

CORRECTION

MCB-974
Distribution of true
reading only by special
arrangement. (SECRET W)

January 24, 1945.

Telegram 102, January 20, noon, from Ankara in
the last line delete "(*)" and insert "Rumania" so
as to read "departure from Rumania."

DIVISION OF CENTRAL SERVICES

CAD

SECRETOPTEL No. 28

Information received up to 10 a.m., 24th January, 1945.

NAVAL

1. HOME WATERS. Convoy from North Russia has arrived in U.K. Reference OPTEL 27, para. 1. Night 22nd/23rd. About 18 E-boats operated. One, from which prisoners taken, sunk by Tongue Sand Fort and others damaged by our patrols.
2. ENEMY ATTACK ON SHIPPING. 22nd/23rd. A 2365 straggler from eastbound convoy sunk north of Dunkirk. 23rd. A 1599 ton Norwegian ship sunk north of Angely as result of underwater explosion.

MILITARY

3. WESTERN FRONT. Ardennes Sector: Good progress made against occasional resistance along whole front from Diekirch to St. Vith, advance still hampered by snow and minefields. Wiltz and according to unconfirmed reports, Asselborn, cleared and patrols in St. Vith. Northern Sector: Troops of 2nd British Army advanced up to two miles towards Heinsberg on right of present sector of attack. But on left, nearer the Maas, only slight progress made in difficult country against stiff resistance and counter attacks.

4. EASTERN FRONT. Eastern Prussian Sector: Labiau (26 miles N.E. of Koenigsberg) and Wehlau (23 miles west of Insterburg) captured. Both towns are strongholds guarding approach to Koenigsburg. South of Insterburg Darkehmen (19 miles S.E. of Instogh G) and Benkheim and Treuburg, 12 miles S.W. and 21 miles S.S.E. of Goldap respectively, captured as well as more than 700 other localities in Northern Poland. Capture reported of Gratewo, Rajgrod and Jedwabnem (13 miles S.S.E., 16 miles S.E. and 37 miles south of Lyck) with over 350 inhabited localities. In Allenstein area more than 600 localities including Saafeld, Mohrung, Willenberg and Ortelsburg (37 miles west, 25 miles N.W., 33 miles S.S.E. and 26 miles S.E. of Allenstein) have been occupied.

Northern Central Sector: Brodnica and Lipno (37 miles N.E. and 27 miles S.E. of Torun) and 450 other places have been taken. Capture of Bydgoszez (Bromberg) also reported.

South Central Sector: In Silesia advance has reached river Oder in area Breslau along stretch of approximately 37 miles; more than 200 German and 450 Polish inhabited localities captured.

Southern Sector: Russians have lost Szekesfehervar after heavy fighting. Destruction of high proportion of enemy tanks claimed.

AIR

5. WESTERN FRONT. Night 22nd/23rd. 1296 tons dropped on Duisburg Benzol Plant and 431 tons on Gelsenkirchen. At Duisburg weather clear and bombing concentrated. At Gelsenkirchen bombing believed good, although through thick cloud. 23rd. Escorted Fortresses 181 (5 outstanding) dropped 445 tons on railway centre and a bridge at Neuss. Some crews bombed visually while others employed Pathfinder technique. Results fair. SHAEF (Air) bombers 57 (4 missing) attacked communications in Northern and Central Sectors. 1921 fighters (14 missing) operated over battle area; nearly 1400 road and rail vehicles destroyed and 1550 damaged mainly in central sector. Enemy casualties 27,3,20

6. MEDITERRANEAN. 22nd. 130 Mitchells, 23 Baltimores and 735 fighter bombers and fighters (8 missing) attacked communications in N. Italy. Several bridges hit and 625 road and rail vehicles destroyed or damaged.

7. BURMA. 21st. 82 Liberators dropped 322 tons on northern coastal areas Ramree Island in support of landing operations. Bombing well concentrated. 47 Mitchells bombed bridges in Lower Burma.

SECURITY

8. 7 rocket incidents reported yesterday and last night.

January 25, 1945
9:47 a.m.

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HMJr: Hello.

Operator: Yes, sir.

HMJr: Judge Rosenman they said.

Operator: Right.

White House
Operator: Hello.

Operator: Ready with Secretary Morgenthau. Go ahead.

HMJr: Hello.

Sam
Rosenman: Hello.

HMJr: Yes.

R: Henry.

HMJr: Good morning.

R: Good morning, Henry. I talked with Dorothy and we -- we think that if you will transfer him it will be fine.

HMJr: I'll do it at once.

R: Fine.

HMJr: Be glad to do it, Sam.

R: All right, thank you. And I have a call in for Harry White.

HMJr: Pardon?

R: I have a call in now for Harry White. I'm going to arrange to meet him either today or tomorrow.

HMJr: Okay.

R: Have you -- well, he'll know the man you've selected.

HMJr: Oh, yes. I talked to him right away about it.

R: All right.

HMJr: He knows about it -- Taylor.

R: Taylor. Okay.

HMJr: And it's going to be Taylor.

R: Fine. All righty.

HMJr: Thank you.

R: Thank you.

January 25, 1945
9:49 a.m.

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HMJr: Sam Rosenman just called in regard to his
father-in-law.

John
Pehle: Uh huh.

HMJr: He'd like to have him transferred over to
Procurement.

P: Right.

HMJr: So will you take care of it?

P: Yes, sir, I will.

HMJr: I thank you.

January 25, 1944
10:25 a.m.

PRE-PRESS

Present: Mr. White
Mr. D. W. Bell
Mr. O'Connell
Mr. Gaston
Mr. Blough
Mr. Shaeffer
Mrs. Klotz
Miss Chauncey

H.M.JR: Good morning.

MR. GASTON: Good morning.

H.M.JR: Shaeffer, have you got anything?

MR. SHAEFFER: Fredman of the Chicago Journal of Commerce is going to ask about the possibility of issuing consols, perpetual bonds without maturity.

(Mrs. Klotz enters the conference.)

MR. BELL: He is worried about this upsurge in the bond market, and decreasing yields, and he says you can't put out two and one-half's and two's along the same schedule you put out before, without having a lot more free-riding, as the pressure of money is there; and that profit is in the market, and people will try to get it. He is probably right, but I think the answer is we have begun to study the problems that are facing us for the Seventh War Loan, and we are not in a position to say anything about interest rates, what the securities will be that we will put in the basket, and that will take us sixty days before we get that decision. But it is in the market and rumors are all around.

I would prefer to let this market go on just like it is without any statement from the Government.

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H.M.JR: It went off yesterday, didn't it?

MR. BELL: Not too much.

H.M.JR: Did we sell anything?

MR. BELL: I don't know whether they sold anything yesterday, but they haven't sold any tax-exempts for several days, and I doubt if they sold any yesterday, because it went off two or three seconds. But if the market goes up and it justifies our issuing one and three-quarter percent bonds on the same basis as two, we have had nothing to do with it. It has come about naturally. We haven't issued any statements. We have sold securities while it has gone up, and I think it is an excellent position for the Treasury to be in.

H.M.JR: Did you go to the hearings yesterday, Joe?

MR. O'CONNELL: I went down, but couldn't get in. I didn't get away from here until two-thirty.

H.M.JR: I wish you would look into it. I think Wallace is taking ~~the~~ the position he is still the Head of RFC.

MR. BELL: You mean Jones.

MR. O'CONNELL: I think he is.

H.M.JR: There was some exchange of conversation between him and Pepper on that.

MR. O'CONNELL: I will try to get a transcript. There seems to be a legal theory a little on the academic side. Under RFC there is no provision for removal of the Chairman of the Board of Directors. Now, he should serve as any other Presidential appointee does, at the pleasure of the President. But back in 1933 or 1934--

(Mr. White enters the conference.)

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MR. O'CONNELL: ...the President removed a fellow by the name of William E. Humphrey, who was Federal Trade Commissioner. He later died, and the Supreme Court, in a suit brought by his estate said his estate was entitled to collect compensation even after he was removed by the President, because the President didn't remove him for cause. We haven't looked into it, but it is analogous to this situation in some superficial ways.

MR. GASTON: There are distinguishable cases. There is the case of a minor employee of the Post Office Department in Oregon, and the Supreme Court said he could remove him any time. Humphrey was the Head of an independent agency, holding office for a statutory term, and the Court's decision was he could not be removed except for cause.

MR. O'CONNELL: All I know about RFC was there is no affirmative expression of law giving the President the right to remove him. It may be that he serves at the pleasure of the Board of Directors, and technically you would have to remove him by action of the Board, but I will have that looked into this morning.

H.M.JR: Does anybody have anything else?

MR. BELL: Wallace was coming in this morning. Did you see him?

H.M.JR: Yes. He has been here and has gone.

MR. BELL: He was coming in to see me this morning on his way.

H.M.JR: He got in here a little before nine-thirty. We don't want to have it publicized.

MR. BELL: I guess he was all right. I sent him some material yesterday afternoon, and he said, "I'll drop by and talk to you before I go on the Hill."

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H.M.JR: He had some last-minute changes to make in his statement, and that is what he was working on.

MR. O'CONNELL: I have sent him something early this morning.

H.M.JR: If you will stay behind, Harry, I want to talk to you.

January 25, 1945
11:13 a.m.

HMJr: Hello.

Operator: Mr. Yost.

HMJr: Hello. Mr. Yost.

Charles Yost: Yes, sir.

HMJr: Morgenthau.

Y: Yes, sir.

HMJr: There's a little mix-up. I gave you that letter in regard to French Lend-Lease.

Y: Yes.

HMJr: And said if it wasn't wholly satisfactory, I'd be glad to discuss it with Mr. Stettinius. And of course, Mr. Stettinius, I take it, has left by now.

Y: Yes. Well, now, I -- I thought you wanted me to give that to Mr. Clayton.

HMJr: Well, I said -- I said Stettinius, but that's all right. You gave it to Mr. Clayton.

