mining coal? They have the cutting machines, and the loading machines, so that, whereas a few years ago the work was done largely by hand, a great deal of it [illegible] largely by machinery.

Dr. LUBIN. Particularly in bituminous coal. In the anthracite you have the [illegible] situation where the bad mines have been shut down and they have only operated the better mines, plus the use of more efficient methods. Each miner is actually turning out more things per hour than he did formerly.

Similarly on your railroads—

Representative [illegible] (interposing). May I ask one question. The figures of 1909 and 1937 indicate production per man. Does that [illegible] there any change in the number of hours of work a day?

RAILROADS

Dr. LUBIN. This is per man-hour.

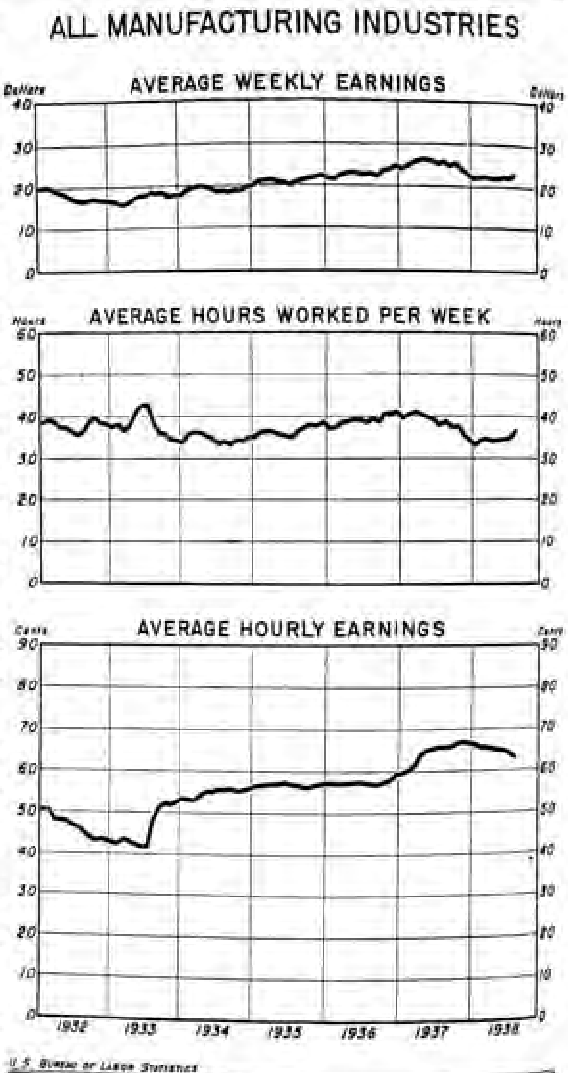
On steam railroads [illegible] increased from 75 in 1914 to [illegible] in 1937, which is an increase of slightly less than double, but there of course you have the same proposition—bigger freight trains, [illegible] engines, more efficient [illegible] and things of that sort.

Senator KING. Better tracks.

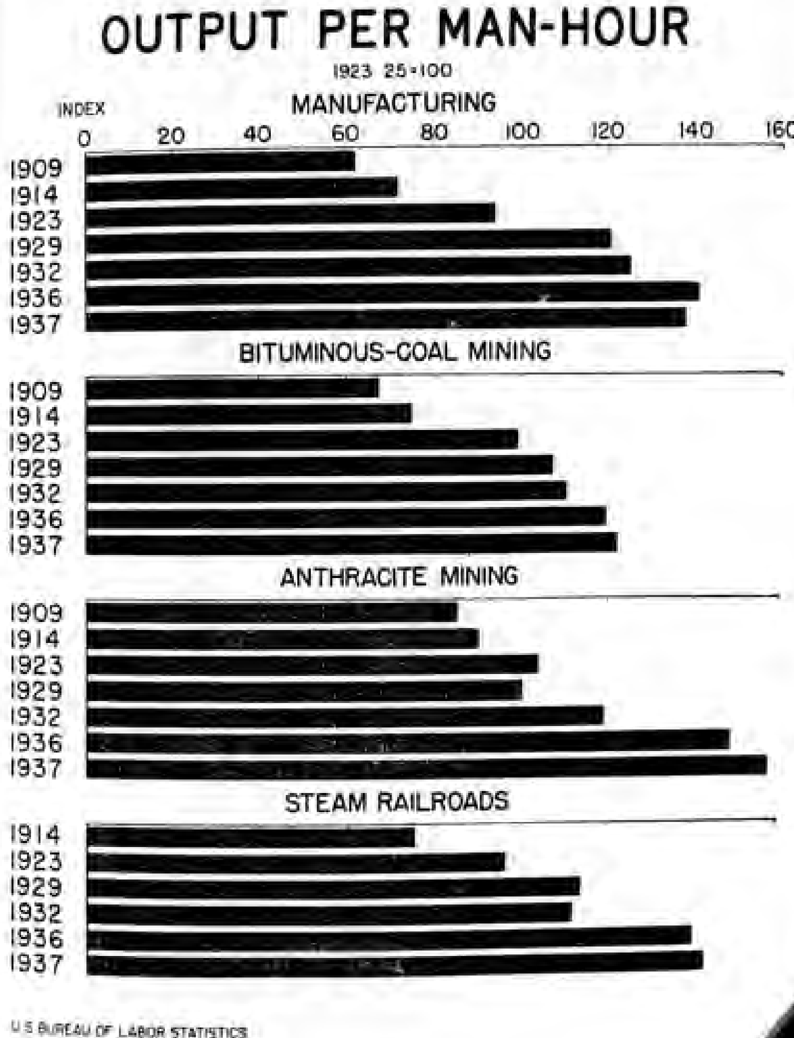
Dr. LUBIN. And everything else that goes with it.

Senator KING. Isn't it in part due to a number of consolidations which have made for continuity, getting rid of railroads that were inefficient and [illegible]

(Exhibit No. 45)



(Exhibit No. 46)



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... rather than an asset to the general public?

Dr. LUBIN. The actual amount of ... has been rather large ... in terms of the amount ... I don't know how large it would be.

Now, if you take on a larger scale the figures of what the wage earners of this country got in these industries, manufacturing, mining and railroads, you will find that in 1914 the average weekly wage was $11.60; that it jumped to $23.00 in 1920, and fell to a little less than $24 in 1929.

Senator KING. You are speaking only of manufacturing?

Dr. LUBIN. Manufacturing, mining and steam railroads combined, which appeared to be a tremendous increase from $12 in 1914 to more than $23 in 1929. However, if you take what these dollars will buy, the actual increase in what the workers got is shown by this line. In other words, wages jumped from $12 to about $25, the exact figure being $25.66 in 1929. But prices went up so much faster than that that in terms of the goods they could buy their income per week in 1919 was only $13.00 as compared with $11.60 in 1914.

The CHAIRMAN. Does this chart represent weekly wages?

Dr. LUBIN. These are real weekly wages. In other words, wages did go up faster than prices, but not very much faster because, as I said, it was worth to them, in the goods they could buy, only $13.00 as compared to the $11.60 they formerly were getting. In terms of dollars, their checks were made out for $25.66.

The CHAIRMAN. Do I read this chart on real wages correctly? It seems to indicate that in 1914 the average cash wages, weekly, received, in all manufacturing, mining and steam railroads, amounted to less than $12, and that that went up until in 1919 it reached $22 a week, and in 1929, $25 a week; but that the real wages during this same period increased from $11 per week to $15 in 1929?

Dr. LUBIN. And is now $16.46 in real wages as compared with less than $24, but in terms of what those $24 will buy it will buy you about $16.46 worth of goods as compared to what $11 would have bought you in 1914.

Senator BORAH. In other words, the ... however it is carried, bought that much?

Dr. LUBIN. They got, at this point, the difference between 1929 and then, the difference between $15 and $25.65, assuming, of course, that the folks who made those gains did not have to pay higher prices for the things they bought, too.

Senator BORAH. That very likely did.

Senator KING. Dr. Lubin, have you compared the prices of a considerable number of commodities that the ordinary household buys now with the prices for a number of years back, on the base line which you have taken?

Dr. LUBIN. Yes. This is based upon the actual cost of living. We take what a dollar will buy in terms of food, clothing, health, recreation, education, and things of that sort, today, as compared with 1914.

Senator KING. Would not that statement mean that commodities now were two or three or four times as high in price as they were in 1860?

Dr. LUBIN. It means what $12 would buy in 1914 it takes $16.50 to buy today.

Mr. ARNOLD. No, no.

Dr. LUBIN. No, the difference between weekly cash wages and weekly real wages represents price increases. The actual figure is this, that $1.44 is required today to buy what $1.00 would buy in 1914.

Mr. HENDERSON. Point out the significance, however, that for the person who does have a weekly wage now the real wages are higher than they have been in any period.

Dr. LUBIN. Yes, he can get more with his weekly wages now than he could before, because his value in goods is so much more than at any other time, but the actual increase in the cost of living has been 44.8 per cent. It jumped to 173 per cent in 1919.

Senator KING. I wish you could furnish, if you do have them in the office, a number of articles; take the various forms of textile and cotton goods and shoes, and clothing and articles and commodities that enter into our daily lives and give the prices for a number of years back.

Dr. LUBIN. We will break that down in terms of clothing, food, rents, and things of that sort.

... wages and cash wages are also—well, real wages are up, cash wages are below what they were in 1929. And while you have been showing this you have also indicated that production is greatly off in all of the durable, or practically all of the durable industries, so that makes employment down while these rates have been going up.

Dr. LUBIN. Yes. And, to qualify that in one way, Mr. Senator, of course this $16.46 is the weekly earnings of the fellow who has the job, in real wages; or, to put it in the terms of $24, it is the weekly cash earnings of the man who has the job. It is not the average of all workers in the country, including the unemployed.

Representative SUMNERS. Dr. Lubin, will you have any figures to indicate, for instance, the relative price of agricultural commodities in this break-up?

Dr. LUBIN. Oh, yes; we can do that.

Mr. HENDERSON. I hope we will have a whole hearing devoted to the subject of prices, Mr. Chairman and Mr. Sumners.

Dr. LUBIN. We can do that. The fact is, we do break them down into foods, clothing, etc., and in the wholesale prices we even break foods down into processed and nonprocessed foods.

Representative SUMNERS. In the agricultural breakdown, of course, there

ESTIMATED ANNUAL AVERAGE INDEXES OF COST OF GOODS PURCHASED BY WAGE EARNERS AND LOWER-SALARIED WORKERS IN 32 LARGE CITIES COMBINED, 1913 THROUGH 1937

[Average 1923-25=100]

	All items	Food*	Clothing	Rent	Fuel and light	House-furnishing goods	Miscellaneous
1913	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1914	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1915	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1916	63.2	71.7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1917	74.5	92.4	79.8	[illegible]	[illegible]	[illegible]	[illegible]
1918	87.2	108.2	102.3	[illegible]	[illegible]	[illegible]	[illegible]
1919	101.1	130.2	122.7	[illegible]	[illegible]	[illegible]	[illegible]
1920	116.2	133.1	141.6	[illegible]	[illegible]	[illegible]	[illegible]
1921	103.8	101.8	124.4	[illegible]	[illegible]	[illegible]	[illegible]
1922	97.2	95.0	101.0	[illegible]	[illegible]	[illegible]	[illegible]
1923	99.0	97.9	101.5	97.3	[illegible]	[illegible]	[illegible]
1924	99.2	97.0	100.4	[illegible]	[illegible]	[illegible]	[illegible]
1925	101.8	105.0	98.4	[illegible]	[illegible]	[illegible]	[illegible]
1926	102.4	106.5	97.5	[illegible]	[illegible]	[illegible]	[illegible]
1927	100.6	103.5	95.1	[illegible]	[illegible]	[illegible]	[illegible]
1928	99.0	103.3	92.7	[illegible]	[illegible]	[illegible]	[illegible]
1929	98.5	104.7	92.7	94.3	[illegible]	[illegible]	[illegible]
1930	97.0	98.8	90.3	91.7	[illegible]	[illegible]	[illegible]
1931	88.8	82.0	82.7	[illegible]	[illegible]	[illegible]	[illegible]
1932	77.9	68.3	73.7	[illegible]	[illegible]	[illegible]	[illegible]
1933	73.8	66.4	70.8	[illegible]	[illegible]	[illegible]	[illegible]
1934	76.4	73.1	77.5	[illegible]	[illegible]	[illegible]	[illegible]
1935	80.7	80.5	77.9	[illegible]	[illegible]	[illegible]	[illegible]
1936	81.8	82.1	78.7	[illegible]	[illegible]	[illegible]	[illegible]
1937	84.3	86.1	82.4	[illegible]	[illegible]	[illegible]	[illegible]

* Covers 51 cities since June 1920.

U. S. Bureau of Labor Statistics

Senator KING. It seems to me in many commodities the prices now are as low or nearly as low as they were years ago.

Dr. LUBIN. There has been a considerable decline. The decline has been from 173 to 144. That is quite a decline, but if you go back to 1914, before the price rise occurred during the war period, we still have twice as much drop or 44 per cent more to get back to that level, taking everything into consideration.

The CHAIRMAN. Now, Dr. Lubin, to summarize what you have shown thus far, if I understand these charts correctly, you demonstrated that the average weekly earnings is up, that the average hourly rate of pay is up, but that the average number of hours per week is slightly down. You have also shown that real

will be not only the question of price but a restriction on the amount of production which is now being allowed the farmers of the country.

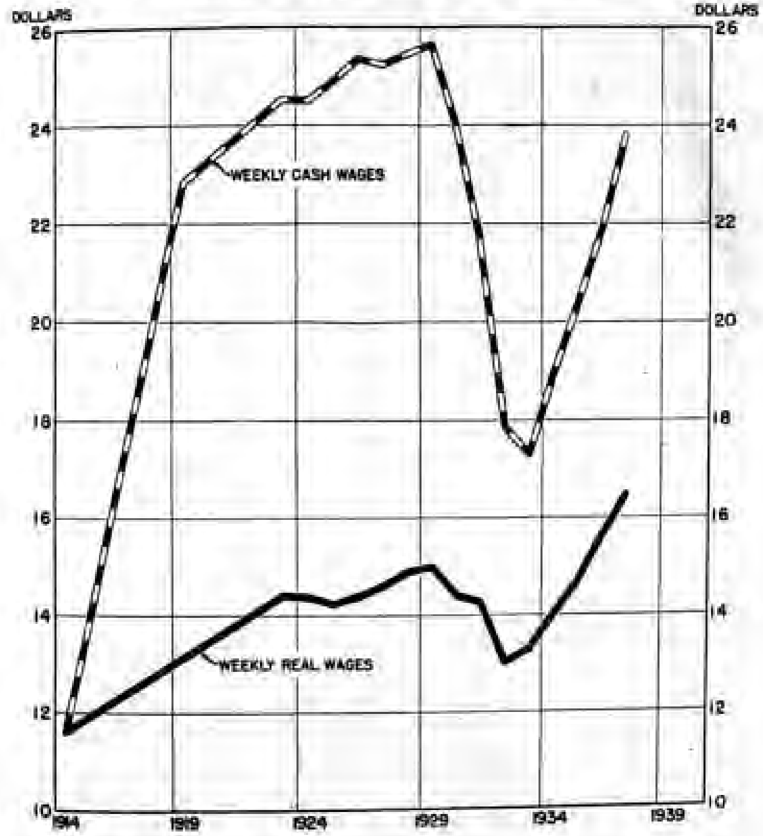
Dr. LUBIN. Of course, the significant thing at that point is that despite that restriction, if you take all agricultural products together, the sum total produced all together, it hasn't gone down any. The fact is, this year is probably the biggest it ever has been in terms of units. Of course, in value it is down.

(Chart showing "Real Wages in Manufacturing, Mining, and Steam Railroads," was received in evidence and marked "Exhibit No. 47" and is printed on Page 39.)