Y: I did, and I am very sorry if I misunderstood. I thought you said Clayton and

HMJr: No, I said Stettinius. But what happened then?

Y: I gave it to Clayton and gave him that message.

HMJr: Yes.

Y: And he read it over and his reaction seemed to be favorable but he said he wanted to study it further and would be in touch with you.

HMJr: Well, he hasn't been.

Y: Well, I'll speak to him again.

HMJr: Now, where the confusion was: in the meantime, a letter came for me -- to me from the Acting Secretary of State, Grew

Y: Yes.

HMJr: calling for a meeting. And I read that and I spoke to Mr. Grew yesterday and complimented him on answering me so quickly. I thought it was in answer to the letter which I gave you to bring over to the State Department.

Y: Yes.

HMJr: And now Mr. White tells me that Mr. Grew's memorandum was in answer to a previous one.

Y: I see.

HMJr: But on account of all of this -- well, so many people being interested in this, I would like to know today whether the letter which you were kind enough to walk over -- whether -- does the State Department accept that or don't they?

Y: Good. I'll either call you back or ask Mr. Clayton to this morning.

HMJr: Yes. If you would. I mean, I'd like to know where we stand because I was under the impression that this memorandum from Mr. Grew referred to that, and I gave Mr. Crowley a copy of Mr. Grew's letter to me

Y: Yes.

HMJr: under the impression that that was in answer to the one you took over, you see?

Y: I see. Well, I don't know about this other memorandum but I took it from Mr. Clayton's reaction that he was accepting the letter.

HMJr: Well

Y: But I'll make perfectly sure of that and

HMJr: Will you? And then either he or you call me. And that letter calls for a formal answer.

Y: Oh, yes. Yes, indeed.

HMJr: Which I'd like to get today.

Y: Good. I'll get in touch with him right away.

HMJr: I thank you.

Y: All right.

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January 25, 1945
11:48 a.m.

John
McGloy: Hello.

HMJr: Jack, I'm sorry to bother you but I thought you could listen anyway.

M: Sure. Go ahead.

HMJr: General O'Dwyer is here in my office with John Pehle.

M: Yes.

HMJr: And you know we moved Pehle over in Surplus Property.

M: Yes.

HMJr: And there's still a lot of work to be done in the War Refugee Board.

M: Yes.

HMJr: And I would like to strongly recommend to Mr. Stimson that we put General O'Dwyer into the War Refugee Board as director.

M: Oh, I think he'd be very glad to have him.

HMJr: You think so?

M: Yes.

HMJr: And then we also think that he'd be better doing it in the suit of a civilian.

M: Yes. Yes.

HMJr: He could be put on the inactive list.

M: Yes. I would think that he -- certainly on the first I think he'd be glad to have him. Whether we can let him go from the Army, I suppose I've got to talk to the Judge about that, but I think it's probably all right.

HMJr: Do you think you could give me twenty-four hour service?

M: Let me -- let me go to work on it. Let me go to work on it.

HMJr: You're sympathetic to it?

M: Yes, I'm sympathetic to this extent: I'm sympathetic with the idea. I'd like -- because I think he'd be good in there. I'm sure the Secretary would like that.

HMJr: Yeah.

M: But the -- the question of letting him out of the Army is another breed of cat. He did a very good job for us in the Army and

HMJr: Well

M: the idea of letting him go is a little bit painful.

HMJr: Well

M: However, it's in a war -- it's in a war job.

HMJr: It's a war job.

M: And I might be able to swing it. Let me just -- let me work on it, will you please?

HMJr: Yes. Because we are being embarrassed every day by the fact that we haven't got somebody giving it full time.

M: Yes. Yeah. I can understand that.

HMJr: And I -- you know, I explained, I had to throw Pehle in the other job and he's been trying to find somebody and it isn't easy.

M: Yes.

HMJr: And now that we know General O'Dwyer is willing to do it

M: Yes.

HMJr: and would like to do it....

M: Yes.

HMJr: the sooner the better.

M: Okay. All right.

HMJr: Thank you very much.

M: I'll let you know.

HMJr: Did you get my letter?

M: Not yet, no.

HMJr: Oh, didn't

M: No.

HMJr: About the photographs?

M: No. No.

HMJr: You'll get a smile.

M: Okay.

HMJr: All right.

M: Fine.

January 25, 1945

Dear Jack,

Pursuant to our conversation today it would be very much appreciated if General William O'Dwyer and Lt. Col. Jerome J. Ohrbach (#O-905736) could be inactivated to the War Refugee Board.

As I explained to you, I have found it necessary to assign John Pehle, who is Executive Director of the War Refugee Board, to the Procurement and Surplus Property job in the Treasury, and it will further the cause for which the War Refugee Board was set up if O'Dwyer and his assistant, Ohrbach, could be used for this purpose.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Honorable John J. McCloy,
Assistant Secretary of War,
Pentagon Building,
Washington, D. C.

JWPehle:llh 1-25-45

January 25, 1945
2:38 p.m.

HMJr: Hello.

Leo
Crowley: Hello, Henry.

HMJr: Leo, I'm calling up about that oil well -- oil refinery equipment....

C: Yeah.

HMJr: for the Russians.

C: Yeah.

HMJr: Anything to report?

C: No. I had all of our fellows working on this thing and, as you know, we hit this snag in the War Production Board that -- we even hit this, Henry, that they were trying to get us to cancel -- don't tell this to the Russians because it will upset them terribly -- they wanted us to cancel what we had in the works for them because of the necessity for them in our war production here.

HMJr: Yeah.

C: Now, we have to get hold of Krug. Krug is on record very definitely ~~that~~ he will not raise this priority.

HMJr: Yeah.

C: And we're trying our hard -- durndest to get him to cooperate a little bit with us. But we don't get any help from the War Department. They're very definitely against it and we haven't had much help from the War Production Board up to date, just between ourselves.

HMJr: Yeah.

C: But our fellows are working on it, Henry.

HMJr: Well, you were a little over sanguine, what?

C: That's right. Well, I didn't know -- they shocked me when I found out.

HMJr: Yes.

C: That not only were we in trouble in trying to increase this but they were trying to get our fellows to agree to cancel the priority was outstanding

HMJr: Yeah.

C: which was a kind of a shock to me. You didn't know that, did you?

HMJr: They told me that there was some talk about increasing the production domestically. Yes, I had heard some talk about it.

C: Yeah.

HMJr: But I -- this thing originated with the Russians. They wrote me a letter about it asking for help.

C: Well, they -- I think the Russians feel this, Henry, that we're doing everything we can to help them, but of course from our view point, all we can do is certain things, when the final thing is in the hands of Krug.

HMJr: Well, I didn't get that impression from the Russians. I mean, that's why they wrote me, you see, that they

C: Well, I'll be very happy to write you a note to that effect.

HMJr: Well, that doesn't help any.

C: But we're -- our fellows are doing all they can on the thing.

HMJr: Well, is Krug the bottle-neck?

C: That's right. That's right. And Krug wrote -- Krug -- in the file there, Krug wrote you a letter.

HMJr: Yeah.

C: Where he'd turned it down.

HMJr: Yeah.

C: But that's where it's got -- that's where the bottle-neck is, Henry.

HMJr: Well, have you any objection if I call Krug?

C: Not at all in the world.

HMJr: Okay.

C: All right, Henry.

January 25, 1945
2:43 p.m.

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HMJr: Hello.

Will Clayton: Hello, Mr. Secretary. How are you?

HMJr: Okay.

C: Will Clayton.

HMJr: I know. Will

C: Yes, sir.

HMJr: I called up Yost this morning about an answer to my letter of the 23rd to Stettinius on the French

C: Yes.

HMJr: He said I was apt to hear from you. I wondered when.

C: I told him that I would have an answer to send over to you by hand this afternoon.

HMJr: Yes.

C: But I just didn't know whether it was best to come over and talk with you about it or send you a letter and I think probably the best thing to do is to do both. So if you don't mind, if I could come over

HMJr: When do you want to come?

C: Let me see -- oh, my! -- how about -- how about my coming at -- I could come -- I could come now or in a few minutes if I could come without the letter. I'll tell you what the letter is going to say.

HMJr: Yes.

C: It's going to say that we agree with you fully that the dollar and gold ought to be carefully examined and that we ought to come to an agreement with the French before we give them anything.

HMJr: Yeah.

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C: And that we would certainly do that.

HMJr: Yeah.

C: But that that might take a little time and what we would like to do would be to sign the master agreement with them which doesn't commit us to anything except what we agree upon.

HMJr: Yeah.

C: So that we could get that out of the way. Monnet is very anxious to go home

HMJr: I know.

C: and then come back. And before we gave him anything, why, we'd negotiate these things with him, in which, of course, you'd take part.

HMJr: But we differ with you on that.

C: Is that so?

HMJr: Yeah. If you could get over here at three -- do you want to come over at three?

C: Yes, I can come at three.

HMJr: I'd like to talk to you about it because on that procedure, that's -- we're -- we don't see eye to eye.

C: Could I come -- could I come right away?

HMJr: Uh

C: Before three?

HMJr: Oh, yeah. By the time you get over here, I'll be ready.

C: It'll be pretty nearly three, yes. I'll -- I'll come right away.

HMJr: Thank you.

C: Thank you.

January 25, 1945

MEMORANDUM

RE: Meeting in Secretary Morgenthau's Office with Assistant Secretary of State Clayton, January 25, 1945.

(1) Assistant Secretary of State Clayton came to see Secretary Morgenthau today to talk about the French lend-lease matter. Also present were White and DuBois.

(2) After referring to the Treasury's letter of January 23, Clayton read the letter which the State Department proposed to send to Jean Monnet (copy of which had been forwarded to us and was referred to in our letter of January 23). Clayton inquired as to why this letter did not meet the purposes which we had in mind.

(3) It was explained to Clayton that the proposed letter to Monnet, proposing immediately entering into a master lend-lease agreement, was not in accordance with our views, for the following reasons.

It is important that before we enter into a formal agreement with the French authorities that it be clearly understood within this Government and between the French and ourselves just what the agreement contemplates. Unless there is this basic understanding from the beginning as to what is involved, there cannot help but be basic misunderstandings after the agreement is entered into. It is important for example that if the French are going to be requested to cut down their dollar balances that they understand this in the beginning. It is important that they have some idea of the nature and amount of the supplies that they can expect to receive under the agreement. Furthermore, from a purely business standpoint, the United States should make every effort to get what we want from the deal before giving away most of our chips. It was pointed out that this agreement, once entered into, would undoubtedly be publicized in France and understood by the French Parliament and the French people as a big thing. It is important that when the agreement is announced that the scope and potentialities of the agreement be understood.

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Secretary Morgenthau related to Clayton his experience with the British lend-lease. He pointed out how after the President directed him to cut down the British dollar balances the British had been playing one Department of this Government off against the other. Although this might seem smart, in the long run interests of Great Britain it is very unwise. Secretary Morgenthau related his conference in London with Churchill in which he frankly told Churchill that he knew of the memorandum which had been prepared by the British Government and given to the President, attempting to praise certain officials of this Government with respect to their dealings with the British and attempting to lay the blame on Secretary Morgenthau for the difficulties which the British had been having.

Secretary Morgenthau pointed out how the same pattern followed in the British matter was very apt to also occur in the French matter unless there was a clear meeting of minds before entering into any agreement.

(4) Secretary Morgenthau pointed out to Clayton that if it had not been for the support which he had given Crowley at the Cabinet meeting the President would never have given the green light on the French lend-lease matter; and that Stettinius himself had not taken a strong position in the Cabinet meeting. Clayton said that he had been talking to Crowley and that Crowley had told him practically the same thing. Secretary Morgenthau then pointed out that obviously we were in favor of giving lend-lease to the French but the question was as to the best method of handling the matter.

(5) After some discussion Clayton finally said that he could see considerable merit in Secretary Morgenthau's position and that if Secretary Morgenthau felt strongly about it, he felt that this position should prevail. Clayton said that he would discuss the matter further at State.

(6) Secretary Morgenthau then pointed out that he was perfectly willing to set aside four or five days of his time to work on the matter and wind it up as quickly as possible. He suggested that State Department cable to Paris requesting that Pleven, Minister of Finance of the French Provisional

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Government, be sent to Washington to work with Monnet with a view to winding up the matter; and that he be given plenary authority by the French to deal with the financial aspects of the problem. Clayton indicated that State would give careful consideration to this procedure.

RUSSIA

(7) As he was leaving Clayton stated that he would like to say a few words with respect to Russia. The Secretary pointed out that this was not something that could be discussed in a few minutes and that he would be glad at any time to discuss the thing in full detail with Clayton. Clayton mentioned that insofar as the 3 (c) credits to Russia were concerned, the State Department had decided to make no concessions and that they were going to stick to their original proposal. Secretary Morgenthau and White both made it very clear that Treasury disagreed thoroughly with this procedure and that if State wanted to take this line they were doing it on their own responsibility. When questioned as to whether he thought that an agreement could be reached with Russia on the basis of State's proposal, Clayton said he felt sure it could.

(8) With respect to the matter of the Russian loan Clayton said that it had been decided that this should not be gone into at this time. He said that the thought was that before entering into such a loan with Russia we should wait until we could determine what our other Allies will be asking for so that we can consider the thing as a whole.

(9) Secretary Morgenthau emphatically said that he was in total disagreement with State on this matter, as well as with the President. He said that he thought State was making a great mistake and that State was not dealing with the Russians in the proper way. Secretary Morgenthau referred to his experience with the Russians during the last twelve years, including his relations with the Russians at Bretton Woods. He stressed the fact that it was important that we make clear to Russia that we are prepared to help them economically and

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if we could do this at this time, it would go a long way in helping us get a lot of things in the political field that we want from Russia. Secretary Morgenthau said he was sure that eventually we would have to give this sort of aid to Russia anyway and we should do it at this time when it can do us the most good. Secretary Morgenthau pointed out that Stettinius had said that he had presented Secretary Morgenthau's views to the President.

(10) Clayton said that of course he assumed such a loan would need Congressional approval. Secretary Morgenthau said that was part of the Treasury proposal - namely, that the loan should be carried out by Congressional action. Secretary Morgenthau then asked Clayton whether or not he had seen the Treasury proposal. Clayton said he had not seen Treasury's proposal; that Mr. Stettinius had received it shortly before he left and that it had not been sent to him (Clayton). Secretary Morgenthau then said that he would send a copy of the document which we gave to Stettinius to Clayton. Clayton said that he would be glad to review the document.

(11) Secretary Morgenthau also pointed out that he had discussed the Treasury proposal with Mr. Harriman on two different occasions and that Harriman was very much in favor of it. Secretary Morgenthau also referred to Harriman's inability to even speak to high Russian officials for a period of months at a time. Secretary Morgenthau said that he assumed that if Clayton had a representative of his cotton firm in a foreign country who reported that he was unable for a long period to even see any of the important people that he was supposed to deal with that he assumed Clayton would recall the man. Clayton said he certainly would.

J. E. DuBois, Jr.
J. E. DuBois, Jr.



DEPARTMENT OF STATE
WASHINGTON

January 25, 1945

My dear Mr. Secretary:

Upon receipt of your letter of January 18 addressed to the Secretary, concerning a lend-lease agreement for France, I replied on his behalf in a letter, dated January 22, and expressed agreement with your view that lend-lease for France, both in munitions and in non-munitions, generally should rest on the same principles as lend-lease for Great Britain. I also stated that I had asked Mr. Clayton to discuss with Mr. White and Mr. Oscar Cox a text of an agreement which could be presented to Mr. Monnet early this week. It was my understanding that you were in agreement with the Foreign Economic Administration and the Department that a master lend-lease agreement should be signed with the French, and that, thereafter, representatives of the three agencies should hold discussions with French representatives concerning the nature of the supply program to be undertaken and the terms upon which supplies would be furnished.

Apparently, my letter crossed a second letter from you which was received in the Department on January 23, in which you suggested that before a lend-lease agreement is entered into with the Provisional Government of France, a determination should be made as to the extent to which we deem it appropriate that the French should use their gold and dollar exchange resources in meeting their non-munitions requirements. Since this suggestion is at variance with what I understood to be the position of the three agencies, I would like to bring the matter to your attention again.

The Provisional Government of France has now been recognized by this Government, and for the past several months the French nation has participated with us and our Allies in the prosecution of the war in Europe. In view of our political policy with respect to the Provisional Government

of

The Honorable

Henry Morgenthau, Jr.,
Secretary of the Treasury.



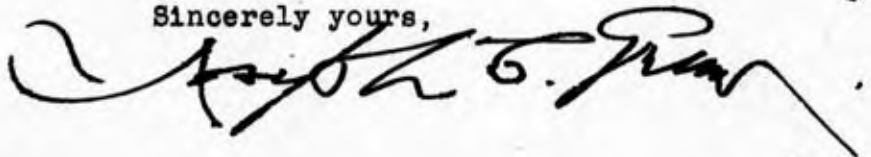
-2-

of France, the Department is anxious that our lend-lease relations be placed on the same general basis as is the case with respect to Great Britain and Russia, and therefore it seems desirable to offer a master lend-lease agreement to the French representatives for signature at this time.

Of course, I am in agreement with you that after such a document has been signed, it will be necessary for representatives of the Treasury Department, the Foreign Economic Administration and this Department to agree upon the amount of French dollar and gold assets, including the holdings of the Bank of France, which we would consider to be a satisfactory position for France so long as non-munitions are being furnished under lend-lease, and to determine the extent to which we deem it appropriate that the French gold and dollar exchange resources should be used in meeting the non-munitions requirements. As you know, the provisions of the master agreement will not prejudice our discussions of these matters, but will merely provide a general framework for our lend-lease relations with France.

Since the Department believes that it would be unwise to delay longer the signing of a master lend-lease agreement in view of the present political situation, may I ask that you advise me whether you have any further objection to the submission of the text of such an agreement to the French this week?

Sincerely yours,



Acting Secretary

January 25, 1945 213
3:33 p.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Yes.

Oscar
Cox: Oscar Cox, Mr. Secretary.

HMJr: Speaking.

C: I wonder if some time at your convenience, I could come over and talk to you a couple of -- about a couple of matters that Leo asked me to talk to you about.

HMJr: For instance?

C: Well, one is the -- the French thing and related aspects of it on the long term business and, two, the Russian thing which is connected with that, and three, some -- whole series of related problems that stem out of those.

HMJr: Well, all right. Will Clayton has just left here now.

C: Yeah.

HMJr: I was getting from him first hand -- uh -- eleven o'clock tomorrow?

C: That will be fine.

HMJr: Okay.

C: Right.

HMJr: All right.

C: Thank you, sir.

HMJr: Bye.

January 25, 1945.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

I had a half-hour's talk with Vladimir Pravdin of TASS after we left your office. He said it is the Russian view that it is quite obvious that we cannot supply enough Allied representatives to govern the Germans for any great period of time and therefore the problem is to pick the right Germans to put into government posts. So far as the part of Germany in which they will be dominant is concerned, they will not put the same old officials back in power but will choose representatives of the working class who are likely to prove more reliable. They fear very much that England and the United States will yield to the pressure of business groups and let the same people who have controlled German industry in the past get control of it again. In Pravdin's opinion this class of people is the most dangerous class in Germany and is the class which encouraged and permitted the Nazis to seize and control power. It is the general Russian view, he told me, that German heavy industry should be sharply curtailed and he thinks the idea of physically removing and distributing to neighboring countries German equipment is a good one. Their real solution of the problem, however, is a Socialist solution. They would have large scale industry operated by the government and would give the Allies a dominating position in directing the industries for some years to come.