Representative REECE. In arriving at your real wages, do you give a commod-

(Exhibit No. 47)

REAL WAGES
IN MANUFACTURING, MINING, & STEAM RAILROADS



U.S. BUREAU OF LABOR STATISTICS

For those who had jobs in factories, mines and on railroads, average weekly earnings in 1937 were not far below the level of the 1920's, although hourly working schedules were much shorter. Since the cost of living was lower in 1937 than in the 1920's, the real wages of those who actually had jobs (i.e. earnings adjusted for the cost of living) were the highest in the history of American industry. At the same time there were 8 to 10 million people unemployed.

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ity the same relative weight in the considerations which make up the real weight as it bears to the cost of living, that is, say 50 per cent of mass wages goes for rent and food. Is rent and food given a 50 per cent relative importance in your real weights?

Dr. LUBIN. Relatively so. Rent gets a weight, food gets a weight, recreation gets a weight, church activities and educational activities get a weight. We rate everything in the terms of its importance.

Mr. HENDERSON. Was it your opinion this morning as expressed that we have never produced too much cotton to satisfy our real needs?

Dr. LUBIN. The question was raised as to whether it was too much agricultural production or too little industrial production. I said that as far as I was concerned I couldn't conceive of too much of anything being produced as far as there was a portion of the population that wasn't getting enough of those things.

Representative REECE. This is beside the particular phase of the question which you are now discussing, but is it your intention to include in your discussion any figures to indicate the percentage of employment that is so occasioned by the large corporations compared to the smaller corporations? Take, for instance, the number of people employed by corporations who have a net income of less than a hundred thousand dollars. Is that question going to be covered?

Dr. LUBIN. Yes; it is not going to be covered in the introductory hearings, but that is coming into the picture definitely.

Now, if you add up all these factors together and ask what does it all mean in terms of loss of national income, in terms of loss of employment, and so forth, I suppose that the question that you ultimately ask yourself is what is happening to the people of this country and what effect has it had upon the number of unemployed people.

(The chart showing "Estimated Number and Age of the Unemployed," was received in evidence and marked "Exhibit No. 48" and is printed on Page 40.)

In this chart we have attempted to show the number of unemployed as shown by the census of unemployment last November. We not only show the number of unemployed, but the number of ages that have been most hit by the situation. I think it is rather significant that you have got in this group of 15-19—

The CHAIRMAN (interposing). That is the age group 15-19.

Dr. LUBIN. Yes, and males. You have got in this group approximately 1,300,000 people who are unemployed.

In the 20-24 age group among the males, the number is slightly larger: 1,245,000. Here you have little over 800,000 males between 25-29, and you will notice the number remains just about the same between 30 and 34, and then the number becomes smaller as the age group goes up. You can expect it to be smaller because of the fact that there are fewer people of that age in existence.

Senator BORAH. What about age 60?

Dr. LUBIN. Between 55 and 64, 125,000 males and 184,000 females.

Senator KING. In that lower line, 15 and above, do you include the children who are working on the farm, or do you exclude those?

Dr. LUBIN. Those are people who actually came and registered as unemployed when the census was taken, which includes people in agricultural areas as well as industrial if they registered as unemployed.

Senator KING. Were there many registered as unemployed between 15 and 16, say?

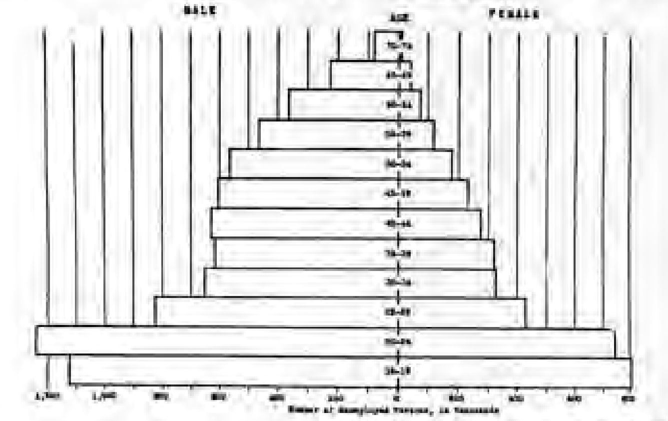
Dr. LUBIN. A relatively small number of this total 1,245,000 of males.

(Exhibit No. 48)

ESTIMATED NUMBER AND AGE OF THE UNEMPLOYED

11

FIGURE 6.—NUMBER OF PERSONS IN UNEMPLOYMENT CLASSES, BY SEX AND AGE, FOR THE UNITED STATES
UNEMPLOYED (INCLUDING EMERGENCY WORKERS)



Senator KING. Is there any indication as to their habitat, whether they were in urban or suburban districts?

Dr. LUBIN. We have them by states as well as counties.

The CHAIRMAN. This chart is prepared by the statistics on the unemployment census?

Dr. LUBIN. Yes. Now, that raises a question as to what this all has meant in terms of the part that government plays in attempting to maintain our population.

PEOPLE OVER 60

The CHAIRMAN. Before you go to that other chart, may I ask, Dr. Lubin, if it isn't a fact that there is a larger percentage of our people over 60 years of age now than at any time in our history?

Dr. LUBIN. Yes, and the number is going to keep increasing steadily for the next twenty years, so that by 1960 I think the figure will be one-twelfth of the population, or something like that. I want to check that figure. But the estimate made by the Social Security Board shows that number is increasing definitely because of improved sanitary conditions, and so forth.

The CHAIRMAN. What is the fact with respect to the lower age group below 20?

Dr. LUBIN. That number is getting gradually smaller because of the fact that the birth rate has been falling steadily and the number of people becoming 15 each year is smaller.

The CHAIRMAN. So that the problem of finding employment for those, say, above 40 is constantly growing greater.

Dr. LUBIN. Well in a sense, yes. On the other hand, with fewer and fewer people coming into the labor market to take their jobs away, you ease that pressure. The extent to which that is true is so insignificant that I wouldn't say you ease it very much. The significant problem is right there. These are the folks, between 15-19, who are going to be our future citizens. They are the folks whose morale we have got to maintain.

The CHAIRMAN. An effort is being made, of course, to provide education for those in the group under 20, and irrespective of any effort upon the part of government, isn't it true that a much larger proportion of young people go to school today than did ten years ago?

Dr. LUUBIN. Definitely so. If you had kept the same rate that you had ten years ago, there would be more unemployed.

The CHAIRMAN. So that the real question of unemployment begins with the 20-year group rather than with the 15-year group.

Dr. LUBIN. No. I would say it began even below that because even more of them are going to school than in the past, but there are still plenty of them who still need work. I will say this: The problem is not as bad as it would have been otherwise.

Senator KING. Has your department made any inquiry or any survey as to the number of women, if any, who have taken the place of males, and to that extent have placed on the list of unemployed a larger number of males than otherwise would have been in that category?

Dr. LUBIN. Such data as are available from the census shows that the rate of increase of women in industry during the past, up to 1930, anyway, was no greater, in fact, it wasn't as great as compared to

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the total number of people in the country as it had been in the '70's, '80's, and '90's. In other words, although more women were going to work, there were more women in the country to go to work, but the proportion to men wasn't any greater. In other words, there wasn't a trend for more and proportionately more and more women. What has happened in the last six or seven years we won't know until we get our census for 1940.

Senator KING. There are new fields of employment (I will call it industry) open now to women which did not exist 10, 15, or 20 years ago. You mentioned this morning the beauty parlors, cosmetology, stenography and typing, and so on.

Dr. LUBIN. On the other hand, we ought to bear in mind during 1920 we had a host of opportunities for women which disappeared after the war. They were doing all kinds of work that women never did before. Some stayed on but others disappeared. We used to have women as street car conductors, and things of that sort.

Senator KING. Many women were actively employed in conducting railroad stations.

Representative SUMNERS. Dr. Lubin, does the disposition or policy of employers of large groups of people to discharge employees after they get along about 45 or 50 years have anything to do with those figures there? I am afraid I am asking my question wrong. What I mean to ask is, is there any increase in the disposition of employers to discharge their employees when they get along about 45 or 50?

Dr. LUBIN. We are right in the midst, now, of a study of that very problem. We have surveyed a group of industrial centers in New England and we have had the cooperation of other firms in getting their actual employment records to see what has happened not only to the employed but who is first fired of the people who are left and who is hired first. Some time between now and the end of these hearings we will have that study shaped up and we will know on the basis of authoritative information. There is very little authorative information. It is a guess, and statements that one hears everywhere, but nobody has ever checked it through the corporations. Incidentally, Senator King, you raised that question about these 15-year-old youngsters here. There were 20 times as many at 19 as there were one who was 15 years of age in that group.

Senator KING. May I interrupt again, in view of the question of Judge Sumners. When the Social Security Bill was under consideration, a number of employers of labor, as well as some of the employees, brought the attention of the Committee of Finance to the fact that they did not approve of, or rather they preferred to permit the manufacturing companies, the employers, to continue their policies under which they had large reserves, which were held by the leading insurance companies and other trustees, so that when persons got old, there was a pension or retirement privilege for them. Some of those who came before us represented that provisions were made so that they would get $156 a month under the pension plans that were set up by a large number of employers, and that they opposed the Social Security because they would only get for the same kind of work, $69 to $75 a month. I was wondering if your organization had any data showing the number of employers who did have provision for retirement of their employees.

Dr. LUBIN. Yes, there is a study made by the man who is now head of the Railroad Retirement Board for the Industrial Relations Councillors who are advisers to firms and managers of that sort of all the plants in existence as to their financial status, and things of that sort. The only answer one can give to an employer when he says, "I am giving more than anyone else," is, "Keep on giving it. If you say it is going to cost too much, cut your plan by an amount equal to what you are going to have to pay the Government."

Senator KING. But when he refuses to do that, we stated if they continued their plan, they would have to continue to make their payment to the government.

Dr. LUBIN. True, but with a difference in their payment, they could still continue. If they were paying two dollars a week, now they are paying the Government a dollar a week, they could still continue paying that extra dollar. There is nothing to stop them from continuing it.

Senator KING. The Government policy, as I recall, (it has been a year or two since we had the matter before the Finance Committee) our plan was hostile to theirs, and they felt they could not assume both responsibilities.

Dr. LUBIN. They could continue to assume part of it. Some firms did.

The question is, what has this meant in terms of the tax system and in terms of cost to government.

(Chart showing estimated net total number of households and persons receiving relief, work program employment and emergency employment was received in evidence and marked "Exhibit No. 49" and is printed on Page 42.)

THE RELIEF FIGURES

I have here one chart showing the number of households and persons who are receiving relief under the works program and the emergency employment. You will note it is estimated that approximately 6,000,000 households are at the present time affected by either the works program, emergency program, or direct relief programs of The Federal Government. That many families are getting some income in one of those three categories at the present time. In terms of the number of persons effected, it is estimated that approximately 22,230,000 people are affected.

The CHAIRMAN. What was that figure again?

Dr. LUBIN. Twenty-two million, two hundred thirty thousand.

Senator KING. That includes those who would get social relief.

Dr. LUBIN. Those are not widows, mothers and unemployment insurance recipients. Public assistance under the Social Secirity Act does come into this picture.

The CHAIRMAN. May I interrupt? On this side of the chart are the figures, the lines millions of households, but that applies only to the lower line. Is that correct?

Dr. LUBIN. Exactly.

The CHAIRMAN. And the figures on the other side refer to millions of persons and they apply to the upper line.

Dr. LUBIN. Yes.

The CHAIRMAN. So that you are telling us that while there are about six and a half million of households directly affected by some phase of the emergency program, there are in excess of twenty-two million persons benefiting directly by that program.

Dr. LUBIN. That is right.

The CHAIRMAN. May I ask what relation does that twenty-two million of persons affected there have to the number of employed? When we speak of the number of unemployed, we are speaking of wage earners, chiefly.

Dr. LUBIN. They are looking for work.

The CHAIRMAN. Available for work, and when we are speaking for the number of persons who are directly affected by relief to households, we are referring not alone to the wage earners, but all the members of their families.

Dr. LUBIN. Yes, everybody in the family, including the baby.

The CHAIRMAN. Of course, you are not referring to pensions which are paid to ex-soldiers.

Dr. LUBIN. No.

Senator KING. Going back for many, many years, and for other forms of relief that are given that do not fall under the term "emergency relief".

COST OF RELIEF

Dr. LUBIN. It doesn't include any of the private reliefs or anything of that sort.

(The chart showing "Estimated Total Funds Used for Relief and Work Programs" was received in evidence and marked "Exhibit No. 50" and appears on Page 43.)

Now in terms of cost, the estimate for 1938 carries these programs on as $5,618,000,000—and incidentally, this figure includes all state, Federal and local money that is used either for direct assistance, which is the upper line, or for the works program; the striped, or for public works which includes not only the PWA but also such public work as is undertaken directly by the Federal Government.

The significant thing in this chart is that we reached our peak of public works in 1936. We came down in 1937 and it just about held its own in 1938. On the other hand, in terms of work programs, we were spending in 1938 about two and two-thirds billion dollars, and in 1936 we are spending just about the same, whereas in 1937 it was somewhat lower.

The way that money has been spent for the most part will roughly be shown by this chart.

(The chart of "Persons Employed by the Federal Government and on Work Programs" was received in evidence and marked "Exhibit No. 51" and appears on Page 44.)

This includes, however, not only expenditures on emergency relief, PWA, WPA, but also all Federal expenditures such as the Army and Navy, civil employes, construction from regular Federal

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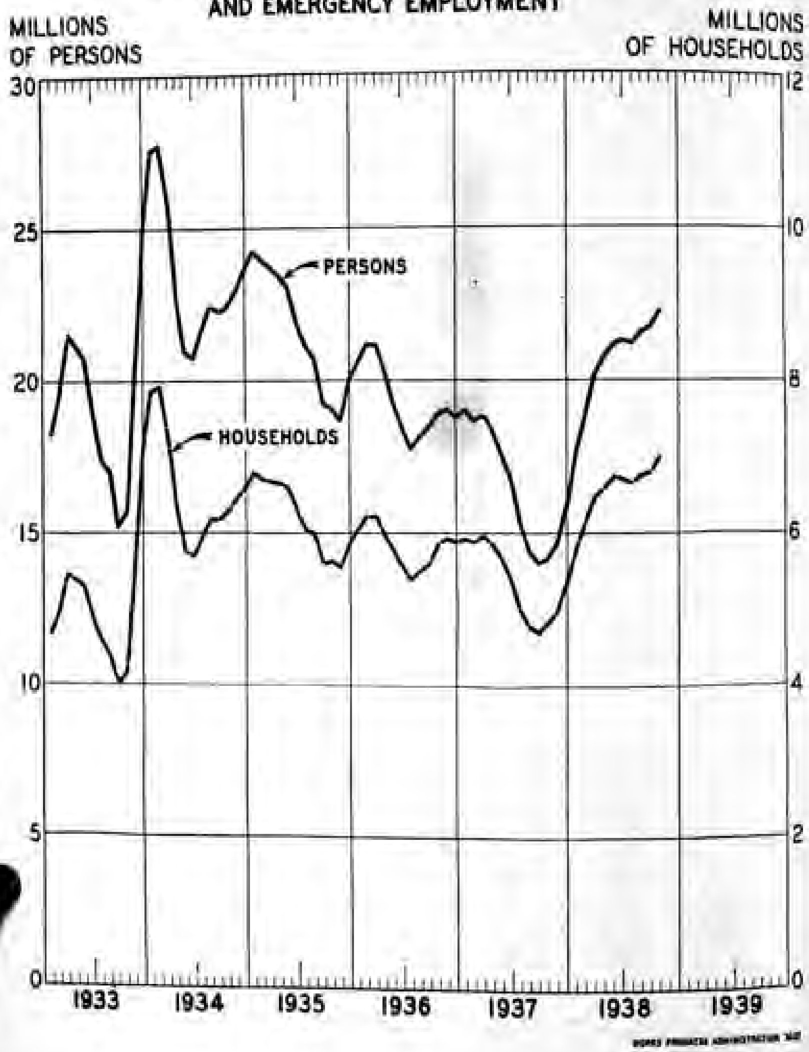
(Exhibit No. 49)