Among other things he said that the Russians were very anxious to maintain continuing close and friendly relations with the United States and in maintaining an effective and continuing organization of the United Nations. I don't think this statement was perfunctory; he seemed to be thoroughly sincere. I would say that in general Pravdin's concept of the Russian ideas with respect to the treatment of Germany in the economic sphere checks very closely with yours.

Draft I. 215

1-25-45

DRAFT OF A FOUR-MINUTE RADIO SPEECH BY
THE SECRETARY OF THE TREASURY

Organized labor can be justly proud of its war-time record. It is a record of achievement; a record of constructive cooperation with management and with government. It is a record of work and sacrifice for our common goal of victory.

As today's discussion of the Bretton Woods proposals illustrate, organized labor is also deeply conscious of its responsibility for full and constructive cooperation in the shaping of America's post-war social, economic and foreign policies. Labor knows that its stake in the peace is no less than its stake in this war.

It is too often assumed that international relations is something with which the man in the street should not concern himself too deeply--that these are matters which must be left to the diplomats in the political field and to the international financiers in the economic field.

I do not think I need to tell you, however, that a sound program for international collaboration in the economic field will directly contribute to attaining our

- 2 -

goal of 60,000,000 jobs here at home. The International Monetary Fund and International Bank are, in fact, essential if the President's Economic Bill of Rights is to become a reality. While our participation in these two international institutions will by no means insure 60,000,000 jobs, I think it is safe to say that we cannot attain this necessary goal without them.

In providing jobs for everyone, we shall not only have to increase demand for our industrial and agricultural production here at home; but also abroad. Some parts of our industrial and agricultural production demand a high level of foreign trade to be efficient and prosperous. This is particularly true in our heavy equipment industries where our war demand will fall sharply but whose output will be needed by other countries for reconstruction and development. The foreign demand for such farm commodities as cotton, tobacco and wheat will also be great if other countries have the opportunity to buy. We therefore must take steps, in cooperation with other countries to see that international trade and investment is resumed promptly on a sound basis.

- 3 -

The International Monetary Fund, when approved by Congress, will aid the nations of the world in establishing sound currencies. It will clear the channels of foreign trade of discriminatory restrictions and controls so that there can be a genuine expansion of world trade.

With the help of the International Bank, American capital can play a great constructive role - and a profitable role - in the development of the economies of other countries. It will provide us with enormous post-war foreign markets. For our greatest markets are in prosperous, industrialized countries.

Nor are the benefits of increased foreign trade and investment confined to increasing our prosperity. I want to emphasize that such cooperative measures for expanding international trade and investment are at the same time the economic foundation for a lasting peace. A prosperous world will be a world free of both economic and political aggression.



Confidential

THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

January 25, 1945

TO THE SECRETARY:

Referring to our conversation of a few days ago concerning the position of Fiscal Assistant Secretary, I submit the following:

At the present time the Under Secretary of the Treasury has jurisdiction over the following activities of the Treasury Department:

Comptroller of the Currency
Research and Statistics

As Acting Fiscal Assistant Secretary:

The Finances
Bureau of the Public Debt
Treasurer of the United States
Bureau of Accounts
Bureau of Engraving and Printing
Bureau of the Mint

In addition, he performs the duties of Acting Secretary in the absence of the Secretary, and also serves as liaison officer with the Federal Reserve System and the Bureau of the Budget, and substitutes for the Secretary as a Director on the Federal Farm Mortgage Corporation and such other specific duties as the Secretary assigns to him from time to time.

Most of these activities are directly connected with the war effort. During the last three or four years they have grown in importance as well as in volume of business, which has made it necessary for me to give a great deal more time to the signing of mail and to holding conferences on operating policies rather than applying more of my time to high policy matters. It is difficult to see how these problems can grow any less in the next few years. As a matter of fact, there is every indication that they will require more attention and as



time goes on it will be more onerous for me to carry the duties of both offices.

I have come to the conclusion, therefore, that I should get some assistance in the interest of my health as well as the problems we face. Furthermore, each year when we go before the Appropriation Committee, inquiry is made as to what you intend to do about filling the position of Fiscal Assistant Secretary. Each time the Committee has been told that you expect to fill it very shortly, but it has now been vacant for four years. In this year's hearings there was some indication that the Committee might take the funds away from us until you actually fill the position.

As I told you when I accepted the position of Under Secretary, I had no desire to enter into a political job and if I took it I wanted the assurance that this position (Assistant to the Secretary, the creation of the position of Fiscal Assistant Secretary then being under consideration) would be available to me when I went out of the Under Secretary's position. You assured me that it would be available.

All along I have had hopes that you would appoint an Under Secretary and permit me to take up the duties of Fiscal Assistant Secretary, but you recently indicated that you had no intention of making any change in this connection. Because of my desire some day again to take up the duties of Fiscal Assistant Secretary, and because of my interest in the office in general and the many projects that I have in line for study, I would still like to keep more or less general supervision over the matters coming under the office and I would particularly like to keep my hands on the finances and the liaison duties with the Federal Reserve System.

To get me the help that I desire, I would like to recommend that Mr. E. F. Bartelt be appointed to

the position of Fiscal Assistant Secretary with the understanding that when I am relieved of the office of Under Secretary I would be appointed to the Fiscal Assistant Secretary's position and he would return to his present position of Commissioner of Accounts; and that any other personnel changes made along the line because of these two would likewise revert to their present positions. I am certain that Mr. Bartelt would fill this office with distinction and would work very closely with me as he has over the past twenty-five years. I believe that so far as he is concerned, the whole office of Fiscal Assistant Secretary could be placed under the Under Secretary and be administered more or less as a bureau. I am sure that would be more than pleasing to him while he was being made acquainted with the various administrative problems and the projects that I have under consideration. We could also transfer supervision over the Bureau of Engraving and Printing and the Bureau of the Mint to the Under Secretary.

Mr. Bartelt was born and raised in Quincy, Illinois, attending public school and a commercial business college in that city. After he graduated from this college he taught the science of accounting in that institution for a period of two years. He was appointed to the Government service in 1917 in the office of the Auditor for the Navy, which was then under the Treasury Department. In 1918 he transferred to the Division of Bookkeeping and Warrants and in 1927 became its Chief. In 1931, upon my recommendation, he succeeded me as Assistant Commissioner of Accounts. In 1935 he succeeded me as Commissioner. He has done quite a bit of outside accounting work; taught accounting at American University for two years; and has had charge, as you know, of the Interdepartmental Committee on Savings Bonds for the past two years, in which he has done an outstanding job.

- 4 -

I should like to discuss the matter further
with you at your convenience.

see Bill

*Gaston has read
& approved.
Mike says OK.
see B*

JAN 25 1945

Dear Mr. Johnson:

This is in reply to your letter of January 20, 1945. The Treasury Department is in complete accord with the recently announced program for restricting group meetings.

Instructions to Treasury bureaus and offices require that any applications from this Department to the War Committee on Conventions have my express approval prior to submission. You will note from the attached circular that we have also directed that additional measures be taken to discourage the attendance of Treasury personnel at non-government meetings.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable J. M. Johnson
Director, Office of Defense
Transportation and
Chairman, War Committee on
Conventions
Washington, D. C.

JRS:eg
1/23/45

TREASURY DEPARTMENT

Washington 25

Office of the Administrative
Assistant to the Secretary

January 15, 1945

To Heads of Bureaus, Offices and Divisions,
and Chiefs of Divisions, Secretary's Office,
Treasury DepartmentSubject: Reduction of Travel by Government Personnel

There is attached a copy of a recent letter to the Secretary from War Mobilization Director James F. Byrnes calling attention to the present critical need for reducing railway travel.

The Department has repeatedly issued instruction to Treasury bureaus and offices emphasizing the necessity for increased vigilance in surveying travel requirements, and considerable reduction has already been achieved. However, the urgency of the present situation requires that additional measures be taken to restrict official travel, as well as participation in group meetings by Government employees. The substance of the attached letter, along with such additional instructions as you deem appropriate, should be brought to the attention of all supervisory personnel who authorize travel by employees of your organization. ALL plans for sponsorship of group meetings involving the attendance of more than 50 persons shall be submitted to this office for the approval of the Secretary.

You will note from the fourth paragraph of Director Byrnes's letter that we are asked to report, within the next sixty days, on the percentage reduction that has been effected. To meet this request I am asking that you have prepared a summary report, covering the period from September 1, 1944 to February 28, 1945, showing as accurately as possible, by months:

- (a) The number of people in travel status;
- (b) The cost of rail transportation (exclusive of Pullman charges).

This report should be in my office not later than April 1, 1945. In the event that it does not reflect a downward trend in travel, I would appreciate having a brief explanation of the work load or program requirements which precluded making a reduction.

CHARLES S. BELL
Administrative Assistant
to the Secretary



OFFICE OF DEFENSE TRANSPORTATION

WASHINGTON, D. C.

OFFICE OF DIRECTOR

JAN 20 1945

The Honorable
Henry Morgenthau, Jr.
Secretary of the Treasury
Department of the Treasury
Washington, 25, D. C.

Dear Mr. Secretary:

In his letter of January 8, 1945, to the various Government Agencies, Director of War Mobilization and Reconversion, James F. Byrnes, with the approval of the President, requested me to head a committee composed of Under-Secretary of War, Robert P. Patterson; Under-Secretary of the Navy, Ralph A. Bard; Chairman of the War Production Board, J. A. Krug; and Executive Services Chief of the War Manpower Commission, Brigadier General William C. Rose, to receive and pass upon applications for the holding of group meetings to be attended by more than 50 persons, to determine if the holding of these meetings is warranted in the war interest. This action is designed to relieve the present burden upon transportation and hotel facilities and to conserve scarce materials.

The Committee has been instructed not only to act on requests from the public but also on requests from the civilian Government Agencies sponsoring or holding group meetings. Attached are several copies of a special application form which has been prepared for this purpose, also a recent press release on the subject.