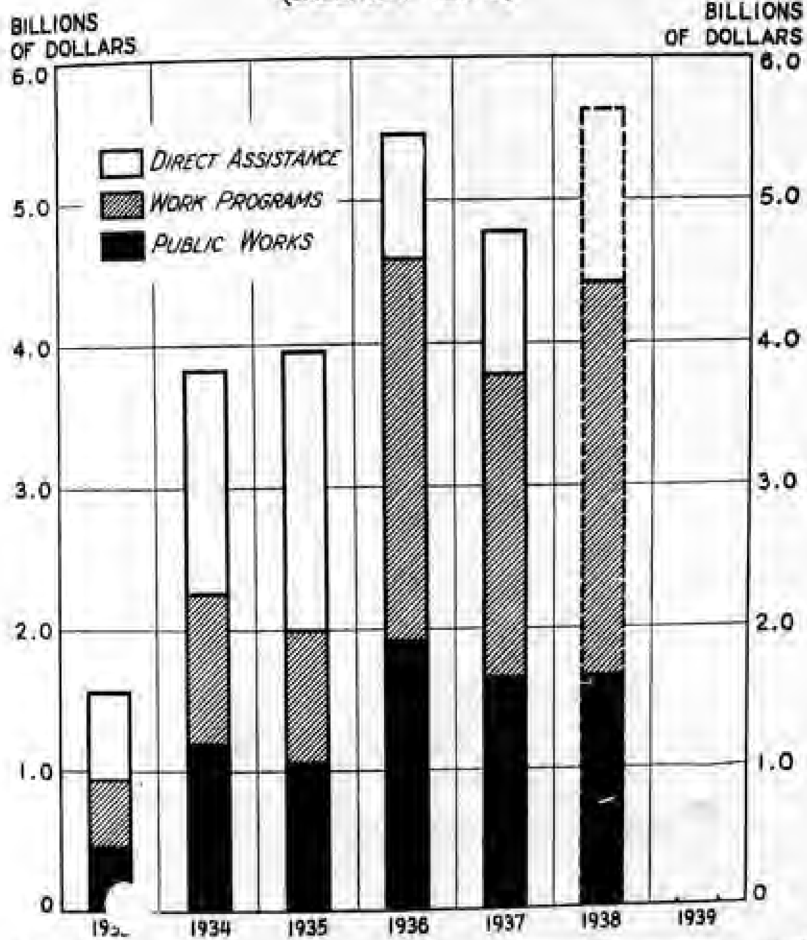
ESTIMATED NET TOTAL NUMBER OF HOUSEHOLDS AND PERSONS RECEIVING RELIEF, WORK PROGRAM EMPLOYMENT AND EMERGENCY EMPLOYMENT



(Exhibit No. 50)

ESTIMATED TOTAL* FUNDS USED FOR RELIEF AND WORK PROGRAMS, BY MAJOR PROGRAMS

(CALENDAR YEARS)



*INCLUDES FEDERAL, STATE AND LOCAL FUNDS.

WORKS PROGRESS ADMINISTRATION

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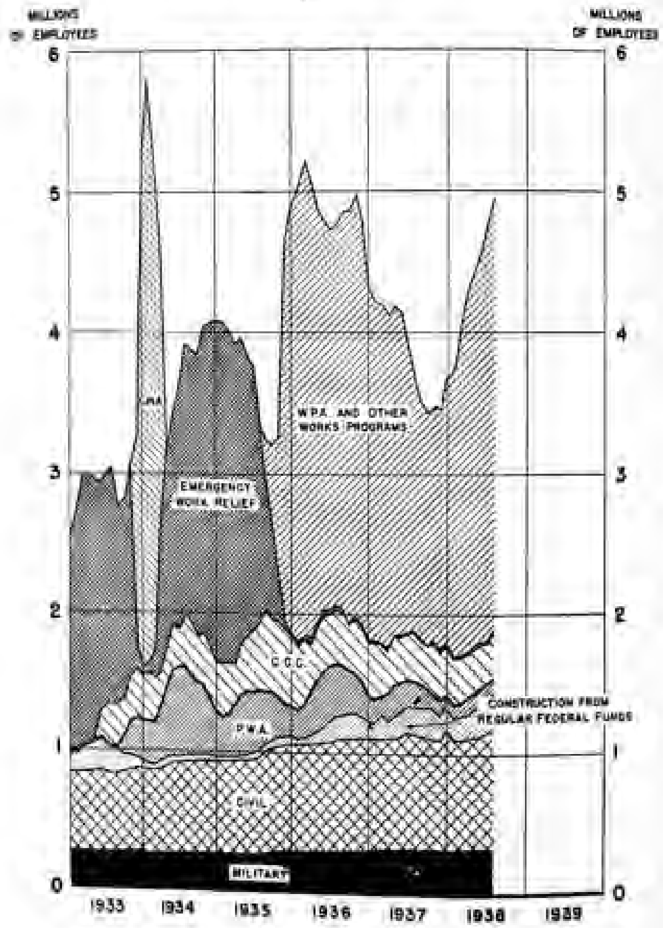
(Exhibit No. 51)

PERSONS EMPLOYED BY THE FEDERAL GOVERNMENT AND ON WORK PROGRAMS



PREPARED IN THE OFFICE OF THE CENTRAL STATISTICAL BOARD AND THE NATIONAL RESOURCES COMMITTEE

[illegible] PWA, CCC, and emergency relief. [illegible] in 1934 we had the CWA. That [illegible] its place was taken in part [illegible]. That was substituted for [illegible] relief. [illegible] WPA and other works programs; a very [illegible] decline took place from the early [illegible] 1936 to the fall of 1937 and an increase [illegible] 1938 [illegible] the total number of persons [illegible] estimated to be affected today being 4,[illegible] which includes, of course, every [illegible] of these activities financed in whole or in part by the Federal Government.

Senator KING. I understand you to say that the figures which you have given include appropriations or allotments made by the States and their political subdivisions.

Dr. LUBIN. I did on this chart (No. [illegible]).

Senator KING. Would that include the amount which has been appropriated, for instance, by New York City? They have imposed tax there, as I recall, and a considerable sum which is used to supplement the appropriations of the State and made by the Federal Government.

Dr. LUBIN. Definitely so.

Senator KING. It includes that?

Dr. LUBIN. Yes.

Senator KING. Do you have information [illegible] or separately with the municipalities, counties and States and obtained from them all the expenditures they have made for relief purposes?

Dr. LUBIN. The Works Progress Administration has.

The CHAIRMAN. Dr. Lubin, is there an apparent discrepancy between the figures indicated on the lower line of the chart entitled "Estimated Net Total Number of Households and Persons, etc." and that indicated in the chart entitled "Persons Employed by the Federal Government and on Works Programs" for the year 1938?

Dr. LUBIN. Yes, there is a difference between those two. I think there are various reasons for it. This figure here [illegible] gives the number of people employed in these activities which includes military and the civil. Those are the actual number of individuals. On the other hand, it is possible for one individual to help two or three households—to help his father and mother as well as his own family—plus the fact that these figures do not include direct relief, cash payments made by cities, States and so forth, and the one does.

The CHAIRMAN. This includes payments made by cities and states and direct cash relief by all agencies and this (Exhibit No. 51) covers only actual employment financed in whole or part by the Federal Government.

Dr. LUBIN. Yes.

PRIVATE FUNDS

Senator KING. Would these figures include the amount which the Chest obtains?

Dr. LUBIN. No.

Senator KING. For instance, this city is seeking to raise over two million dollars [illegible]. Your figures would not include what it has raised.

Dr. LUBIN. No.

The CHAIRMAN. Dr. Lubin, might I ask you to have one of your assistants bring forward the chart that you used this morning on monthly income payments? (Exhibit No. 14.)

Representative SUMNERS. I would like to ask a question before we leave this chart. Dr. Lubin, you put a little explanatory statement there, 1934. Take these two charts together. In 1934 there were about 27,000,000 people being benefited, and moving over to this other line, at less than $4,000,000,000, whereas in 1938 there are about 20,000,000 persons and the expense is almost $6,000,000,000.

Dr. LUBIN. The answer, they tell me, is they are paying them more.

Representative SUMNERS. Would you put some explanation in?

Senator KING. The fact is they are paying some of them very much more than they did a short time ago on the ground they are experts or, well, various other reasons assigned or unassigned.

The CHAIRMAN. Now, then, Doctor, if I may call your attention to this other chart (Exhibit No. 14), I was impressed by your discussion of the chart entitled "Persons Employed by the Federal Government and on Works Programs" and then it reminded me of this chart which you discussed this morning, which shows in terms of the entire monthly income payments the proportion which Government expenditures for income payments under relief and otherwise bears to the total amount of income payments. Do you think it would be a reasonable thing to say, upon the basis of these two charts, that they indicate the supreme importance of so stimulating the income payments by private industry, to take up this slack, if we are ever going to solve the question of unemployment?

Dr. LUBIN. I think it is very significant that this amount here, although it is increasing, is still a very small factor as compared to this total (referring to Exhibit No. 50). In other words, the percentage of the total national income payments that went to direct relief, payments to veterans and things of that sort, has been relatively small.

The CHAIRMAN. In other words, all that the Federal Government has expended by way of work relief and PWA and payments to veterans, is actually but a drop in the bucket compared with the national income which we need to restore even the 1929 degree of prosperity.

Dr. LUBIN. Very definitely, although there are, of course, the PWA people who would be in here. They are working for private contractors.

Senator KING. Isn't it a fact that if you should make a proper appraisal of the amount which is coming out of the Federal Treasury directly for relief through the PWA and the Works Progress and through cities and counties and States, and then further appropriations by the Federal Government for the Army and for the Navy and for increased shipyards, and what not, it would be a very large part of the national income?

Dr. LUBIN. Well, of course "large" is a relative term. It is a significant amount, very definitely. Of course the question is, not only how significant in terms of dollars but how significant in making possible jobs down here in compensation of employees, and profits in entrepreneurial income and dividends in here. That to me is the measure of its real significance. If it has a stimulating effect to keep these things going, then I would say that the sum isn't so very great if for every dollar you put out up here (compensation of employees), you increase this two or three or four. I think that is the only criterion we can use in judging whether or not these expenditures should be made.

Senator KING. If you adopt a policy under the terms of which 30 to 40 per cent of the gross income of all the people of the United States is taken by the Government, to be expended as Congress and the executive may determine, is it not a fact—I don't want to be argumentative—that you are drying up the fountains of private industry which would give employment to a larger number of people?

Dr. LUBIN. I will say this: If by spending thirty billion dollars—you say 40 per cent—you increase the national income by forty billion, I would say it was a swell investment.

Senator KING. You think by the Federal Government spending fifty billion it would have to take it away from the people?

Dr. LUBIN. I shouldn't have said forty. I said if by spending fifty you could increase the national income by sixty and get a profit, it is a swell investment. In other words, by spending fifty here you added sixty to these workers, profits and dividends, and so forth, then I would say it is a very good investment. I am not saying how far it will result that way, but I say if it does work that way it is a good investment.

Senator KING. Do I understand you to mean the more the Federal Government takes from the people and spends the better it is for the people?

Dr. LUBIN. It depends on the conditions. If everybody is working, I would say no, if the Government comes in and competes with private industry, but if there are people unemployed and the factories unused and if by spending money the Government can create jobs in those factories so that not only will wages be more plentiful, but profits and dividends, it is good.

Senator KING. You are not assuming that the larger the expenditure by the Federal Government the larger will be the expenditure by entrepreneurs and by those who are engaged in manufacture?

Dr. LUBIN. It depends entirely upon what conditions are under which the expenditures are made, the extent to which you have unemployment, unused capacity, and things of that sort.

Senator KING. We are entering a field of speculation and argument now rather than objective study.

The CHAIRMAN. Dr. Lubin, have you covered all the charts?

Dr. LUBIN. I have covered all the charts and I would like ten minutes to sum up.

The CHAIRMAN. I was going to suggest that you do that. I was going to ask if you wouldn't in a few moments give your idea of what all of this means in terms of living standards and industrial efficiency and the general outlook for the future.

POPULATION TRENDS

Dr. LUBIN. I am not going to prophe-

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cay Senator, I am going to leave that to some other member of the committee. But I think the significant thing that must be brought out is, first, that we have reached the stage where our population is not going to keep increasing at a very rapid rate.

Prior to the last decade we had to keep producing more and more because of the fact we had more and more people to feed and more people to house and more and more people to clothe. That in itself was a pressure upon industry, created a market for industry, which is not going to exist twenty years hence. Consequently, we have to look for our market, not in a growing population but in a higher standard of living for the people already here. That is where our industrial production has got to go.

Now the question is, what does that mean in terms of employment in our industries? Well, we have already seen that your durable goods industries are the ones that have to be kept going. As you see from this chart, Federal Reserve Index of Manufacturing Production, you have to fill in between these lines, durable and nondurable. Everything in these industries, the nondurable goods industries, is relatively different as compared to the durable goods industries.

The question then arises (referring to chart on "Residential Units Provided for in New Non-Farm Construction") as to what industries we might look for immediately. I think the answer is there. If you compare this line with that line, you can see that housing has a tremendous distance to go yet to get anywhere near in line with the total industrial production in the United States.

I think very definitely as you increase the income of the workers, as your factory pay rolls remain more or less stable, the opportunities for building, selling and renting houses will go up with it. In other words we can not expect the [illegible] of the [illegible] which may be [illegible] [illegible] in the [illegible] of our [illegible] bearing in mind that half of the people in the country [illegible] opportunity is still a big thing that can be developed.

There are other fields that can be developed and I would say, Mr. Chairman, by way of [illegible] I think the outstanding thing that everybody will accept and agree to is that our American industry is geared to large-scale production and, because of that fact, it must depend upon markets that can consume the output of mass production methods.

THE INCOME FACTOR

Now American industry cannot profitably sustain itself from the proceeds of sales to that portion of our families that has incomes of more than five thousand dollars. That segment of our population numbers but 794,000 families, less than 2.5 per cent of the total families of the nation. I want to repeat that, if I may. That 2.5 per cent of families in this country have incomes of five thousand dollars or more and American industry, geared to huge mass production methods, can't live on those 794,000 families. Nor, indeed, can American industry maintain itself on the sales to the income group that receives $2500 or more. These families, these $2500 or more families, comprise less than 13 per cent of all of our families and in numbers constitute a population approximately equal to that of the State of New York. In other words, all of the families in the United States put together who receive $2500 or more, wouldn't aggregate a population much greater than the State of New York itself.

It is evident there again that mass production in industries can't depend upon these families for their existence. Even in an income of $1,250 and above, we only touch approximately one-half of our families. Fifty-four per cent, some sixteen millions of a total of more than twenty-nine millions of our families, fall below the $1,250 income level. In other words, half our market in this country for these industries that produce these goods and employ our laborers lies in families that earn less than $1,250 a year.

Now, there are approximately nine million five hundred thousand wage earner families in the United States in 1935 and 36, and I am taking that year because it was the year we actually went in to see how these families were spending their money, who received no direct or work relief during the twelve months covered by the study we made. Of these nine and one-half million wage earner families, approximately five million or fifty-five per cent had incomes of $1,250 or more.

HOUSEHOLD BUDGETS

I asked myself the question, what would happen to American industry if every family that has not been on relief in the course of a year had earned $1,250 or had that much income—had its income increased to about $1.25 a day. In other words, if every one of these families could have that much more to spend each day, what would happen to American industry?

Dealing with the individual commodity, the groups that enter into the family budget, the first item is food. Our study shows that families with incomes of $1,250 or less today spend about 44 per cent of their income for food, the actual dollars being $585 out of $1,250. For these five million and a half families, that I mentioned, wage earner families who have not been on relief, whose income has been $1,250 or less, an increase of approximately $1.25 a day in their income would mean a rise in food expenditures of approximately six hundred million dollars a year. They would buy that much more food if they had $1.25 or more a day in income.

Based upon our survey of clothing expenditures, the average American wage earner family that earns $1,250 or less spends approximately $90 a year for clothing. An increase in their income of a little over $1 a day can be expected to raise their expenditures for this item to around $162 a year. In other words, their expenditures for clothing will jump from $90 to $162 a year if their income is increased by a little over $1 a day.

If you take all of these families earning $1,250 or less and you gave each one of them a little over $1 a day, the actual increase in expenditures in that year in clothes would be 416 million dollars.