I am sure you will agree that Government Agencies must lead the way if the objectives we are seeking are to be attained. May I, therefore, request that you scrutinize carefully any plans by members of your agency which would result in meetings attended by more than 50 persons. It would appear desirable that no applications reach the War Committee on Conventions without having previously been reviewed personally by you. Although only meetings with more than 50 in attendance require a special permit the critical transportation and hotel situation suggests that all government meetings be held to an absolute minimum.

May I also point out that the presence of Government personnel at non-government meetings frequently serves as an excuse for the meeting to be considered as in the war interest. It would be most beneficial if you will give careful consideration to the attendance of your personnel at such group meetings.

Cordially,

J. M. Johnson, Director
Office of Defense Transportation
and
Chairman, War Committee on Conventions

OFFICE OF WAR MOBILIZATION AND RECONVERSION

Washington, D. C.

January 8, 1945

Dear Mr. Morgenthau:

Increases in passenger traffic over the past several months have resulted in an overload of our railway system with a corresponding demand for additional manpower. A substantial portion of this increase may be charged to the large number of conventions now being held. These conventions have also overtaxed our hotel facilities in crowded war centers.

Therefore, I have issued an appeal for the cancellation of all group meetings involving the attendance of over 50 persons and trade shows not essential to the war, and for the elimination of other than essential travel.

With the approval of the President, I have asked Director J. M. Johnson of the Office of Defense Transportation to head a committee to be composed of representatives of the War and Navy Departments, War Production Board and the War Manpower Commission to receive and pass upon applications for the holding of group meetings to be attended by more than 50 persons, to determine if the holding of these meetings is warranted in the war interest. This committee is not only to act on requests from the public, but also on requests from the civilian government agencies sponsoring or holding group meetings.

In addition to these measures, I believe that it would be most helpful if you would establish a procedure which would insure that the personnel under your jurisdiction are permitted to travel only when absolutely essential and that all possible measures are taken to consolidate travel to reduce the number of trips to a minimum. I would appreciate it very much if you would cooperate with me in this endeavor and if you would advise me within sixty days of the percentage reduction which you have been able to effect.

I also believe that the presence of government personnel at group meetings frequently serves as an excuse for the meeting to be considered as in the war interest. Therefore, I would like to suggest also that you give careful consideration to the attendance of the personnel under your jurisdiction at such group meetings to determine if their presence is really essential to our war effort.

I know that you will agree with me that a good example set by government agencies will do much to encourage the general public to defer non-essential trips.

Sincerely yours,

James F. Byrnes
Director

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

OFFICE OF DEFENSE TRANSPORTATION

For Immediate Release
Thursday, January 11, 1945

Cleared and Issued
Through Facilities of the
Office of War Information

Organizations planning to hold conventions, conferences, trade shows, or group meetings after February 1, "will have to show how the war effort would suffer if the meetings were not held," Col. J. Monroe Johnson, Chairman of the War Committee on Conventions, announced today.

The Committee of which Under-Secretary of War Robert P. Patterson, Under-Secretary of the Navy, Ralph A. Bard, Chairman of the War Production Board, J. A. Krug and Deputy Chairman of the War Manpower Commission, Charles M. Hay, are members, appointed R. H. Clare, Special Assistant to Colonel Johnson, Secretary to the Committee.

"The job of the Committee," Colonel Johnson stated, "is to achieve the objectives set forth by Justice Byrnes--to relieve overburdened transportation and hotel facilities and conserve desperately needed scarce materials and manpower. The hundreds of messages already received from organizations of diverse interests indicate that the Nation is solidly back of our efforts. The Committee has decided that the yardstick it will use to measure the essentiality of any meeting is how the winning of the two wars we are now fighting will be impeded if the meeting in question were held to an attendance of 50 or cancelled outright."

The Committee approved the form of application required of organizations planning group meetings to be attended by more than 50 persons. Information required by the Committee includes:

Whether the planned meeting is a convention, conference, trade show, or government meeting; the date and location of the proposed meeting and name of hotels or other facilities which will be used; attendance planned; previous frequency of meetings; location and attendance of last previous meeting; average attendance at similar meetings before the war and during the war; from what area those attending are drawn; what steps have already been taken to curtail attendance; why the objectives of the meeting cannot be attained through "Conventions by Mail"; why a group of 50 or less to whom powers are delegated cannot transact the necessary affairs of the organization and in what way and to what extent will the war effort suffer if meeting were not held.

Other decisions reached by the Committee include:

(1) Industrial, business, labor, fraternal, professional, religious, civic, social and governmental organizations are included among those requiring permits.

(2) The issuance of a special permit to hold meetings of more than 50 does not guarantee transportation or hotel facilities or imply priorities for their use.

(more)

(3) The general exemption from the need for applying for special permits for meetings of less than 50 does not mean that the Committee approves the holding of such meetings. It was emphasized that meetings of any size which directly or indirectly constitute a strain on transportation, housing facilities or other critical situations should be cancelled immediately.

Application forms will be available within the next few days at all ODT regional and district offices, at most hotels, convention bureaus and from the national ODT office in Washington, D. C.

All applications should be sent directly to Secretary Clare, Room 7321 Interstate Commerce Commission Building, Washington 25, D. C. where they will be reviewed by the Committee.

Colonel Johnson also announced that the leaders of the hotel industry have assured the Committee that all of its requests will be scrupulously honored by hotels throughout the Nation. Colonel Johnson pointed out that this means that no additional measures will be necessary at this time to secure compliance with Justice Byrnes' request.

(Copy of complete application, which may be reproduced, is attached.)

#####

WAR COMMITTEE ON CONVENTIONS

J. Monroe Johnson, Chairman Director, Office of Defense Transportation	J. A. Krug Chairman, War Production Board
Robert P. Patterson Under-Secretary of War	Charles M. Hay Deputy Chairman, War Manpower Commission
Ralph A. Bard Under-Secretary of Navy	

APPLICATION FORM

Director of War Mobilization and Reconversion James P. Byrnes, with approval of the President, has instructed this Committee to effect a cessation of group meetings such as conventions and trade shows not necessary in the war effort. Information requested is to enable this Committee to review the holding of group meetings which are to be attended by more than 50 persons to determine if the need for these meetings is sufficiently in the war interest to warrant the burden on transportation and services.

1. Name of organization and of President and Secretary together with their addresses.
2. Nature of organization and character of meeting (convention, conference, trade show, government meeting or other).
3. Date and location of proposed meeting and name of hotel or hotels or other facilities which will be used.
4. Attendance planned for above meeting. If a trade show, segregate attendance into exhibitors and buyers and indicate number of hotel rooms required for exhibits in addition to those which will be booked for individual use. If other rooms such as ballrooms, display rooms, etc. are to be used, indicate number and approximate area of space.

5. Previous frequency of these meetings.
6. Date, location and attendance at last previous meeting.
7. Average attendance at similar meetings before the war _____; during war _____
8. From what area are those attending drawn?
9. What steps have already been taken or are contemplated to curtail attendance?
10. Why cannot the object of this meeting be attained through correspondence and publication, now frequently termed "Convention by Mail"?
11. Why cannot a group of 50 or less to whom powers are delegated transact the necessary affairs of your organization?
12. In what way and to what extent will the war effort suffer if this meeting were not held?

(Signed) _____ President

_____ Secretary

Date _____

Mail to: Richard H. Clare, Secretary
War Committee on Conventions
Room 7321 Interstate Commerce Commission Building
Washington 25, D. C.

Whenever possible applications must be filed not less than thirty days prior to date of meeting but in case more than six months in advance.

This form may be reproduced. Where space is insufficient for complete answer to any question, attachments are permitted.

827
JAN 25 1945

Dear General Surles:

You will be pleased to learn, I am sure, that prominent among the factors contributing to the success of our recent Sixth War Loan campaign was the wholehearted cooperation and assistance rendered by your office, particularly by Major George W. White and his assistant Lieutenant B. C. Kelly.

Despite the numerous demands and inquiries which reached them in number sufficient to exhaust their patience their response was always enthusiastic as well as helpful.

It is my purpose in sending this note to you to express my sincere thanks to you and through you to the officers mentioned and to express the hope we may have the privilege of having them work with us during our coming campaigns.

Sincerely,

(Signed) H. Morgenthau, Jr.

Major General A. D. Surles
Director, Bureau of Public Relations
War Department
Room 2-E-880, The Pentagon
Washington, D. C.

Copies to Hamble

228 ✓
House



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
EUR 740.00119 EW/1-1745

January 25, 1945

My dear Mr. Secretary:

I refer to your telephone call of January 16 stating that you had just heard that Mr. Churchill had said something about the so-called Morgenthau plan and negotiated peace. I immediately telegraphed the Embassy in order to find out whether the Prime Minister had made any statements in this connection. The Embassy has replied that his only words of this kind were those reported in the Embassy's telegram no. 576 of January 16, a copy of which is attached.

Sincerely yours,

Acting Secretary

Enclosure:

Telegram no. 576,
from London, dated
January 16, 1945.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.



MS-1331

PLAIN

London

Dated January 16, 1945

Rec'd 11:20 p.m.

Secretary of State,
Washington.

576, Sixteenth

The Prime Minister was today asked by a Labor member in the House of Commons whether the government had reconsidered its policy of unconditional surrender and the proposal to transfer from their homes by force millions of people in central Europe.

Mr. Churchill answered "No, sir" and in reply to a further question suggesting that these threats against the Axis powers had a tendency to stiffen the people of Germany behind their leaders and prolong the war he added "No, Sir. We don't take that view at all. I think the House would be overwhelmingly against our attempting to make peace by negotiation. At any rate our Allies would be overwhelmingly opposed to such a course. It is quite impossible to discuss these things in question time. An opportunity might occur in debate to discuss them. I am not of the opinion that the demand for unconditional surrender is prolonging

-2- #576, Sixteenth, from London.

is prolonging the war. In any event the war will be prolonged until unconditional surrender has been obtained." These remarks were received with cheers.