Senator KING. You are giving them no credit for saving any money. You are assuming they are going to spend it all.

Dr. LUBIN. We are going to let them save some, too. What I am saying is this: We have taken three hundred thousand families earning $1,250 and less. How do these families earning $1,500, how do they spend their money as their income go up? Some of it is saved. We find a very definite pattern. They will buy more clothes, very definitely. They will increase their expenditures on food. There are some things they won't increase their expenditures on at all.

We could go down this whole list of essentials that constitute the basic items and standard of living of the American wage earner families. We can expect a rise of 413 million dollars in expenditures for rent. We can expect a rise of 222 million dollars in their expenditures for fuel, light and refrigeration. We can expect a rise of 224 million dollars if the increase is a little over $1 a day, in household furnishings, equipment and things of that sort.

The expenditures of the American family today that has an income of $1,250 or less, in the wage earner group, is about $39 a year on transportation, and it is primarily automobile transportation, which includes repairs and purchases of new cars. That expenditure will rise to $112 a family if their income increases $1 a day, meaning an increase in expenditure on automobiles of 400,000,000. Expenditures for recreation which now takes $32 of the average wage earner family, could be expected to rise to $78, with a net increase in annual contributions of these families to the suppliers of recreation of approximately 254 million dollars a year.

In the field of medical care, in which approximately $52 is contributed by the average wage earner family today, we could expect almost a 200 per cent increase in expenditures, the amount going to doctors and medicines increasing by 200 million dollars.

This briefly gives a rough conception of what industries might be expected to gain from a rise in the national income which would increase the amounts available to wage earner families in the $1,250 or less income group by slightly more than $1 a day. It might be worth while to show the probable effect of such an increase in income upon producers of specific items.

An interesting case at point is oranges. The American average wage earner family in the $1250 or less income group spends $8 a year on the average on oranges, the total expenditure for the group being approximately four million. As family income increase, it is found that at the $1500 level the amount expended on oranges more than triples, the average being $2.50. With this increase of a little over $1 a day, in these families, the amount spent for oranges will increase by eleven million dollars a year, on just that one item of fruit.

Producers of cosmetics and toilet prepa-

[illegible] can anticipate a rise in sales from [illegible] from $1.57 per family to $4.16, [illegible] increase in their business being approximately $13,000,000 a year. The motion [illegible] could look forward to a [illegible]. With a rise from $4.14 per [illegible] to $4.82 per family for movies, this [illegible] an increase in sale of tickets [illegible] approximately $40,000,000.

Distributors of silk and rayon dresses [illegible] forward to an increase of $31,- [illegible] and manufacturers of electric re[illegible] could expect an increase of [illegible]. Automobile distributors could [illegible] increased sales aggregating [illegible].

[illegible] relatively high increase that may [illegible] for oranges may be attributed [illegible] advertising campaigns and to the effect of the spread of dietary knowledge. The [illegible] increase in expenditures for all of these items as family income rises from lower to intermediate level is suggestive of the enormous potentialities of consumptive demand, with such elasticity of automobiles and wearing apparel is particularly apparent. Indeed, a comparison of the [illegible] with incomes averaging around [illegible] with the wage earning family with incomes of $1500 shows the $2250 wage earning family spends six times as much on automobiles as the $1500 family does, more than twice as much for medical and dental care, more than two and a third times as much for movies, almost three times as much for men's clothes, [illegible] and dresses, and three times as much on electric refrigerators.

THE SUMMARY

Summarizing what an increase of $1.25 a day will have upon American industry, if this amount were made available to families now earning $1250 or less, the picture would run something like this. They would buy $600,000,000 worth of food more than they are now; they would increase their purchases of clothing by $416,000,000; they would increase their purchase of [illegible] in rents by $413,000,000; they would spend $222,000,000 more on fuel, light and refrigeration; they would spend $400,000,000 more on transportation, automobiles, etc.; they would spend $222,000,000 more on personal care, they would spend [illegible] more on recreation; they would spend $200,000,000 more on medical care.

THE CHAIRMAN. One of our correspondents wants to know whether they would spend anything more on newspapers.

Dr. LUBIN. As a matter of fact, you [illegible] figures for all reading material. I haven't got them with me here.

Senator KING. What newspapers?

Dr. LUBIN. I would want to know what [illegible] represents before I would answer.

[illegible] it should be borne in mind that [illegible] estimates cover the effects of the [illegible] increases of only a limited number [illegible] only 5,500,000 families [illegible] of 29,000,000 non-relief families [illegible] country, and they don't include [illegible] the ten million single individuals [illegible] annual income aggregates in excess [illegible] and a half billion dollars, or [illegible] people who have incomes, as I said, exceeding twenty-five hundred.

THE SURPLUS PROBLEM

I bring these findings to your attention, sir, because this brief outline is what would happen to American industry if these smaller families had incomes only of, say, $1.25 more a day to spend; it would have a tremendous effect upon the production of industry and upon unemployment. I might go a step further and say that if there were moderate increases in the incomes of all families, or single individuals receiving less than $2,500, all that group down below, you would expect that most of your surplus capacity in the United States would disappear, and in many of those industries our present capacity would run far short of the demands by the population of this country.

Senator KING. The aggregate surplus capacity is about 20 per cent, isn't it?

Dr. LUBIN. At the peak, but today it would probably run more than a third.

Senator KING. There has been a great deal of obsolescence since the peak, you know.

Dr. LUBIN. It is notable how suddenly obsolescence disappears when you get orders and you don't have time to buy new machines.

Senator KING. Mr. Ford had this on obsolescence—he scrapped several plants that cost fifty or sixty million dollars, and some of the other plants, smelters and mills which we have in the West get obsolete just as your clothes get obsolete.

Dr. LUBIN. Very definitely. I think the important thing, Senator, is you have that same problem that you have in case of the question of the availability of a workman on a job. When business is good and you can make money, an inefficient worker is a good investment; when business is bad and prices are bad you want the best worker, and even then it is hard to make money. I think the same is true about obsolescence.

Senator KING. With the new technological development they would lose money.

Dr. LUBIN. We do know in 1929 certain parts of the steel industry that had been shut down since the war and never intended to be opened again got going and made some money.

Mr. HENDERSON. I have some figures on obsolescence which I will be glad to introduce at a later time in the hearing.

The CHAIRMAN. This survey which you have just given us is an indication of what might be expected if the salaries or wages paid to the lower income groups were increased.

Dr. LUBIN. I am talking only about those who have not been on relief. I am talking about the families living on their own.

THE PRESENT TREND

The CHAIRMAN. What can you say to us with respect to what the trend is as indicated by the figures which you have presented here today? Are we moving toward that increased income for those particular groups or are we not?

Dr. LUBIN. At the present moment we are moving in that direction. In other words, ever since this summer the trend has been toward increasing employment, something approximating a million people have found jobs in industry. Pay rolls are going up. The index of production will touch about 103 this month as compared to 77 this summer. That is a tremendous increase.

How long that is going to continue upward I don't know and I wouldn't want to forecast, but if I might tie up that question with a general conclusion of all I am trying to bring out, I would say this: that the problem that we have got to face is one of economic security, and by economic security I don't mean only for workers; we have got to have it for the investor and we have got to have it for the farmer. I think that is the first problem we have got to face, and the second problem we have got to face is one of a rising standard of living, because our standard today, based upon these per capita income figures, shows that we have a considerable distance to go if we are going to get back to the amount of goods and services available for each man, woman and child in this country in terms of production that we had in former years.

INCREASING PRODUCTION

To get this economic security and to get this rise in standard of living I think two things are involved. It means more and more production. We have just got to produce more and more, and of course it has got to be balanced in some way so that you won't be overproducing one type of commodity and underproducing another type of commodity.

Secondly and equally as important, if not more important, is some equitable distribution of that income which will permit us to absorb these products of agriculture and of industry. In other words, a distribution of that national income which will keep all of these goods moving, and we have got to produce more and more to have a higher standard of living.

You can't have a higher standard of living unless you produce more and more goods. With fewer goods to go around you can't live as well, taking the nation as a whole. So when there are more goods, this equitable distribution in turn means—I will put it this way: this increased standard of living and this rising standard of living means definitely that our national income must go up from $61,000,000,000 this year, or approximately $62,000,000,000, to at least $75,000,000,000, if not $80,000,000,000, if our standard of living for this country as a whole is going to be as good as it was in 1929, taking an increasing population into consideration; you have more people to feed, clothe, entertain and keep healthy, but with our present population, if there were to be available in the country as much goods per capita and as much service as there was in 1929, we would have to increase our national income, as I say, from $61,000,000,000 or $62,000,000,000 to something between $75,000,000,000 and $80,000,000,000.

The CHAIRMAN. I have observed, Doctor, that throughout your testimony you have been referring to 1929 as a norm, as it were.

Dr. LUBIN. I would rather not call it a "norm." All I can say is that for that year we were using more of our labor and wasting less. What I have attempted to

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at today to share what we have been wanting.

The CHAIRMAN. In 1929 we had reached our highest peak of national income. We had more employment than at any time since. But isn't it a fact that in 1929 there was also a rather severe unemployment problem?

Dr. LUBIN. Well, it is estimated there were about a million eight hundred thousand people unemployed on the average in 1929. That to me is not an unemployment problem.

The CHAIRMAN. But there were that number. How about the incomes of families at that time?

DISTRIBUTION PROBLEM

Dr. LUBIN. That is why I say it is not only producing more and more but is distributing that production so that there will be incomes for those families to take those goods as they come out of the factories. Now if you are going to maintain an economic system such as ours with those incomes and wages, you have got to have this labor supply of a million eight hundred thousand on the average to keep going, because an industry operates fifty-two weeks a year, and that million eight hundred thousand aren't the same people.

The CHAIRMAN. What I am getting at is, would you regard as a scientific economist, the living standard of 1929 as adequate?

Dr. LUBIN. No. The very fact that the machine broke down with the distribution we had there is to me evidence of the fact that distribution is a tremendous problem. Perhaps I can summarize and end up this whole talk in this way: that the more equitable distribution is more than an ethical problem. I mean it is not only a question of having everybody in good health and good spirits. There is more than that to the problem.

To me it is a problem of keeping the wheels of this economic machine in [illegible], and I don't know any other way of keeping them in [illegible] than by so distributing that income that it will pull into the homes through a standard of living those goods, the clothing, this food, this entertainment, this education, and so forth, which this machine has got to turn out at a rate considerably higher than at the present time, even to get back to where you were in 1929.

Senator KING. I am in agreement with your statement. We have got to increase materially the productivity of mines and farms and our manufacturing institutions. I wanted to call your attention to one statement that I think might need a little clarification. You state that the system broke down in 1929. That is a statement to which all of us would assent. There may come a calamity or catastrophe to a nation when it has a good economic system. There were then combinations of circumstances which tended to produce a halt in our economic progress. For instance, there was the world indebtedness. Another reason, we were losing our export market. Those conditions materially contributed to a halt in our production, and of course, in the economic development of our country. So I don't think that the system per se broke down, but there were conditions which arose that interrupted its progress.

The CHAIRMAN. In other words, we had a crash but that wasn't a breakdown.

Senator KING. Well, I don't know. If you want to know what was one of the principles of the crash, it was the folly of the American people in gambling in the stock market throughout the United States and borrowing some $8,000,000,000 from the banks in order to buy stocks—farmers' and laborers' and shoe shiners' and everybody else's gambling propensities in part were the cause of the crash.

FOREIGN TRADE

Representative SUMNERS. Dr. Lubin, in order that I may have a little more additional information in this economic picture, in '29 I had the impression that a good deal of our production was finding a market abroad, and I believe we were loaning a good deal of money to the people to buy with who never paid it back.

Dr. LUBIN. We were giving it away.

Senator KING. Two billion dollars every year.

Dr. LUBIN. My own feeling is we would be better off if we are going to give it away to distribute it among our own people so they could continue to buy these things rather than loan the money to buy it with and never get it back.

Representative SUMNERS. That makes it a little bit of an abnormal year in a sense. I withdraw that question because I want to hurry along.

Dr. LUBIN. But I wanted to point this thing out on this chart of industrial production. You want to bear in mind that you had an upward trend. It was abnormal in a sense but even if it had kept going along at a relative rate of increase—

PROBLEMS OF CASH

Representative SUMNERS (interposing). I was going to withdraw the question. There is one thing, though, that I believe while the Doctor is on the stand the members of the committee ought to consider, and that is in the economic picture this expenditure by the Federal Government of money which we are not collecting. We speak of the national income, and we include in that national income houses and all other things which are not liquid. I mean you can't go to the tax collector and give him a house; you have got to, somehow or other, get the money out of all this business to go and give the tax collector. I haven't studied it out; I don't know but that we are spending money that we are expecting the next generation to pay. Is there anything to be suggested as to how we can raise this money and keep a little more economic soundness in the federal organization or is the increase—I am asking this in all seriousness—of the federal indebtedness a threat to the economic stability of the country?

Dr. LUBIN. You are asking for a personal opinion in a sense. I think our committee is going to have to look into that whole question.

Representative SUMNERS. I withdraw the question. I think so myself.

The CHAIRMAN. Are there any other questions? If there are no other questions, the committee will recess until tomorrow morning at 10:30. Dr. Thorp will appear at that time.

(Whereupon, at 4:10 o'clock p. m., a recess was taken until Friday, December 2, 1938, at 10:30 a. m.)

Appendix Will Be Found on Page 49

Appendix

(Exhibit No. 1)

Message From the President of the United States

TRANSMITTING RECOMMENDATIONS RELATIVE TO THE STRENGTHENING AND ENFORCEMENT OF THE ANTI-TRUST LAWS

(RECEIVED BY THE CONGRESS APRIL 29 (CALENDAR DAY APRIL 29), 1938.—READ; REFERRED TO THE COMMITTEE ON THE JUDICIARY OF THE SENATE.

To the Congress of the United States:

Unhappy events abroad have retaught us two simple truths about the liberty of a democratic people.

The first truth is that the liberty of a democracy is not safe if the people tolerate the growth of private power to a point where it becomes stronger than their democratic state itself. That, in its essence, is Fascism—ownership of government by an individual, by a group, or by any other controlling private power.

The second truth is that the liberty of a democracy is not safe if its business system does not provide employment and produce and distribute goods in such a way as to sustain an acceptable standard of living.

Both lessons hit home.

Among us today a concentration of private power without equal in history is growing.

This concentration is seriously impairing the economic effectiveness of private enterprise as a way of providing employment for labor and capital and as a way of assuring a more equitable distribution of income and earnings among the people of the nation as a whole.

I. The Growing Concentration of Economic Power

Statistics of the Bureau of Internal Revenue reveal the following amazing figures for 1935:

Ownership of corporate assets:

> Of all corporations reporting from every part of the nation, one-tenth of 1 per cent of them owned 52 per cent of the assets of all of them;

And to clinch the point:

> Of all corporations reporting, less than 5 per cent of them owned 87 per cent of all the assets of all of them.

Income and profits of corporations:

> Of all the corporations reporting from every part of the country, one-tenth of 1 per cent of them earned 50 per cent of the net income of all of them;

And to clinch the point:

> Of all the manufacturing corporations reporting, less than 4 per cent of them earned 84 per cent of all the net profits of all of them.

The statistical history of modern times proves that in time of depression concentration of business speeds up. Bigger business then has larger opportunity to grow still bigger at the expense of smaller competitors who are weakened by financial adversity.

The danger of this centralization in a handful of huge corporations is not reduced or eliminated, as is sometimes urged, by the wide public distribution of their securities. The mere number of security-holders gives little clue to the size of their individual holdings or to their actual ability to have a voice in the management. In fact, the concentration of stock ownership of corporations in the hands of a tiny minority of the population matches the concentration of corporate assets.

The year 1929 was a banner year for distribution of stock ownership. But in that year

> three-tenths of 1 per cent of our population received 78 per cent of the dividends reported by individuals. This has roughly the same effect as if, out of every 300 persons in our population, one person received 78 cents out of every dollar of corporate dividends while the other 299 persons divided up the other 22 cents between them.

The effect of this concentration is reflected in the distribution of national income.