WINANT

MJF

January 25, 1945

My dear Lieut. Putzell:

Thank you for your letter of January 24 enclosing the report on the Second Bonomi Cabinet, which I am glad to have.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Lieut. Edwin J. Putzell, Jr.,
Assistant Executive Officer,
Office of Strategic Services,
Washington, D. C.

Report to A. White 1/26

232
Photostated to
Dr White. 2/15/45.

MINISTRY OF FINANCE

Chungking, January 25th, 1945.

My dear Mr. Secretary,

I thank you very much for your kind letter of December 16th, offering me your congratulations on my assumption of the new office.

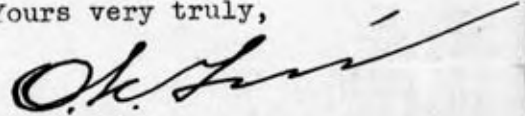
I have always appreciated your friendly and sympathetic attitude towards China as well as your cooperation hitherto extended to H. E. Dr. H.H. Kung.

The conclusion of the recent financial negotiations is regarded here as yet another indication of your kind collaboration.

I am confident that my Ministry and your Department will continue to work in the same happy spirit characteristic of our past relations.

With the season's greetings,

Yours very truly,



O. K. Yui
Minister of Finance

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

TREASURY DEPARTMENT

233

INTER OFFICE COMMUNICATION

DATE

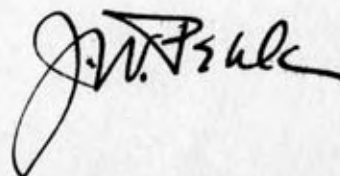
January 25, 1945

TO Secretary Morgenthau

FROM J. W. Pehle

I haven't heard anything further from FEA or from WPB on the Russian Refinery matter.

Since FEA is the claimant agency on such matters, I suggest you might get Crowley to write a letter to Krug urging a higher priority before you press Krug further on this matter.



SECRET
WAR DEPARTMENT
WASHINGTON, D. C.

234
copy to White-
1/28/45

JAN 25 1945 ✓

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

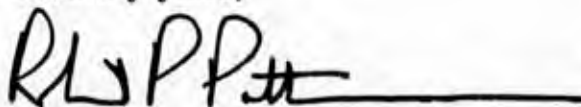
My dear Mr. Secretary:

I have received your letter of 8 January 1945, with inclosures, in which you request me to investigate the present status of the proposed "take-over" by the War Department of certain British-owned capital facilities in the United States. I have noted from the Treasury memorandum that you are not aware of the War Department's negotiations with the British for the transfer of the remaining British facilities in this country to the War Department on a reciprocal aid basis.

In accordance with the instructions dated 18 November 1943 from the Director of War Mobilization, the British Ministry of Supply Mission, Washington, was requested on 6 December 1943 to consider the War Department's request for reciprocal aid. On 1 February 1944, Sir Walter Venning replied that the British preferred that "the matter of settlement might be left open for future consideration". This procedure was approved by the War Department and agreed to by the Acting Secretary of State on 18 February 1944.

In view of the War Department's negotiations on this matter, I do not believe it is advisable to make any other arrangements for cash settlement until the British have formally refused to provide these facilities to the War Department under reciprocal aid.

Sincerely yours,



ROBERT P. PATTERSON,
Under Secretary of War.



SECRET

C
O
P
Y

January 25, 1945

Dear Mr. Handler:

I wish to thank you for your letter of January 20, 1945, concerning the plight of the Jews in Bulgaria and Rumania.

We, too, have been deeply concerned with this problem and I assure you that even within its limited terms of reference the War Refugee Board has made every effort to have assistance brought to these people. Until such time as the problem can be handled on a more permanent basis, the Board has facilitated in all possible ways the sending of relief into these areas.

If you should desire to discuss this matter in more detail, we shall, of course, be glad to arrange to see you in Washington.

Sincerely yours,

/s/ H. Morgenthau, Jr.

Secretary of the Treasury

Mr. Milton Handler,
Columbia University,
New York, N. Y.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMERICAN EMBASSY, VATICAN CITY
TO: Secretary of State, Washington
DATED: January 25, 1945 (Rec'd 8:55 p.m., 26th)
NUMBER: 25

SECRET

Replying to a message from Union of Orthodox Rabbis New York we advised latter last July that Vatican after failing in its attempts to include refugee Rabbinical scholars in Shanghai in an exchange agreement had approached the Government of Japan with a view to having them released on a unilateral basis by the Government of that country. However, the Vatican stated that up to that time these attempts had been without results. The matter was again taken up with the Vatican, on receipt of the message under reference from the Department, however, to date we learn that still no word has been received from Japan. It is stated by the Vatican that original exchange plan failed to materialize as British and American Governments indicated that it was not possible to include persons in question in an exchange agreement as their citizenship was neither British or American. I am assured by the Vatican that it will follow closely developments in the matter.

TAYLOR

DC/L:MEG
1-29-45

LF-173

PLAIN

Lisbon

Dated January 25, 1945

Rec'd 3:43 a.m., 26th

Secretary of State,
Washington.

176, Twenty-fifth

FOR HIAS 425 LAFAYETTE STREET NEW YORK CITY FROM
BERNSTEIN HIGEM LISBON WRB 292

Contact relatives favor following our proteges
Bucharest. Request Abraham Feinstein, 6910 Yellowstone
Boulevard, Forest Hills New York news and advise for
emigration favor Karl Feinstein, Joseph Rosensweig,
152 Amboy Street, Brooklyn, New York secure USA visas
favor Lina Rosensweig and children healthy. Abe Schwartz,
40 Stuyvesant Street, New York news secure USA visa
favor Nathan Hart family healthy. C. Daire Friedman,
651 High Street, Newark, New Jersey secure USA visa favor
Prosa Medelovici healthy alone without news husband.
Eugen Ernst, 205 East or West 94th Street, New York
financial help and secure USA visa favor Gesa and Layos
Jacob alone healthy family deported, Josef Itsovcici,
108 Levy Street, New York financial help secure USA visa
favor Hermann Kohn healthy alone without news family.
Inform Sady Schwartz, 7403 18th Avenue, Brooklyn Esterina
Jeni Maria Ghisa Salpeter healthy intending emigration
Palestine Tuhí Dori also Bucharest. Cable. Inform
Theodora Bars, Hotel Delmonico New York Florica Sommer
all family healthy Bucharest asks news. Eric Ichauer
1609 North Normandie Hollywood Joseph Schauer healthy
Bucharest 55 Pasteur asks news.

CROCKER

JMS

CABLE TO HEDDLE AND MCCLELLAND, BERN, FROM DEPARTMENT AND WAR REFUGEE BOARD

Information has reached us recently that Sternbuch has developed a plan for the release of 500,000 Jews from Germany and German-occupied territory in return for payments totalling \$5,000,000. The Jews are to be released at the rate of 15,000 a month and payments are to be made at the rate of \$250,000 a month. It is further reported that sum of \$250,000 remitted from the United States by Vaad Hahatzala is now on deposit in a Swiss bank in the name of Sternbuch and is to be used for payment for the first shipment of 15,000 Jews expected shortly in Switzerland.

For your information, news reports from Bern similar to the above reports on the Sternbuch plan and as yet unpublished have been presented to us for confirmation.

Please advise Department and Board of any information you have or can obtain on the foregoing.

THIS IS WEB BERN CABLE NO. 381.

10:30 a.m.
January 25, 1945.

Miss

FH:hd 1/24/45

CABLE TO HUDDLE, BERN, FOR MCCLELLAND FROM WAR REFUGEE BOARD

Reference your No. 389 of January 19, 1945. The \$19,533.60 which you are now holding for Friends of Luxembourg can not (repeat not) be expended in Luxembourg because these funds were appropriated by National War Fund for relief and rescue in enemy or enemy-occupied territory. Accordingly, interested groups here hope that you will be able to arrange with Intercross for relief program suggested in Department's No. 288 (WEB No. 367) of January 18, 1945.

For your information, Friends of Luxembourg and labor groups expect to send \$12,500 very shortly to labor trustees in Luxembourg for relief in Luxembourg.

Donors wish to assure you of their complete satisfaction with your handling of the funds which have been remitted to you for various relief projects.

THIS IS WRB BERN CABLE NO. 383.

4 p.m.
January 25, 1945.

Miss Chauncey (for the Sec'y) Ackermann, Aksin, Cohn, Drury, DuBois, Gaston, Hodel, Marks, McCormack, Pehle, Files.

FH:hd 1/25/45

MS
Distribution of true
reading only by special
arrangement. (SECRET W)

January 25, 1945

2 p.m.

AMLEGATION

BERN

410

The following for Huddle and McClelland from Department
and War Refugee Board is WRB 378.

Vaad Habatsala advised WRB of receipt of a report that
two groups of Hungarian Jews numbering 7,000 and 15,000
respectively await entry into Switzerland and that their
rescue depends on assurance of admission into Switzerland.
Please advise Board whether this is correct. If so, it is
assumed, of course, that you will take all appropriate steps
to obtain their admission into Switzerland in accordance
with Department's 240 of January 16.

GREW
(Acting)
(GLW)

WRB:MMW:KG
1/24/45

WE

SE

RE
 Distribution of true
 reading only by special
 arrangement. (SECRET W)

January 25, 1945

Midnight

AMLEGATION

BERN

424

The following for Huddle and McClelland from Department and War Refugee Board is WRB 381.

Information has reached us recently that Sternbuch has developed a plan for the release of 300,000 Jews from Germany and German-occupied territory in return for payments totalling \$5,000,000. The Jews are to be released at the rate of 15,000 a month and payments are to be made at the rate of \$250,000 a month. It is further reported that sum of \$250,000 remitted from the United States by Vaad Hahatsala is now on deposit in a Swiss bank in the name of Sternbuch and is to be used for payment for the first shipment of 15,000 Jews expected shortly in Switzerland.