A recent study by the National Resources Committee shows that in 1935-36

> 47 per cent of all American families and single individuals living alone had incomes of less than $1,000 for the year;
> and at the other end of the ladder a little less than 1½ per cent of the nation's families received incomes which in dollars and cents reached the same total as the incomes of the 47 per cent at the bottom.

Furthermore, to drive the point home, the Bureau of Internal Revenue reports that estate tax returns in 1936 show that:

> 33 per cent of the property which was passed by inheritance was found in only 4 per cent of all the reporting estates. (And the figures of concentration would be far more impressive, if we included all the smaller estates which, under the law, do not have to report.)

We believe in a way of living in which political democracy and free private enterprise for profit should serve and protect each other—to ensure a maximum of human liberty not for a few but for all.

It has been well said that "The freest government, if it could exist, would not be long acceptable, if the tendency of the laws were to create a rapid accumulation of property in a few hands, and to render the great mass of the population dependent and penniless."

Today many Americans ask the uneasy question: Is the vociferation that our liberties are in danger justified by the facts?

Today's answer on the part of average men and women in every part of the country is far more accurate than it would have been in 1929—for the very simple reason that during the past nine years we have been doing a lot of common-sense thinking. Their answer is that if there is that danger it comes from that concentrated private economic power which is struggling so hard to master our democratic government. It will not come as some (by no means all) of the possessors of that private power would make the people believe—from our democratic government itself.

II. Financial Control Over Industry

Even these statistics I have cited do not measure the actual degree of concentration of control over American industry.

Close financial control, through interlocking spheres of influence over channels of investment, and through the use of financial devices like the holding companies and strategic minority interests, creates close control of the business policies of enterprises which masquerade as independent units.

That heavy hand of integrated financial and management control lies upon large and strategic areas of American industry. The small business man is unfortunately being driven into a less and less independent position in American life. You and I must admit that.

Private enterprise is ceasing to be free enterprise and is becoming a cluster of private collectivisms; masking itself as a system of free enterprise after the American model, it is in fact becoming a concealed cartel system after the European model.

We all want efficient industrial growth and the advantages of mass production. No one suggests that we return to the hand loom or hand forge. A series of processes involved in turning out a given manufactured product may well require one or more huge mass production plants. Modern efficiency may call for this. But modern efficient mass production is not furthered by a central control which destroys competition between industrial plants each capable of efficient mass production while operating as separate units. Industrial efficiency does not have to mean industrial empire building.

And industrial empire building, unfortunately, has evolved into banker control of industry. We oppose that.

Such control does not offer safety for the investing public. Investment judg-

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ment requires the disinterested appraisal of other people's management. It becomes blurred and distorted if it is combined with the conflicting duty of controlling the management it is supposed to judge.

Interlocking financial controls have taken from American business much of its traditional virility, independence, adaptability and daring—without compensating advantages. They have not given the stability they promised.

Business enterprise needs new vitality and the flexibility that comes from the diversified efforts, independent judgments and vibrant energies of thousands upon thousands of independent business men.

The individual must be encouraged to exercise his own judgment and to venture his own small savings, not in stock gambling but in new enterprise investment. Men will dare to compete against men but not against giants.

III. The Decline of Competition And Its Effect on Employment

In output per man or machine we are the most efficient industrial nation on earth.

In the matter of complete mutual employment of capital and labor we are among the least efficient.

Our difficulties of employing labor and capital are not new. We have had them since good free land gave out in the West at the turn of the century. They were old before we undertook changes in our tax policy or in our labor and social legislation. They were caused not by this legislation, but by the same forces which caused the legislation.

The problem of bringing idle men and idle money together will not be solved by abandoning the forward steps we have taken to adjust the burdens of taxation more fairly and to attain social justice and security.

If you believe with me in private initiative, you must acknowledge the right of well-managed small business to expect to make reasonable profits. You must admit that the destruction of this opportunity follows concentration of control of any given industry into a small number of dominating corporations.

One of the primary causes of our present difficulties lies in the disappearance of price competition in many industrial fields, particularly in basic manufacture where concentrated economic power is most evident—and where rigid prices and fluctuating pay rolls are general.

Managed industrial prices mean fewer jobs. It is no accident that in industries, like cement and steel, where prices have remained firm in the face of a falling demand, pay rolls have shrunk as much as 40 and 50 per cent in recent months. Nor is it mere chance that in most competitive industries where prices adjust themselves quickly to falling demand, pay rolls and employment have been far better maintained. By prices we mean, of course, the prices of the finished articles and not the wages paid to workers.

When prices are privately managed at levels above those which would be determined by free competition, everybody pays.

The contractor pays more for materials; the home builder pays more for his house; the tenant pays more rent; and the worker pays in lost work.

Even the Government itself is unable, in a large range of materials, to obtain competitive bids. It is repeatedly confronted with bids identical to the last cent.

Our housing shortage is a perfect example of how ability to control prices interferes with the ability of private enterprise to fill the needs of the community and provide employment for capital and labor.

On the other hand, we have some lines of business, large and small, which are genuinely competitive. Often these competitive industries must buy their basic products from monopolistic industry, thus losing, and causing the public to lose, a large part of the benefit of their own competitive policy. Furthermore, in times of recession, the practices of monopolistic industries make it difficult for business or agriculture which is competitive and which does not curtail production below normal needs, to find a market for its goods even at reduced prices. For at such times a large number of customers of agriculture and competitive industry are being thrown out of work by those noncompetitive industries which choose to hold their prices rather than to move their goods and to employ their workers.

If private enterprise, left to its own devices, becomes half-regimented and half-competitive, half-slave and half-free, as it is today, it obviously cannot adjust itself to meet the needs and the demands of the country.

Most complaints for violations of the anti-trust laws are made by business men against other business men. Even the most monopolistic business man disapproves of all monopolies but his own. We may smile at this as being just an example of human nature, but we cannot laugh away the fact that the combined effect of the monopolistic controls which each business group imposes for its own benefit, inevitably destroys the buying power of the nation as a whole.

IV. Competition Does Not Mean Exploitation

Competition, of course, like all other good things, can be carried to excess. Competition should not extend to fields where it has demonstrably bad social and economic consequences. The exploitation of child labor, the chiseling of workers' wages, the stretching of workers' hours, are not necessary, fair or proper methods of competition. I have consistently urged a federal wage and hours bill to take the minimum decencies of life for the working man and woman out of the field of competition.

It is, of course, necessary to operate the competitive system of free enterprise intelligently. In gauging the market for their wares, business men, like the farmers, should be given all possible information by government and by their own associations so that they may act with knowledge, and not on impulse. Serious problems of temporary over-production can and should be avoided by disseminating information that will discourage the production of more goods than the current markets can possibly absorb or the accumulation of dangerously large inventories for which there is no obvious need.

It is, of course, necessary to encourage rises in the level of those competitive prices, such as agricultural prices, which must rise to put our price structure into more workable balance and make the debt burden more tolerable. Many such competitive prices are now too low.

It may at times be necessary to give special treatment to chronically sick industries which have deteriorated too far for natural revival, especially those which have a public or quasi-public character.

But generally over the field of industry and finance we must revive and strengthen competition if we wish to preserve and make workable our traditional system of free private enterprise.

The justification of private profit is private risk. We cannot safely make America safe for the business man who does not want to take the burdens and risks of being a business man.

V. The Choice Before Us

Examination of methods of conducting and controlling private enterprise which keep it from furnishing jobs or income or opportunity for one-third of the population is long overdue on the part of those who sincerely want to preserve the system of private enterprise for profit.

No people, least of all a democratic people, will be content to go without work or to accept some standard of living which obviously and woefully falls short of their capacity to produce. No people, least of all a people with our traditions of personal liberty, will endure the slow erosion of opportunity for the common man, the oppressive sense of helplessness under the domination of a few, which are overshadowing our whole economic life.

A discerning magazine of business has editorially pointed out that big business collectivism in industry compels an ultimate collectivism in government.

The power of a few to manage the economic life of the nation must be diffused among the many or be transferred to the public and its democratically responsible government. If prices are to be managed and administered, if the nation's business is to be allotted by plan and not by competition, that power should not be vested in any private group or cartel, however benevolent its professions profess to be.

Those people, in and out of the halls of government, who encourage the growing restriction of competition either by active efforts or by passive resistance to sincere attempts to change the trend, are shouldering a terrific responsibility. Consciously, or unconsciously, they are working for centralized business and financial control. Consciously or unconsciously, they are therefore either working for control of the government itself by business and finance or the other alternative—a growing concentration of public power in the government to cope with such concentration of private power.

The enforcement of free competition is the least regulation business can expect.

VI. A Program

The traditional approach to the problems I have discussed has been through the anti-trust laws. That approach we do not propose to abandon. On the contrary, although we must recognize the inadequacies of the existing laws, we seek to enforce them so that the public shall not be deprived of such protection as they afford. To enforce them properly requires thorough investigation not only to discover such violations as may exist but to avoid hit and miss prosecutions harmful to business and government alike. To provide for the proper and fair enforcement of the existing anti-trust laws I shall submit, through the budget, recommendations for a deficiency appropriation of $200,000 for the Department of Justice.

But the existing anti-trust laws are inadequate—most importantly because of new financial economic conditions with which they are powerless to cope.

The Sherman Act was passed nearly 40 years ago. The Clayton and Federal Trade Commission Acts were passed over 20 years ago. We have had considerable experience under those acts. In the meantime we have had a chance to observe the practical operation of large-scale industry and to learn many things about the competitive system which we did not know in those days.

We have witnessed the merging-out of effective competition in many fields of enterprise. We have learned that the so-called competitive system works differently in an industry where there are many independent units, from the way it works in an industry where a few large producers dominate the market.

We have also learned that a realistic system of business regulation has to reach more than consciously immoral acts. The community is interested in economic results. It must be protected from economic as well as moral wrongs. We must find practical controls over blind economic forces as well as over blindly selfish men.

Government can deal and should deal with blindly selfish men. But that is a comparatively small part—the easier part—of our problem. The larger, more important and more difficult part of our problem is to deal with men who are not selfish and who are good citizens, but who cannot see the social and economic consequences of their actions in a modern economically interdependent community. They fail to grasp the significance of some of our most vital social and economic problems because they see them only in the light of their own personal experience and not in perspective with the experience of other men and other industries. They, therefore, fail to see these problems for the nation as a whole.

To meet the situation I have described, there should be a thorough study of the concentration of economic power in American industry and the effect of that concentration upon the decline of competition. There should be an examination of the existing price system and the price policies of industry to determine their effect upon the general level of trade, upon employment, upon long-term profits and upon consumption. The study should not be confined to the traditional anti-trust field. The effects of tax, patent and other governmental policies cannot be ignored.

The study should be comprehensive and adequately financed. I recommend an appropriation of not less than $500,000 for the conduct of such comprehensive study by the Federal Trade Commission, the Department of Justice, the Securities and Exchange Commission, and such other agencies of government as have special experience in various phases of the inquiry.

I enumerate some of the items that should be embraced in the proposed study. The items are not intended to be all-inclusive. One or two of the items, such as bank holding companies and investment trusts, have already been the subject of special study, and legislation concerning these need not be delayed.

(1) Improvement of Anti-Trust Procedure.

A revision of the existing anti-trust laws should make them susceptible of practical enforcement by casting upon those charged with violations the burden of proving facts peculiarly within their knowledge. Proof by the Government of identical bids, uniform price increases, price leadership, higher domestic than export prices, or other specified price rigidities might be accepted as prima facie evidence of unlawful actions.

The Department of Justice and the Federal Trade Commission should be given more adequate and effective power to investigate whenever there is reason to believe that conditions exist or practices prevail which violate the provisions or defeat the objectives of the anti-trust laws. If investigation reveals border-line cases where legitimate cooperative efforts to eliminate socially and economically harmful methods of competition in particular industries are thwarted by fear of possible technical violations of the anti-trust laws, remedial legislation should be considered.

As a really effective deterrent to personal wrong-doing, I would suggest that where a corporation is enjoined from violating the law, the court might be empowered to enjoin the corporation for a specified period of time from giving any remunerative employment or any official position to any person who has been found to bear a responsibility for the wrongful corporate action.

As a further deterrent to corporate wrong-doing the Government might well be authorized to withhold government purchases from companies guilty of unfair or monopolistic practice.

(2) Mergers and Interlocking Relationship.

More rigid scrutiny through the Federal Trade Commission and the Securities and Exchange Commission of corporate mergers, consolidations and acquisitions than that now provided by the Clayton Act to prevent their consummation when not clearly in the public interest; more effective methods for breaking up interlocking relationships and like devices for bestowing business by favor.

(3) Financial Controls.

The operations of financial institutions should be directed to serve the interests of independent business and restricted against abuses which promote concentrations of power over American industry.

(a) Investment Trusts

Investment trusts should be brought under strict control to insure their operations in the interests of their investors rather than their managers. The Securities and Exchange Commission is to make a report to Congress on the results of a comprehensive study of investment trusts and their operations which it has carried on for nearly two years. The investment trust, like the holding company, puts huge aggregations of the capital of the public at the direction of a few managers. Unless properly restricted, it has potentialities of abuse second only to the holding company as a device for the further centralization of control over American industry and American finance.

The tremendous investment funds controlled by our great insurance companies have a certain kinship to investment trusts, in that these companies invest as trustees the savings of millions of our people. The Securities and Exchange Commission should be authorized to make an investigation of the facts relating to these investments with particular relation to their use as an instrument of economic power.

(b) Bank Holding Companies.

It is hardly necessary to point out the great economic power that might be wielded by a group which may succeed in acquiring domination over banking resources in any considerable area of the country. That power becomes particularly dangerous when it is exercised from a distance, and notably so when effective control is maintained without the responsibilities of complete ownership.

We have seen the multiplied evils which have arisen from the holding company system in the case of public utilities, where a small minority ownership has been able to dominate a far-flung system.

We do not want those evils repeated in the banking field, and we should take steps now to see that they are not.

It is not a sufficient assurance against the future to say that no great evil has yet resulted from holding company operations in this field. The possibilities of great harm are inherent in the situation.

I recommend that the Congress enact at this session legislation that will effectively control the operation of bank holding companies; prevent holding companies from acquiring control of any more banks, directly or indirectly; prevent banks controlled by holding companies from establishing any more branches; and make it illegal for a holding company, or any corporation or enterprise in which it is financially interested, to borrow from or sell securities to a bank in which it holds stock.

I recommend that this bank legislation make provision for the gradual separation of banks from holding company control or ownership, [illegible]

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lowing a reasonable time for this accomplishment—time enough for it to be done in an orderly manner and without causing inconvenience to communities served by holding company bases.

(4) Trade Associations.

Supervision and effective publicity of the activities of trade associations, and a clarification and delineation of their legitimate spheres of activity which will enable them to combat unfair methods of competition but which will guard against their interference with legitimate competitive practices.

(5) Patent Laws.

Amendment of the patent laws to prevent their use to suppress inventions, and to create industrial monopolies. Of course, such an amendment should not deprive the inventor of his royalty rights, but, generally speaking, future patents might be made available for use by any one upon payment of appropriate royalties. Open patent pools have voluntarily been put into effect in a number of important industries with wholesome results.

(6) Tax Correctives.

Tax policies should be devised to give affirmative encouragement to competitive enterprise.

Attention might be directed to increasing the intercorporate dividend tax to discourage holding companies and to further graduating the corporation income tax according to size. The graduated tax need not be so high as to make bigness impracticable, but might be high enough to make bigness demonstrate its alleged superior efficiency.

We have heard much about the undistributed profits tax. When it was enacted two years ago its objective was known to be closely related to the problem of concentrated economic power and a free capital market.

Its purpose was not only to prevent individuals whose incomes were taxable in the higher surtax brackets from escaping personal income taxes by letting their profits be accumulated as corporate surplus. Its purpose was also to encourage the distribution of corporate profits so that the individual recipients could freely determine where they would reinvest in a free capital market.

It is true that the form of the 1936 tax worked a hardship on many of the smaller corporations. Many months ago I recommended that these inequities be removed.