For your information, news reports from Bern similar to the above reports on the Sternbuch plan and as yet unpublished have been presented to us for confirmation.

Please advise Department and Board of any information you have or can obtain on the foregoing.

ORIN
 (Acting)

WRB:MMV:ED
 1/25/45

WE

SWP

JMM-1894

This telegram must be paraphrased before being communicated to anyone other than a Government Agency. (RESTRICTED)

Bern

Dated January 25, 1945

Rec'd 10:50 a.m.

Secretary of State

Washington

518, January 25, 10 a.m.

FOR WEB FROM MCCLELLAND.

Please deliver the following message from union OSE to Leo Wulmann American OSE:

"We have received your message of January 11. Our delegate Dr. Rosenbluth is on his way to Lublin and probably Warsaw. We have given him instructions to re-establish together with Dr. Harszenhorn the OSE-TOZ institutions throughout liberated Poland. He has been informed of your negotiations with Somers Chein. We have unofficially notified that the Lublin Government is ready to receive our sanitary team and we are therefore urgently preparing with Joint's substantial help the personnel medical supplies and equipment.

It would be most advisable for you to contact the Russians regarding all such possibilities of relief action in liberated areas under Russian control.

Please keep us posted regarding any representations you make in this direction".

HUDDLE

WEB

MF-1904
Distribution of true
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arrangement (SECRET W)

Born
Dated January 25, 1945
Rec'd 10:10 a.m.

Secretary of State,

Washington.

520, January 25, noon.

FOR WRB FROM MCCLELLAND

Substance Department's 368, January 22, was
delivered in an urgent note to Federal Political
Department on January 24.

HUDDLE

HR

EGP-135

PLAIN

Bern

Dated January 25, 1945

Rec'd 9:50 p.m.

Secretary of State,
Washington.

523, Twenty-fifth.

FOR WRB FROM MCCLELLAND.

Kindly deliver following message to Jakob Greenberg
1123 Broadway, NYC from Nathan Schwalb, Hechalus, Geneva.

"Educational work among our youth Aliyah groups
here not being satisfactorily handled by local Misrahi.
If possible would accordingly much appreciate receiving
funds to aid Mendel Willner this task otherwise your
splendid efforts behalf these young people will be
largely negated". 1035.

HUDDIE

MRM

cc: Miss Chauncey (for the Sec'y) Ackermann, Aksin,
Cohn, Drury, DuBois, Gaston, Hodal, McCormack,
O'Dwyer, Files

LF-137
Distribution of true
reading only by special
arrangement. (SECRET W)

Bern
Dated January 25, 1945
Rec'd 9:45 p.m.

Secretary of State,
Washington.

531, January 25, 3 p.m.

FOR WRB FROM MCCLELLAND

In course of constant contact with various officials and agencies of Swiss Government during past many months on subject of admission to Switzerland of refugees from Nazi persecution, (Department's 240, January 16, WRB's 364) we have observed no lack of willingness on part of Swiss to grant large numbers of such persons temporary asylum. On contrary Swiss have repeatedly interceded with Germans as in case of projected evacuation of upwards of 12,000 Jews from Budapest in effort to expedite and organize such evacuation.

On occasion of coming of second Bergen-Belsen convoy of 1300 individuals in early December Federal police was somewhat disturbed over unannounced arrival of group of unknown persons of this size from Germany on understandable grounds of military and internal security.

We have repeatedly conveyed to Swiss our Government's assurance that any such refugees admitted to Switzerland would be evacuated as promptly as possible. Although Swiss have not as yet chosen to avail themselves of our offers of maintenance they took occasion in course of recent discussions relative to conversion of dollar equivalent of the 20,000,000 into Swiss francs to express informally their distress at United States unwillingness to allow them import into Switzerland even from Spain some 300,000 tons of food stuffs purchased for general Swiss consumption and warehoused in Spain for past many months. Our lack of understanding (as they interpret it) of growing difficulties their food situation and our simultaneous requests that they admit large numbers of new refugees contrast rather unfavorably in their minds. It is worth nothing in this respect that Switzerland has recently received a new contingent of close to 10,000 French refugee children from the Muhlhouse region.

HUDDLE

KJF

Thus far in January 628 additional persons from Rumania (the Stara-Zagora detainees) have passed through Turkey proceeding to Palestine.

The success of this rescue work, as you previously have been informed, is attributable to the breaking of the bottle neck into Turkey as a result of the efforts of Ambassador Steihardt and the WRB.

STEINHARDT

EEC

LC-162
Distribution of true
reading only by special
arrangement. (SECRET W)

Ankara

Dated January 25, 1945

Rec'd 1:29 a.m., 26th

Secretary of State,
Washington.

130, January 25, 4 p.m.

FROM KATZKI TO FEHLE WAR REFUGEE BOARD.

Ankara's No. 7.

The following statistics, one year after the creation of the War Refugee Board, relating to rescue and emigration activities from the Balkans via Turkey to Palestine for the calendar year 1944, will be of interest to the board. The total number of persons who passed in transit through Turkey proceeding to Palestine excluding 282 people from Holland exchanged for German nationals in July is 6527 (repeat 6527). Of this number 1392 came from Bulgaria, 163 from Hungary, 4433 from Rumania and 539 from Greece.

It should be noted, however, that persons included under Rumania comprise not only Rumanian nationals but a large proportion of Polish, Slovakian, Ruthenian and Hungarian refugees who succeeded in escaping to Rumania.

The total of 6527 includes 1737 children and youths up to the age of 18 years. Approximately 1,000 were orphans repatriated from Transnistria. An additional 327 accompanied their parents and the balance comprises children emigrating without parents.

All the refugees from Greece escaped by sea. 10 groups arrived by sea from Constanza using vessels of Bulgarian registry 5 times and Turk vessels 5 times. An 11th group from Constanza was lost with the sinking of the NEFKURA. Other refugees from Bulgaria and Rumania arrived by railroad.

cc: Miss Chauncey (For the Sec'y.), Ackermann, Akain, Cohn,
Drury, DuBois, Gaston, Hodel, Marks., &

NOT TO BE RE-TRANSMITTEDCOPY NO. 4SECRETOPTEL No. 29

Information received up to 10 a.m., 25th January, 1945.

NAVAL

1. HOME WATERS. Night 23rd/24th. Minelaying by enemy aircraft suspected in Scheldt Approaches and one aircraft destroyed. Night 24th/25th. E-boats very active between Yarmouth and Thames Estuary and were engaged by our patrols.

ENEMY ATTACK ON SHIPPING. 23rd. Enemy aircraft bombed and sank a 5,035 ton U.S. ship during attack on Antwerp dock area.

MILITARY

3. WESTERN FRONT. Northern Sector: British now holding Heinsberg and Montfort and have advanced two miles north latter town. Central Sector: In Ardennes U.S. forces advanced two to three miles along whole front against moderate enemy resistance. Reported Clervaux cleared without opposition.

4. EASTERN FRONT. East Prussian Sector: Further progress south and S.W. Insterburg including capture Lyck. North Central Sector: Chelmza (12 miles north Torun) captured and further advances north and N.W. of Gniezno. South Central Sector: Kalisz captured and several places north and N.E. of Breslau including Rawicz and Trachenberg taken. Oppeln also captured. Southern Sector: Advance continues some 50 miles N.W. of Miskolc.

5. BURMA. Arakan Sector: On Ramree Island our troops reached Minbyin (8 miles south Kyaukyu) without serious opposition. Central Burma Sector: Tilin captured without opposition. On Irrawaddy, Myinmu (16 miles west Mandalay) captured after stubborn fighting.

AIR

6. WESTERN FRONT. 24th. SHAEF (Air). 1272 aircraft (9 missing) operated all areas bombing midget submarine sheds Rotterdam and communications and transport behind battle fronts. 350 M.T. destroyed and enemy air casualties 2, 0, 1.

7. MEDITERRANEAN. 23rd. 621 tactical aircraft attacked communications North Italy and N.W. Yugoslavia.

HOME SECURITY

8. ROCKETS. To 7 a.m. 25th. 5 incidents reported.

NOT TO BE RE-TRANSMITTEDCOPY NO. 4SECRETOPTEL No. 30

Information received up to 10 a.m., 25th January, 1945.

MILITARY1. WESTERN FRONT.

Southern Sector: Germans reported reacting strongly to pressure Colmar pocket. Further North, enemy have made several attacks causing slight withdrawals in area Haguenau.

Central Sector: U.S. forces continue to make progress and line along whole front now almost straightened with St. Vith occupied.

Northern Sector: British troops advanced one mile on whole front from north of Geilenkirchen to Linne (5 miles S.W. Roermond).

2. EASTERN FRONT.

East Prussian Sector: In the North, Germans admit penetrations S.E. of Labiau. Russian attacks in direction Koenigsberg and Elbing met strong resistance, but Germans have given ground to the south in area Masurian Lakes.

Central Sector: Germans claim holding Russian drives on Tourun and Posen. Russians report capture Jarocin (S.E. Posen), Ostrow (S.W. Kalisz), Oels (N.E. Breslau), and Gleiwitz (S.E. Oppeln). Germans claim Russian attempts to cross River Oder N.W. and S.E. Breslau wholly and partially repulsed respectively.

Southern Sector: Germans report progress north Szekesfehervar.

3. BURMA.

Coastal and Arakan Sectors: Considerable progress made Ramree Island and our troops now 20 miles south Kyaukpyu on West Coast. Further North, stubborn resistance encountered north of Myohaung whilst our troops have reached point 2 miles west of village.

AIR4. WESTERN FRONT.

25th. SHAEF (Air). 830 aircraft (8 missing) operated mainly central sector dropping 803 tons and destroying 686 M.T. and 43 A.F.V. 18 Mosquitoes attacked convoy North Bergen and left burning one 5,000 ton, one 2,500 ton ship, one tanker and a coaster. 5 Halifaxes attacked shipping Kristiansand obtaining direct hits on 4,000 ton ship which left on fire and sinking.