But in the process of the removal of inequities we must not lose sight of original objectives. Obviously the nation must have some deterrent against special privileges enjoyed by an exceedingly small group of individuals under the form of the laws prior to 1936, whether such deterrent takes the form of an undistributed profits tax or some other equally or more efficient method. And adherence to the principle of graduated personal income taxes has a real value in breaking down a further concentration of economic power and in favor of a freer capital market.

(7) Bureau of Industrial Economics.

Creation of a Bureau of Industrial Economics which should be endowed with adequate powers to supplement and supervise the collection of industrial statistics by trade associations. Such a Bureau should perform for business men functions similar to those performed for the farmers by the Bureau of Agricultural Economics.

It should disseminate current statistical and other information regarding market conditions and be in a position to warn against the dangers of temporary over-production and excessive inventories as well as against the dangers of shortages and bottleneck conditions and to encourage the maintenance of orderly markets. It should study trade fluctuations, credit facilities and other conditions which affect the welfare of the average business man. It should be able to help small business men to keep themselves as well informed about trade conditions as their big competitors.

No man of good faith will misinterpret these proposals. They derive from the oldest American traditions. Concentration of economic power in the few and the resulting unemployment of labor and capital are inescapable problems for a modern "private enterprise" democracy. I do not believe that we are so lacking in stability that we will lose faith in our own way of living just because we seek to find out how to make that way of living work more effectively.

This program should appeal to the honest common sense of every independent business man interested primarily in running his own business at a profit rather than in controlling the business of other men.

It is not intended as the beginning of any ill-considered "trust-busting" activity which lacks proper consideration for economic results.

It is a program to preserve private enterprise for profit by keeping it free enough to be able to utilize all our resources of capital and labor at a profit.

It is a program whose basic purpose is to stop the progress of collectivism in business and turn business back to the democratic competitive order.

It is a program whose basic thesis is not that the system of free private enterprise for profit has failed in this generation, but that it has not yet been tried.

Once it is realized that business monopoly in America paralyzes the system of free enterprise on which it is grafted, and is as fatal to those who manipulate it as to the people who suffer beneath its impositions, action by the Government to eliminate these artificial restraints will be welcomed by industry throughout the nation.

For idle factories and idle workers profit no man.

FRANKLIN D. ROOSEVELT

The White House,
April 29, 1938.

(Exhibit No. 2)

Joint Resolution Creating the Committee

[PUBLIC RESOLUTION—NO. 113—75TH CONGRESS]
[CHAPTER 456—3D SESSION]
[S. J. Res. 300]

JOINT RESOLUTION — To Create a Temporary National Economic Committee.

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That there is hereby established a temporary national economic committee (hereinafter referred to as the "committee"), to be composed of (1) three Members of the Senate, to be appointed by the President of the Senate, (2) three Members of the House of Representatives, to be appointed by the Speaker of the House of Representatives; and (3) one representative from each of the following departments and agencies, to be designated by the respective heads thereof: Department of Justice, Department of the Treasury, Department of Labor, Department of Commerce, the Securities and Exchange Commission, and the Federal Trade Commission.

Such representative may designate an alternate to sit and act for him on the committee in his absence. Any such alternate, while so acting, shall have the same rights, powers and duties as are conferred and imposed upon a member of the committee by this joint resolution.

Any member appointed under clauses (1) and (2) may, when unable to attend a meeting of the committee, authorize another such member to act and vote for him in his absence. A vacancy in the committee shall not affect the power of the remaining members to execute the functions of the committee and shall be filled in the same manner as the original selection.

COMMITTEE'S DUTIES

Sec. 2. It shall be the duty of the committee—

(a) To make a full and complete study and investigation with respect to the matters referred to in the President's message of April 29, 1938, on monopoly and the concentration of economic power in and financial control over production and distribution of goods and services and to hear and receive evidence thereon, with a view to determining, but without limitation,

(1) the causes of such concentration and control and their effect upon competition;

(2) the effect of the existing price system and the price policies of industry upon the general level of trade, upon employment, upon long-term profits, and upon consumption; and

(3) the effect of existing tax, patent, and other Government policies upon competition, price levels, unemployment, profits, and consumption;

and shall investigate the subject of periodical adjustment of the purchasing power of the dollar so as to attain full commodity price levels; and

(b) To make recommendations to the Congress with respect to legislation upon the foregoing subjects, including the improvement of anti-trust policy and procedure and the establishment of national standards for corporations engaged in commerce among the States and with foreign nations.

COMMITTEE'S POWERS

Sec. 3. (a) The committee shall have power to appoint subcommittees to assist the committee in its work. The members of the committee shall serve without additional compensation but shall be reimbursed for travel, subsistence, and other necessary expenses incurred by them in the exercise of the functions vested in the committee.

(b) The Department of Justice, Department of the Treasury, Department of Labor, Department of Commerce, the Securities and Exchange Commission, and the Federal Trade Commission are directed to appear before the committee or its members and present evidence by examination of witnesses or the introduction of documents and reports. The evidence presented by each of these agencies shall cover the subject matter of this inquiry which is within its administrative jurisdiction under existing law or which may be assigned to such agencies by the committee. Each such agency is authorized to request the committee to issue such subpenas as such agency may require for the attendance of witnesses and the production of documents and reports.

(c) The committee shall have power to employ and fix the compensation of such officers, experts, and employees as it deems necessary for the performance of its duties. The committee is authorized to utilize the services, information, facilities, and personnel of the departments and agencies of the Government.

PRELIMINARY REPORTS

Sec. 4. (a) Prior to the opening of the first session of the Seventy-sixth Congress or as soon thereafter as is practicable the committee shall transmit to the President and to the Congress preliminary reports of the studies and investigations carried on by it, and by the departments and agencies represented thereon, together with the findings and recommendations of the committee, and shall submit to the President and to the Congress as soon as practicable thereafter, during or prior to the termination of the Seventy-sixth Congress, further and final reports of the studies and investigations carried out pursuant to this resolution, together with the findings and recommendations of the committee.

(b) A majority of the committee shall constitute a quorum, and the powers conferred upon them by this joint resolution may be exercised by a majority vote.

(c) All authority conferred by this joint resolution shall terminate upon the expiration of the Seventy-sixth Congress.

Sec. 5. For the purpose of this joint resolution the committee, or any sub-committee designated by it, shall be entitled to exercise the same powers and rights as are conferred upon the Securities and Exchange Commission by subsection (c) of section 18 of the Act of August 26, 1935 (49 Stat. 831), and the provisions of subsections (d) and (e) of such section shall be applicable to all persons summoned by subpena or otherwise to attend and testify or to produce books, papers, correspondence, memoranda, contracts, agreements, or other records and documents before the committee.

Sec. 6. (a) There is hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, the sum of $500,000, or so much thereof as may be necessary, to carry out the provisions of this joint resolution.

(b) Of the funds authorized to be appropriated under subsection (a), not to exceed $100,000 shall be immediately available for expenditure by the committee in carrying out its functions and not to exceed $400,000 shall be available, as the President shall direct, among the departments and agencies represented on the committee to enable them to carry out their functions under this joint resolution.

Approved, June 16, 1938.

(Exhibit No. 3)

Procedure Adopted by the T. N. E. C.

Procedure With Respect to Hearings Before Temporary National Economic Committee Conducted by Various Member Departments and Commissions Under Section 3 (b) Joint Resolution No. 113, 75th Congress.

I. Hearings on Reports.

It is the view of the Executive Committee that as a general practice, it will not be necessary or desirable to have public hearings on reports submitted to the Temporary National Economic Committee by the various departments and commissions. Certainly as respects reports based on material deduced at public hearings, a public hearing on such a report would be wholly unnecessary. As respects statistical and general economic reports, the same conclusion seems obvious. There may be, however, some types of reports on which there should be public hearings. In such cases it is recommended that the procedure for presentation of the report at a public hearing be worked out by the Committee case by case.

II. Hearings on Investigations.

It is our conclusion that hearings based on data and evidence, collected as a result of investigations and assembled by the various departments and commissions represented on the Committee, be conducted in the following manner:

A. These hearings will be before the full Committee, or a sub-committee, as the case may be, and presented by the representative of the department or commission which has conducted the investigation.

B. The list of witnesses to be called will be prepared and submitted by the department or commission which has conducted the investigation.

C. Each witness will appear under subpoena and testify under oath.

D. In all examination of witnesses, the rules of evidence shall be observed but liberally construed.

E. Witnesses will not be allowed to substitute prepared statements for testimony; nor will prepared statements dealing with facts be allowed to be introduced at the hearings except with the consent of the department or commission making the presentation, unless the Committee in a particular instance otherwise orders.

F. At a later stage in the hearings, opportunity will be afforded interested persons to present to the Committee their views as to what solution or solutions of particular problems would be desirable or necessary. The agenda for presentation of such suggestions should be prepared in the first instance by the respective departments and commissions and presented to the Committee for approval before such hearings are held.

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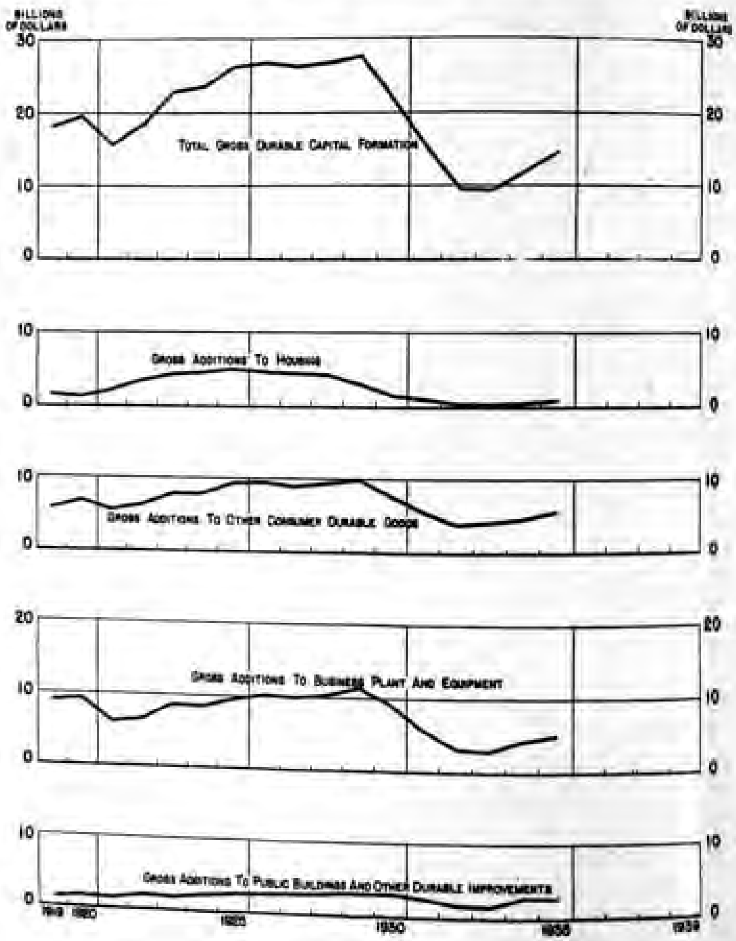
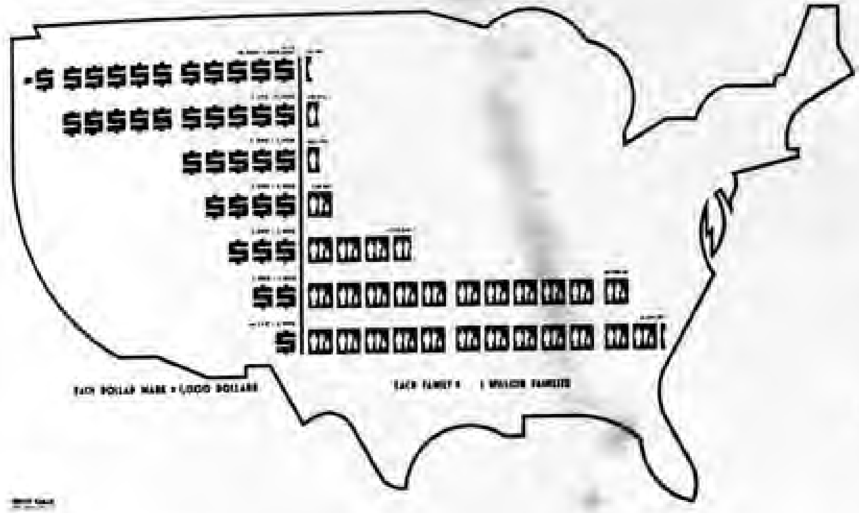
GROSS DURABLE CAPITAL FORMATION



SOURCE - NATIONAL BUREAU OF ECONOMIC RESEARCH

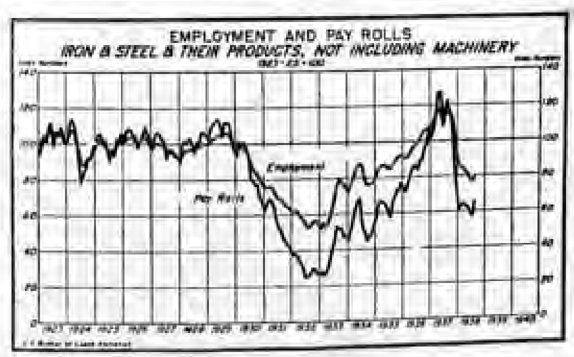
DISTRIBUTION OF FAMILY INCOMES

1935 - 1936



NATIONAL RESOURCES COMMITTEE

In 1935 and 1936 industrial production averaged 20% less than in 1929. In those years over twelve million families, or more than forty per cent of the total number of families in the United States, had incomes of less than $1,000. Eleven million more had between $1,000 and $2,000 to spend. Even if the national income were again at the 1929 level, most of the families in the lowest income group would receive too little for the standard of good living Americans expect.



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Treasury Department
Office of the Under Secretary

Date: 12-13-38

To: Mr. Foley

From: Mr. Hanes

Will you please prepare ~~answer~~ ackn. for Secretary's signature.

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DEPARTMENT OF THE INTERIOR
UNITED STATES HOUSING AUTHORITY
WASHINGTON

Hanes

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December 2, 1938

My dear Mr. Secretary:

At my conference with you on November 15 regarding the procedure by which this Authority proposes, as intended by the Statute under which we operate, to enlist private capital for a larger participation in the public housing program, it was understood that we would submit to you our rough draft of the Agreement providing for the payment of the annual contributions authorized by the United States Housing Act. I am enclosing two copies of this Agreement and of a local housing authority bond form, together with a memorandum which I received from my General Counsel describing some of the security arrangements which will be made for the protection of the holders of local authority bonds.

These documents are being submitted to you so that the Treasury Department may have the same basis for determining the value of these securities as the private purchasers who are ready to buy the local housing authority bonds at an average interest cost to the local authority of less than 3 per centum. As you know, at least 10% of each local authority bond issue must be sold to private purchasers and our Act requires that these bonds be secured by a pledge of the payments under the Annual Contributions Agreement. In view of our Act and its history and in view of the consistent policy of other Government lending agencies, this Authority has at all times emphasized its determination to follow a policy of permitting local authorities to raise as much more of the project cost as is possible by the sale of their bonds to others, provided that private capital could be obtained at an interest cost to the borrower as low or lower than the minimum rates we can charge.

It now appears that it will be possible for local authorities to sell (at public sale with full opportunity for competitive bidding) their bond issues to private purchasers at less than this minimum interest rate which we can charge. Certain prospective purchasers, who have had wide and extensive experience in dealing with securities, have evaluated the risks involved in the proposed local authority bonds and

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are convinced that these bonds are worth the price reflected by the contemplated low interest rates. In the marketing of these bonds, we have every assurance that their true nature will be fully and fairly represented. We are advised that the prospectus will call attention to the conditions in the Annual Contribution Agreements and to the provisions made to protect the bondholders with respect to these conditions. We are agreeable to obtaining and submitting for your approval, a copy of the proposed prospectus. From the enclosed draft of a local housing authority bond, you will see that the bond expressly states that it is not an obligation of the United States Government or any of its agencies.

In view of all of these facts, we see no reason to assume that the truth about these securities will not be told, nor do we feel that it is fair to assume that these securities cannot be sold at the interest rates which responsible prospective private purchasers are offering. In fact there is no justification for any such assumption of misrepresentation, particularly since this Authority will exercise the closest scrutiny over all matters relating to the sale and description of the bonds, including the prospectus, the bond form, and other relevant documents. There is no reason to feel that the Government's financial program will be prejudiced because of an assumption that these local authority bonds cannot be sold at the contemplated low interest rates. These local authority bonds are to be offered at public sale under provisions for alternate bidding on 10 percent of the issue or on substantially the entire issue. If the expected low interest rates are not offered for the larger block of bonds, the alternate bids will be accepted for the smaller part of the issue. Since these local authority bonds are in no way an obligation of the Government, the failure to receive the anticipated low bids for substantially the entire issue cannot possibly be construed as a reflection on Government credit.

With respect to the question of tax exemption of the bonds of public housing authorities, these bonds are in the same category as to tax-exemption as municipal and other local Government bonds, and in addition have been made expressly exempt from Federal taxes by a provision in the United States Housing Act. It was suggested that since the President looked with disfavor on tax exemption of the bonds contemplated by the so-called Lambert Housing Plan, a similar view should be taken with respect to the bonds of local public housing authorities. However, there is no similarity whatsoever between

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the bonds contemplated by the Lambert Plan and those to be sold to finance projects aided under the United States Housing Act. Under the Lambert Plan, the bonds would be those of a private limited-dividend corporation and their exemption would represent an extension of existing exemptions and would necessitate Congressional action at a session when repeal of tax exemptions of public securities is contemplated. On the other hand, the bonds sold to finance projects aided under the United States Housing Act would be issued by local housing authorities which have been declared by state legislatures and courts to be public bodies in every respect.

While it is desirable to remove tax exemption from all municipal and Federal securities, there does not seem to be any reason why the Government should, through administrative policy, discriminate against the sale to private purchasers of local housing authorities bonds. No such policy has been in effect to discourage the outside sale of public obligations which would otherwise be purchased by the Public Works Administration or the Reconstruction Finance Corporation. If it is argued that the private financing of public housing projects should be held up because of anticipated Congressional removal of tax exemption, then the Government should logically discourage all local government and other financing involving tax exempt securities. This is clearly not the policy which the Government is pursuing, for public works and other projects involving such financing continue to be undertaken daily with Government assistance and encouragement. The bonds of local public housing authorities now have the same tax exemption as other local government bonds and, therefore, are in no way comparable to the private securities involved in the Lambert Plan.

In accordance with the discussion at our conference, it is my understanding that you now propose to refer the enclosed material to Mr. Foley, so that my General Counsel may continue his conferences with him. I am confident that when this matter has been fully studied by the Treasury Department you will agree with the procedure which I am proposing to follow.

Respectfully yours,

Nathan Straus

NATHAN STRAUS,
Administrator.

The Honorable,

The Secretary of the Treasury.

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DEPARTMENT OF THE INTERIOR
UNITED STATES HOUSING AUTHORITY
WASHINGTON

December 2, 1938.

MEMORANDUM to the Administrator:

Subject: Attached rough draft of Proposed Annual Contributions Agreement and suggested Terms, Covenants and Conditions to accompany such Agreement.

- Introduction

In our discussions of the financing of local housing programs through the sale to private purchasers by local housing authorities of their bonds in the amount of 95% (instead of 10%) of the cost of their projects, the Treasury Department raised some questions regarding the possibility of a sale of such bonds (if the true nature of the bonds were fully represented to the purchasers) at an average interest rate of less than 3% per annum. These questions were apparently based upon a feeling that the local housing authority bonds could not be made sufficiently attractive to justify such an interest rate. In order that the Treasury Department might have the same basis for determining the value of these securities as the private purchasers who are ready to buy these bonds at the above low interest rates, you are submitting to that Department a rough draft of the proposed Annual Contributions Agreement the payments under which are pledged as security for the local authority bonds. It is also recommended that you submit this memorandum to that Department as it describes various arrangements which will be made for the protection of the bondholders.

Before entering upon a consideration of the details of the attached Agreement, we should consider this matter in relation to the functions and duties of this Authority under the United States Housing Act. That Act requires the financing of part of the development cost of projects by others than the Government. This Authority is limited to a maximum loan of 90 percent of the development cost of projects aided by annual contributions. (Sec. 9). The local authorities

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are proposing to raise all or part of the remaining 10 percent by the sale of their bonds to private purchasers or other investors. Many of the local authorities have indicated their intention to raise as much more of this cost as is possible by the sale of their bonds to others than the Government.

Congress was anxious to assure that all local authority bonds, whether sold to private purchasers or the Government, would be sufficiently attractive investments to induce the low interest rates which are necessary to achieve projects of a low rent character. In 1938, the United States Housing Act was amended for the purpose of improving the attractiveness and marketability of these bonds, the following provisions having been inserted in the Act for that purpose:

> "payments under annual contributions contracts shall be pledged as security for any loans obtained by a public-housing agency to assist the development of the housing project to which the annual contributions relate ..." (Sec. 10(f), Underscoring added).

It should be noted that this amendment makes it mandatory that payments under annual contributions contracts be pledged as security for local housing authority bonds. The desire of Congress to assure that the Government loan participation in housing projects be reduced as quickly as possible is evidenced by the following statements in the report of the Senate Committee on Education and Labor which considered and approved the 1938 amendments:

> "The proposed amendment ..... also contains provisions which would aid the resale and marketability of bonds purchased by the USHA from local housing agencies. This follows from the fact that the addition of the new subsection (f) to section 10 of the act makes it clear that payments under the annual contributions contract may be pledged as security for any loan obtained by a public housing agency to assist the development of the housing project to which the

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annual contributions relate; also by providing that when bonds of local public housing agencies are resold by the Authority, they do not lose the pledge of the annual contributions but continue to have the benefit of this pledge on a parity with the bonds retained by the USHA. Such a pledge of annual contributions will substantially aid the marketability of the bonds purchased by the USHA, because under the act the faith of the Government is now solemnly pledged to the payment of all annual contributions contracted for ..." (Page 5, Report of Above Committee, Dated April 20, 1938).

From the foregoing it is clear that at least 10 percent of the local authority bond issues must be sold to private purchasers and that these bonds must be secured by a pledge of the payments under the annual contributions contracts. This Authority has no discretion to waive this requirement of at least 10 percent outside participation or to waive the requirements regarding the pledge of payments under the annual contributions contracts as security for local authority loans. It also seems evident from the Act and its history that this Authority should take those steps (consistent with the Act and other Federal laws) which are necessary to make it possible to reduce the USHA loan participation in the development of projects. It is significant that most of the Congressional discussion concerned the USHA loans in the amount of $800,000,000 and that many provisions were included in the Act to protect the Government against loss on such loans. It is certainly clear that Congress was most anxious to reduce the Government's loan participation to the smallest possible percentage of the project cost. The 90 percent maximum was allowed only because Congress was led to believe that the localities would be unable to raise more than 10 percent of the project cost. Congress refused to increase the maximum USHA loan to 100% by expressly rejecting a proposed amendment to that effect.

It has always been the policy of Government agencies lending money to public agencies to encourage borrowing of private capital on reasonable terms. Thus, PWA and the

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RFC (even though they had binding contracts for the purchase of bonds) have never insisted that public agencies sell their bonds to the Government when they could find a private purchaser at the same or a lower interest rate. On the contrary, these and other government lending agencies have always been glad to step out of the lending picture when private capital was willing to come in. Again and again, this Authority has emphasized its determination to follow a similar policy and to make every effort to enlist private capital at even lower interest rates than the minimum which we can charge. Lower interest rates on local authority bonds will mean lower rentals and lower income tenants.

In view of the provisions of the Act and its history and in view of the practice of other Government lending agencies, this Authority can hardly refuse to permit local authorities to sell 95 percent (instead of 10 percent) of their bond issues to private purchasers at a lower interest rate than that which we can charge. There is certainly nothing in the Act which expressly or impliedly requires the USHA to lend 90 percent; rather, the whole tenor of the Act and of Government policy has been to reduce Federal loan participation in favor of private loan participation.

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I

Annual Contributions as Security Upon Which Bondholders May Rely

As explained above, the annual contributions must be pledged as security for the payment of local authority bonds issued to assist the development of the housing projects to which the annual contributions relate. (Sec. 10(f)). With respect to the risk taken by prospective purchasers of the bonds of local housing authorities, it is, of course, evident that there are no risks so long as the annual contributions are sufficient to cover debt-service requirements on bonds of the local authorities and so long as such annual contributions are paid. First, let us consider the question of the sufficiency of the annual contributions to cover completely the debt-service requirements on a bond issue to finance 100% of the cost of a project. If 95% of the bond issue is sold to private purchasers, the average proposed interest rate on the local authority bonds will be low enough to permit the debt service to be fully covered by the Federal annual contributions. In fact, it is expected that a small part of each annual contribution will not be needed for debt service and may be applied to the payment of part of the operating expenses which would otherwise, together with part of debt-service requirements, have to be met from rentals.

This brings us to the question as to whether the annual contributions will be paid. Sec. 10(e) of the United States Housing Act Amendments of 1938, provides in part that:

> "The faith of the United States is solemnly pledged to the payment of all annual contributions contracted for pursuant to this Section, and there is hereby authorized to be appropriated in each fiscal year, out of any money in the Treasury not otherwise appropriated, the amounts necessary to provide for such payments."

This language was apparently modeled after the provisions of that act relating to obligations of the United States which provides that "the faith of the United States is solemnly pledged to the payment ..." of such obligations. (Sec. 731, Chapter 12, Title 31, U.S.C.A.). The report of the Senate Committee on Education and Labor (Report No. 1944, Seventy-Fifth Congress, Third Session) with reference to the United States Housing Act Amendments of 1938 contains at the top of page 6 a statement to the effect that:

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> " ... the faith of the Government is now solemnly pledged to the payment of all annual contributions contracted for, and appropriations are authorized in each year to meet such payments (thus recognizing that the Government's obligation under an Annual Contributions Contract is the same as the direct obligation of the Government on its own bonds)."

and, as mentioned above, Sec. 10(f) requires that such annual contributions be pledged to the payment of the local authorities' bonds. Because of the foregoing provisions in the United States Housing Act and the Committee Report on the 1938 Amendments thereto, no prospective purchaser of bonds of local authorities has questioned the obligation of the Government to pay annually the amount due to a local authority under an Annual Contributions Agreement, nor has any such prospective investor questioned whether such amount would be paid when due under such an Agreement. From a study of this matter, it is our opinion that a local authority (and presumably the bondholders to whom the Annual Contributions Agreement is pledged as security for the bonds) may obtain a judgment against the United States if annual contributions are not paid when due under the Agreement. It is true that payment of the judgment will depend upon an appropriation by Congress, but this is true of all claims against the Government including claims representing principal or interest on direct obligations issued by the Treasury in the form of bonds or notes.

II

Annual Contributions Agreement and Conditions Therein

The Annual Contributions Agreement contains provisions permitting the termination of the Agreement under certain conditions or the withholding or reduction of annual contributions under other conditions. It is the primary purpose of this memorandum to discuss and analyze these conditions and the provisions relating thereto in the Agreement or collateral documents.

The attached Annual Contributions Agreement has been drafted in a manner which is designed to achieve the Congressional objective of maintaining the low-rent character of projects. It is clear that the continuance of annual contributions is essential to the maintenance of the low-rent character of

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a project, for the termination of such contributions would make it necessary to increase the rentals to an amount sufficient to meet debt service and operating expenses with the result that the project would serve the higher income groups which private enterprise now serves. It is, therefore, erroneous to assume that the continuance of the low-rent chracter of projects can best be assured by a contract which would permit USHA to terminate all annual contributions on any breach -- for if we are to have and use this threat of termination, we must be prepared to exercise the threat; yet the very exercise of the right would result in the complete defeat of the low-rent character of a project and its loss to the low-income group intended to be served.

The attached Agreement provides methods of payment, remedies, and controls which this Authority has determined will achieve the greatest degree of maintenance of the low-rent character of projects. Under this Agreement, the USHA retains at all times effective controls to assure the continuance of the low-rent character of housing projects. At the same time, this Agreement reduces the possibilities of loss to prospective purchasers of local authority bonds to the extent that the interest rate on such bonds will be low enough to aid in achieving the low rents contemplated by the Act.

While we are fully convinced of the validity of the attached draft of the Agreement, there are certain legal questions concerning its provisions which (because of the importance of this matter) are being referred to the Attorney General for his opinion and which it is therefore not necessary to discuss in this memorandum.

As explained above there are certain conditions in the Annual Contribution Agreement permitting the termination of the Agreement or the withholding or the reduction of the annual contributions. It is to these conditions that we must turn our attention in order to determine whether they present any real risks to the bondholders for which adequate protection will not be provided.

The conditions to which the annual contributions are subject are contained in Part III of the attached Terms, Covenants and Conditions. These conditions are: failure to let contracts; failure to complete project; failure to eliminate unsafe or insanitary dwellings; destruction of project; failure of local contributions; breach of covenant; substantial breach of low-rent character; and acquisition of project by third party. These conditions will be discussed in the order mentioned.

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1. Failure to let contracts (Sec. 3.01). The Agreement provides that it may be completely terminated by the USHA in the event all the contracts necessary (as determined by the USHA) for the substantial completion of the buildings in the project have not been let to such contractors, in such forms and with such security, as shall be approved by the USHA within one year from the date of the bonds or within such longer period as the USHA shall have approved. In the agreement, the local authority makes an enforceable covenant that it will proceed promptly with the letting of these construction contracts and the construction of the project.

It is proposed that the prospective purchasers of the local authority's bonds will deposit the purchase price of the bonds in escrow, and that none of these funds will be released until such time as the USHA has actually given the approval of construction contracts provided for in Sec. 2.01. During the period prior to the release of such funds from escrow, the USHA will finance the development of the project by the purchase of notes, which are exchangeable for definitive bonds or payable in cash at the option of the USHA. Interest on the bonds will be treated as other interest during construction and will be paid as a development cost from the proceeds of the loan. Thus, the bondholders will be fully protected, as they will receive interest on their money while it is in escrow and, in the event that the project should be abandoned for any reason after the bonds have been sold, but before the money in escrow has been released, the principal amount of the bonds will be returned to the holders thereof. Based upon the experience of PWA, we are confident that there will be no projects abandoned after the bonds are sold, particularly since the sale of bonds will be approved by the USHA only at such time as a project has progressed sufficiently (through optioning of land and preparation of plans and specifications) so that no difficulties are anticipated.

2. Failure to complete project (Sec. 3.02). Under the Agreement, annual contributions may be withheld in case of the failure to complete substantially the entire project within two years of the date of the release of the bond proceeds from escrow. The local authority will make an enforceable covenant to complete the project within this specified time. However, the actual completion time which has been specified in construction contracts averages somewhat less than 12 months with respect to the contracts let under USHA's decentralized program, and partial occupancy, at least, should be possible before that time. The average period specified for completion in construction contracts for PWA Housing Division Projects was 12 months.

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In the case of some of the PWA Housing Division Projects, extensions were granted totalling about 3 months. These were largely due to strikes. On the USHA Projects, the hazard of strikes has been very greatly reduced because of the agreements we have sponsored between local authorities and labor unions and building trades councils. Under these agreements (such agreements have been obtained to date in 83 cities), labor agrees to continue to work throughout the construction of a project at the same wage rate as the one in effect when contracts are let; also to submit all jurisdictional disputes to arbitration and to avoid strikes or other work interruption.

The two-year completion period allowed in the Agreement is, as a matter of safety, automatically extended in the event of delays beyond the control and without the fault or negligence of, the local authority (the reasons for such extensions being the same as those provided for in the construction contracts). In addition, the completion time may be extended in the discretion of the USHA for a longer period. In the event the project is not substantially completed within the time limits permitted, even with all the assurances mentioned above, and the USHA withholds annual contributions as provided by the Agreement, it nevertheless agrees that when the project becomes substantially completed in its determination, the annual contributions which have been withheld will be restored to the local authority.

The bondholders will be fully protected against this contingency of failure to complete within the period permitted under the Agreement. The contractor will be under a contractual obligation to build within about one-half the time specified in the Agreement. This obligation will be secured by a performance bond of a surety company guaranteeing performance of the contract. The performance bond will be in an amount at least sufficient, in the opinion of the USHA, to assure completion of the project in any event, and the surety company will doubtless be one of those appearing on Treasury List No. 356 (List of companies acceptable as sureties on Federal bonds). Moreover, the bond proceeds will be held intact and released from time to time only as funds are needed to pay for work already done. These bond proceeds will be released from the Bond Fund into the Development Fund only as requisitions are approved by the USHA. Funds will be paid out of the Development Fund only for work done, and there will always be a retained percentage of contractors' estimates. In view of these facts and the further fact that the contractor's work will always be approximately 30 days ahead of his estimates, the amount remaining in the Bond and Development Fund at any time should be ample to complete the

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project even if a new contractor has to take over the job. In case any deficit should arise due to the failure of a contractor, the surety company would be obligated to meet this deficit and cause the project to be completed. As a practical matter, there is no risk to the bondholder. On no PWA Housing Division Project has it been necessary to call upon the surety company, even in the case of the Indianapolis project which involved certain work the Government claims to be defective.

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3. Failure to eliminate unsafe and insanitary dwellings (Sec. 3.03). Under the Agreement, annual contributions may be withheld in the event the demolition, condemnation, vacation, compulsory repair, etc., required by the Act is not completed within the time (which is usually one year after the completion of the project, but is sometimes two or three years after such completion) prescribed in the Equivalent Elimination Contract between the local authority and the city in which the local authority is located. In the Agreement, the local authority makes an enforceable covenant to accomplish this elimination within the prescribed period.

In some cases, the requisite equivalent elimination has been accomplished off the site prior to the execution of the Agreement or will be accomplished on the site or sites in the course of the development of the project. In the other cases where the elimination will not be fully accomplished in this manner, the Equivalent Elimination Contract described in the attached Agreement will be required as a condition precedent to the purchase of bonds or the payment of annual contributions by the USHA. Under the terms of this contract between the local authority and the city, the city will agree to accomplish the necessary elimination within the time prescribed therein, which period will be satisfactory to the USHA and will be consistent with the period permitted in the Agreement. The bondholders may properly rely on the Equivalent Elimination Contract. In the event of a threatened breach of such contract, the bondholders may force the local authority to compel the city to comply with its contract. The validity of such a contract has been sustained by the highest courts of Florida and South Carolina (Marvin v. Housing Authority of Jacksonville, et al, 183 So. 145, July 27, 1938, and McNulty v. Owens, et al, 199 S.E.____, October 13, 1938, respectively).

These Equivalent Elimination Contracts have been made only after a careful study of the local situation. A survey has frequently been made by the WPA or some other fact-finding agency to determine the existence of a sufficient number of unsafe or insanitary dwellings which would permit the accomplishment of the required equivalent elimination within the prescribed period. Moreover, a study of the city's past record of demolition or other elimination is frequently used to help us make an accurate forecast of the time when the city may be expected to perform the necessary equivalent elimination obligations.

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Statistics of past demolition and slum elimination are usually available in the office of the city building inspector or some other city official. These statistics, together with other data regarding existing housing conditions and shortages, must be furnished to us in connection with the application for financial assistance. Since the Equivalent Elimination Contracts are based upon a careful analysis of the problems of the particular community, we are confident that it will not be necessary for us to resort to the remedy of reducing or withholding annual contributions in order to compel the performance of those contracts, particularly since those contracts and the Annual Contributions Agreements have been made sufficiently flexible to enable adjustments to meet any changing circumstances. If there is a substantial change in conditions in a city to the extent that deferment of elimination becomes necessary because of a sudden growth in population, a major fire or other unforeseeable circumstances, the USHA is authorized to extend the time specified in the Annual Contributions Agreement within which the local authority must accomplish such elimination and, in turn, the local authority may then extend the time in their Equivalent Elimination Contract with the city.

If for any reason the equivalent elimination is not accomplished within the time fixed by the USHA, the USHA may withhold future contributions until such time as the elimination has been accomplished, at which time the contributions to withheld will be restored.

4. Destruction of project (Sec. 3.04). Under the Agreement, annual contributions may be withheld in the event that more than half the dwelling units originally in the project are destroyed or rendered untenantable, and are not restored within two years after all insurance claims have been established by litigation or by settlement approved by the USHA. In the Agreement, the local authority makes an enforceable covenant to carry insurance to the full insurable value of the project against all losses which it is customary to insure in the vicinity of the project. If such insurance is not carried, the USHA or the bondholders may place it. The local authority also makes an enforceable covenant to proceed promptly with the repair or restoration of any dwellings destroyed or rendered untenantable.

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Because most of the low-rent housing projects are designed with one or two-story buildings, with large open areas in-between, with fire-proof or semi-fire-proof construction, and with ample fire protection, it is extremely doubtful whether a major fire or other catastrophe is likely to occur. In addition, the extent of such projects over several city blocks and the presence at all times of a large number of tenants and of janitors or watchmen should prevent the spread of any fire. If any loss should occur from fire or other hazards, it will be fully covered by insurance. The insurance companies are to be satisfactory to the USHA, and the USHA will make a review of insurance coverage at least once a year. As you know, the USHA has just executed a contract with an association composed of practically all the stock fire-insurance companies in the United States, by the terms of which contract local authorities will be able to obtain complete fire and supplemental insurance policies under which all these companies will be jointly and severally liable. In view of the joint liability of all these companies, there is no risk of inability to collect insurance claims due to the financial condition of any particular insurance company or companies. Each insurance policy will carry an endorsement for the benefit of the bondholders.

A period of two years after settlement of insurance claims should be ample time for restoration of the project to the extent of 51% of the dwelling units originally constructed. However, if such time should prove insufficient for some unforeseeable reason, the annual contributions withheld for failure so to restore would be paid to the local authority if the project is subsequently restored. In the meantime, the bondholders and the USHA would be exercising their rights to force the local authority to comply with the local authority's covenants to restore and render safe and sanitary any dwelling units whatsoever which are destroyed or rendered untenantable.

5. Failure of local contributions (Sec. 3.05). Under the Agreement, annual contributions may be withheld to the extent that the State and its political subdivisions have not contributed 20% of the Federal annual contribution, such 20% to be in the form of cash or tax exemptions or remissions. In order to achieve the necessary low rentals, it is the policy of the USHA never to enter into an Agreement with reference to a project unless the project

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will be entitled to tax exemption under the State Statutes or a self-executing provision in a State constitution. Thus no bonds will be sold except on projects which are exempt from taxation. These exemptions are based upon a well-recognized custom to grant such exemption to public property used for public purposes--a policy which has been expressly adopted with respect to public housing projects by 31 of the 33 states having housing legislation. (No projects are being undertaken in the two states lacking tax exemption legislation). In addition, such tax exemption provisions have been considered and upheld by the courts of last resort of 8 of the 31 states mentioned above.

> (Spahn, et al v. Stewart et al, 103 S.W. (2d) 651, Kentucky, 1937; In re Opinions of the Justices, 179 So. 535, Alabama, 1938; Marvin v. Housing Authority of Jacksonville, et al, supra; Williamson v. Housing Authority of Augusta, et al, 199 S.E. 43, Georgia 1938; State ex rel. Porterie, Attorney General v. Housing Authority of New Orleans, et al, 182 So. 725, Louisiana 1938; Wells v. Housing Authority of Wilmington, et al, 197 S.E. 693, North Carolina 1938; Dornan v. Philadelphia Housing Authority, 200 Atl. 834, Penna. 1938; and McNulty v. Owens, et al, supra.)

There have been no adverse decisions on the constitutionality of local tax exemption of public housing projects.

In addition to the statutory or constitutional provisions under which tax exemption is granted to public housing projects, the USHA obtains a cooperation contract between the local authority and the city in which the project is located. Under this Cooperation Contract, the city recognizes the tax-exempt character of the project and agrees to furnish, without cost or charge (or, for a relatively small service charge), to the project and the tenants thereof municipal services and facilities of the same type ordinarily furnished to other dwellings and inhabitants of the city. The Cooperation Contract extends over the life of the bond issue and is expressly authorized by the provisions of state enabling legislation.

With respect to the amount of the contribution represented by this local real estate tax exemption, we have found that it averages about 60% of the Federal annual contribution. In other words the local contributions represented by real estate tax exemption (apart from the local contribution represented

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by cash capital donations, and exemptions from sales taxes, special assessments and other local taxes) is generally about three times the 20% statutory requirement. The attached Agreement provides for an accumulation of this excess over 20% and a subsequent credit in later years so long as no other burdensome taxes are substituted. This provision is designed to take care of situations where the amount of real-estate taxes may be reduced or where such taxes are replaced by other taxes. In such cases, the local authority will be able to apply the accumulated surplus of local contributions (as well as the exemption from the new taxes) to match future Federal contributions so long as the total taxes and service charges collected from the project do not exceed 5% of the total rentals collected for dwellings in the project during the preceding year.

From the foregoing explanation it is evident that adequate provisions are made to assure that local annual contributions will be available in an amount sufficient to meet the 20% requirements of the Act. If for any reason such contributions are not available on an annual contribution payment date, the sole remedy of the USHA is to withhold future contributions in proportion to the insufficiency of the local contribution. When the deficit in the local contribution is cured, the Federal annual contributions so withheld will be restored.

6. Breach of Covenant (Sec. 3.06). Under the Agreement, annual contributions may be reduced for a breach of any covenants in the Agreement, but such a reduction will not be made below the amount of the Allotted Annual Contribution. Since the Allotted Annual Contribution is the level amount necessary to meet principal and interest requirements as the same become due and payable, it is clear that this provision cannot affect the bondholders in any way. This provision is designed to encourage compliance by the local authority with all the covenants of the Agreement, no matter how minor. The amount of the penalty for these minor breaches of covenant has properly been fixed at a small sum--small enough so that the exercise of this right will not change the nature of the low-rent character of the project by necessitating a substantial increase in rentals and a consequent change in the tenancy.

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7. Substantial Breach of Low-Rent Character under the Agreement (Sec. 3.08). Annual contributions may be reduced or terminated for a substantial breach of the low-rent character of the project, the amount of the penalty being related to the severity of the breach. If the local authority violates its covenant to operate the project without profit, the resulting available profit from excess rentals is deducted from the annual contribution next payable. This provision, although involving a real penalty upon the local authority which is well adjusted to the severity of the breach, will not harm the bondholders, since the available amount of profits will be required to be applied first to the debt service on the bonds. To the extent that such profits are applied to debt service, the annual contributions will not be necessary for that purpose. As an additional assurance that such profits will be applied to debt service on the bonds, the USHA and the bondholders will be authorized to withdraw an amount equal to such profits from any funds or reserve accounts of the local authority and to deposit such amounts with the local authority's fiscal agent for application to debt service on the bonds.

Substantially similar provisions are made so far as Ineligible Tenants are concerned. If the local authority violates its covenant to exclude Ineligible Tenants from the project and more than 5% of the tenants in the project are ineligible, annual contributions may be reduced or terminated by an amount equal to the Available Ineligible Tenancy Refunds. As in the case of available profits from excess rentals, this provision (which provides for a penalty similarly adjusted to the severity of the breach) will not harm the bondholders since the Available Ineligible Tenancy Refunds will be required to be applied first to the debt service on the bonds. Various provisions are to be included in the documents as an assurance that the Ineligible Tenancy Refunds will be collected and available. The USHA and the bondholders will be authorized to withdraw an amount equal to such Refunds from any funds or reserve accounts of the local authority and to deposit such amounts with the Fiscal Agent for application to debt service on the bonds; also, the USHA and the bondholders will have all of the affirmative remedies in the Agreement to effect the collection and deposit of such Refunds. Furthermore, the local authority will be required to obtain a lease from each prospective tenant containing a covenant to the effect that such tenant is eligible and that if subsequent events disclose such tenant to be ineligible, the tenant will be liable to repay to the local authority the proportionate share of the annual contributions which was applied to the reduction of his rent.

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In other words, the tenant will be obligated to restore the part of the Annual Contributions which was diverted from its purpose of benefitting eligible low income families; such provisions in tenant leases will "take the profit out of Ineligible Tenancy" and thus help remove any motive for ineligible families to seek admission to the project. The collection of such damages from ineligible tenants will be required and such monies (along with the other monies mentioned above) will be the source of the Ineligible Tenancy Refunds to be made by the local authority.

If in any year the total amount of Excess Rentals plus Ineligible Tenancy Refunds then available exceeds the amount of the annual contribution in such year, the USHA is authorized to terminate the annual contribution in any such year because, in such event, the project will have lost entirely its low-rent character for such year. This provision, like those described above, will not harm the bondholders, since the Excess Rentals and Ineligible Tenancy Refunds must first be available for application to the debt service on the bonds.

It should be noted that in addition to these remedies (and the remedy described in 6) for maintaining the low-rent character of the project, the USHA will have ample affirmative remedies under the Agreement to enforce the covenants of the local authority to operate the project without profit or excess rentals and to exclude ineligible tenants.

8. Acquisition of project by third party (Sec. 3.09). Under the Agreement, annual contributions will be terminated in the event the project is acquired in any manner (including a bona fide foreclosure or other lien held by a third party) by any third party other than a public housing agency as such agency is defined in the Act.

This provision does not involve any risk to the bondholders because of the steps taken to assure that the project will continue in the ownership of the public housing agency. The resolution providing for the issuance of the bonds will contain a covenant by the local authority that it will not convey or mortgage the property so long as the bonds are outstanding. Such a covenant is expressly authorized by the state enabling housing legislation. The passage of such a resolution constitutes public notice of such a covenant but, in addition, the covenant will be placed on record in the usual office for the recording of conveyances or incumbrances relating to real estate.

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For a breach of such covenant, the bondholders will have a right to force an immediate re-conveyance.

In view of the fact that the project will be owned by a public agency and that these notices will be made a matter of public record, it seems inconceivable that any third party would purchase or otherwise acquire the property from a housing authority. As you know, no bonds of the housing authority are to be secured by a mortgage or other foreclosable instrument.

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With respect to each of the eight conditions listed above, the local authority will covenant to comply with such conditions precedent to the payment of the annual contributions. In accordance with the objective of the Act to assure the continuance of the low-rent character of projects, the USHA has retained many affirmative remedies which will make it possible to compel the continued maintenance of such low-rent character, including the remedies of mandamus, injunction, appointment of a receiver, taking of possession, etc. These remedies are cumulative and not in substitution for the remedies relating to the reduction or withholding of the annual contributions.

Our experience with local housing authorities to date leads us to feel confident that these authorities will be conscientious in the observance of their duties, particularly since the state laws almost invariably impose duties similar to those contained in the Annual Contributions Agreement. We merely wish to mention this in passing, since it is our belief that as a practical matter there are likely to be few occasions for using remedies to compel observance of the statutory and contractual duties of local authorities in the operation of their projects.

CONCLUSION

From the foregoing discussion, it is evident that although the payment of the annual contributions is subject to various conditions in the Annual Contributions Agreement, adequate provisions are to be made either in that Agreement or in collateral documents to eliminate any material risks or otherwise to protect the bondholders. Private purchasers who have had wide and extensive experience in dealing with securities have evaluated the risks involved in the proposed bonds of the local authorities and are ready to buy these bonds at the low interest rates mentioned above.

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It is, of course, contemplated that any prospectus will call attention to the conditions in the Annual Contributions Agreement and to the provisions therein or elsewhere made to protect the bondholders with respect to such conditions. In our conferences with the Treasury Department, we have indicated that we are agreeable to obtaining and submitting for their approval the proposed prospectus. A rough draft of the proposed local housing authority bond form is being submitted to the Treasury Department. From the face of this bond, it appears that there is an express statement that the bonds are not an obligation of the United States Government, or any of its agencies.

Certainly this Authority is interested in taking every step necessary to assure that the prospective purchasers or repurchasers of bonds of local housing authorities will be fully advised of the facts regarding such securities. We see no reason to assume that the true nature of these securities will not be fully and accurately represented, and we are prepared to take every step necessary to assure that this will be the case.

Leon H. Keyserling

LEON H. KEYSERLING,
Deputy Administrator
and General Counsel.

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