5. CHINA ZONE.

19th and 20th. Attacks made on airfields at Swatow and Shanghai destroying 22 enemy aircraft.

HOME SECURITY6. ROCKETS.

7 incidents reported.

January 26, 1945
11:24 a.m.

HMJr: Hello.

Operator: Mr. Clayton.

HMJr: Hello. Will?

Will
Clayton: Yes, Henry.

HMJr: You're -- here I've got Oscar Cox and Harry White
in the room with me.

C: Yes.

HMJr: Where do we stand vis-a-vis the French now?

C: Well

HMJr: On this lend-lease.

C: Well, I -- I sent you over a letter yesterday
afternoon answering your letter to Ed, and just
stating our position.

HMJr: Yes.

C: I think that where we stand is that we probably
had just better notify the French that we are only
prepared to negotiate a master lend-lease agreement
with them when we have come to some agreement with
them regarding their -- their financial position
as regards dollars and gold.

HMJr: Yeah. But don't you think that State, F.E.A. and
ourselves ought to agree first what we think that
should be?

C: Well, surely, before we ever -- certainly, Henry,
before we ever sit down to negotiate with them, we
must do that, but they are, I think, expecting some
answer from us now on the simple question whether
we will sign the master agreement now and then
negotiate or whether to negotiate first. I think
that probably we ought to advise them on that point
and then we would get together and agree on what
we ought to do.

HMJr: Well, now, what is the thing that you've arrived at
as to which comes first?

- C: Oh, well, our position is unchanged. It differs from yours. You think we ought to negotiate the dollar thing first; and we thought we ought to sign the master lend-lease agreement like we had with all the other countries
- HMJr: Yes.
- C: first. But I think that we can't remain in dead-lock so I think the only thing for us to do is to accept your view of it and -- and then start negotiating with the French, if they're prepared to do it and I suppose they are, on that dollar position and tell them we've got to work that out before we can sign the master agreement.
- HMJr: Well, if you don't mind my saying, I think that -- as I understand it, you told Pete Collado to get in touch with Monnet and find out what their financial position is. Hello?
- C: Yes.
- HMJr: Well, that's always been the Treasury's business.
- C: No, I didn't tell him to find out -- no, no, that's a mistake. I was talking with Mr. Monnet. He said he would like to know just what kind of questions we would ask him and I told him that I would get Pete Collado to call him up. I was just going into a staff meeting at the time.
- HMJr: Yeah.
- C: And tell him what sort of questions we would likely ask of him. Now, I was only speaking for State Department and not the Treasury.
- HMJr: Well, that -- those financial inquiries in between the Treasury -- I mean, up to now, we've always done that, Will. I mean, that's our responsibility.
- C: You mean yours alone?
- HMJr: We've done it alone. Yeah, we'd get the information for you or for any other branch of the Government.
- C: I see. Well, if that's -- if that's the case, I'm not informed on that -- if that's the case, we'll just have to tell Mr. Monnet we have no questions to ask him.

HMJr: Well, the thing is we've always done that with all Treasuries. The record ever since I've been here is on that front.

C: Yes.

HMJr: On my part, I think that -- I think that that's the way -- I don't think Stettinius would want to change that.

C: Yeah. Well, if that's -- if that's the way it has been done, and that's the way it should be done, why, certainly, that's all right.

HMJr: Well, I think

C: Mr. Monnet merely asked me -- he said, "What kind of questions are you going into and what kind of -- what information do you want?" And I just told him, "Well, I'll have Pete Collado call you and tell you what kind of questions we would be asking."

HMJr: Well, the Treasury

C: He told me that he thought he was going to France immediately.

HMJr: Well, may I just say those kind of questions directed at the French Treasury -- I mean, we -- we've got eleven years experience on that.

C: Yes.

HMJr: And we've got a vast amount of information now.

C: Fine.

HMJr: And I think we should continue to do that.

C: All right. Fine.

HMJr: Now, may I suggest this so that we can get off to a right start: couldn't you and Harry White and Oscar Cox get together so that we could present a united front vis-a-vis the French Government?

C: Certainly.

HMJr: And Monnet has asked to see me. He's coming in this morning. I'm going to listen to him, see?

C: Yes.

HMJr: But in view of the turn that things are going to take, I'd like to tell him that the American Government will give him an official answer within twenty-four hours.

C: On what?

HMJr: Well, on how we're going to proceed.

C: You mean as to whether we sign the agreement first and

HMJr: Yeah, and what we expect.

C: Yes.

HMJr: I mean, tell him -- just tell him the facts of life -- just what they are.

C: Well, Henry, I don't think there's any necessity of our getting together on that if -- if you -- if the Treasury still maintains their position on it, why, we just give in. That's all. And tell him now.

HMJr: Well, what -- what -- what are you going to tell him?

C: Just tell him that we want to -- we want to discuss it with him. Or you -- you're the man to do it, why then, you do.

HMJr: No, I -- I don't like to be so -- well, in the first place, I've discussed this thing with Oscar Cox. Hello?

C: Yes.

HMJr: This morning. And Oscar agrees now with the position we're taking.

C: I see.

HMJr: I want to tell you that.

C: Yes.

HMJr: Now, I still think that -- so that we'd be sure that we'd give them the right information -- I think it would be worth your time if you'd spend fifteen minutes with White -- with Cox.

C: I'm perfectly willing to do it at any time that we can find a convenient time to get together. I'm perfectly willing to do it. But I'm just saying that when we get through, I think we'll arrive at the decision we arrive at now, which is that if you don't change your position, why, we'll go to your position. That's all.

HMJr: Well, I -- I am -- overnight nothing has happened to make me change my position and now that Cox says that he thinks that my position is correct, why, I feel fortified.

C: Yes. Well, then I think -- I mean, I'd be delighted to get together with Harry and Oscar at any time, but I think that

HMJr: Well, I think it should be something on a piece of paper that -- that State could -- if you don't mind my saying it -- consult with F.E.A. and Treasury to make sure that what we tell the French Government is something that we can see through.

C: Yes. All right. Fine. Let's see -- this is Friday. Well, I was trying to get Oscar Cox to ask him to come and have lunch with me tomorrow. If Harry wants to come, why, we three will just get together and talk about it at lunch tomorrow.

HMJr: Well, Harry is here now in the office and so is Oscar.

C: All right.

HMJr: I'll ask them right now if I may, please.

C: Yes, fine.

HMJr: Just a moment. Just a minute. (Talks aside.) Harry says he has to go back and look at his calendar.

C: Well, tell him to let me know.

HMJr: He'll let you know.

C: At 12:30 if

HMJr: Cox says he can make it.

C: He can

HMJr: Cox says he can make it.

C: All right. Tell Oscar to meet me at 12:30 at the Metropolitan Club.

HMJr: All right.

C: And then Harry to do the same and we'll sit down and talk about it then while we eat lunch.

HMJr: I think if we can move as three partners on this thing -- I think it -- I think it would be much more advisable.

C: Fine. I'll be glad to do it, Henry.

HMJr: Thank you so much.

C: Okay. Bye.

256
January 26, 1945
11:59 a.m.

HMJr: Hello.

Operator: Mr. Clayton is holding a staff meeting in his office -- his own staff.

HMJr: Well, let me talk to Mr. Grew.

Operator: All right.

HMJr: Hello.

Operator: Mr. Grew has just started his press conference. They said they could send a note in to Mr. Clayton. It will take a couple of minutes to get him on.

HMJr: Yes, send a note in to Clayton.

Operator: Right.

HMJr: I want to talk to him.

Operator: All right.

12:02 p.m.

HMJr: Hello.

Operator: Mr. Clayton.

HMJr: Hello. Will.

Will Clayton: Yes, sir.

HMJr: Look, Will, you fellows are getting me all tied up in knots over here.

C: What's the matter?

HMJr: Now, at 11:46 Mr. Grew's letter was delivered to my office. Hello?

C: Yes.

HMJr: And you've undoubtedly seen it.

C: Yes, I initialed it yesterday. It should have been over there yesterday afternoon.

HMJr: Well, of course, it's -- well, you know what's in it.

C: Yes.

HMJr: It's -- it isn't in agreement with what you and I just agreed to about -- around 11:30.

C: Well, what I said, Henry, was that our position is still that we felt that we ought to go ahead with the master agreement, but that if your position was to the contrary, that we -- we would say all right, let's go ahead on your -- we withdraw -- at any rate, we still remain of that opinion but we say that we give way to you.

HMJr: Well, then, let's stop writing letters to each other, what?

C: Well, you asked for an answer to your letter.

HMJr: That's right.

C: And that was prepared early yesterday morning and should have been delivered to you yesterday morning. It just didn't make the round. And the only reason we wrote you a letter was that you wrote us one and that we understood you wanted an answer.

HMJr: But at 12:05 today you and I are together?

C: Yes, we

HMJr: You accede to the Treasury position?

C: We do.

HMJr: All right. And then the three of you will have lunch tomorrow and -- and iron it out.

C: That's fine.

HMJr: Is that right?

C: You bet.

HMJr: I thank you.

C: All right. Thank you.

January 26, 1945

MEMORANDUM FOR THE SECRETARY'S FILES

I called the attention of the Secretary to the fact that the letter the Secretary received from Mr. Grew on January 22, 1945, had been interpreted by Secretary Morgenthau as being a reply to Secretary Morgenthau's letter to Mr. Stettinius of January 23 whereas Mr. Grew's letter had been a reply to Secretary Morgenthau's letter of January 18. We had not yet received a reply to the January 23 Treasury letter. The letter of January 23 had been handed to Mr. Yost with instructions that he submit it to Mr. Stettinius with the following comment: Secretary Morgenthau felt that in his letter of January 23 he was backtracking slightly from his letter of January 18, and if Mr. Stettinius felt that the latter of January 23 which Secretary Morgenthau signed was too tough he should send the letter back and the Secretary would be glad to discuss the matter with him before attempting to send him a letter formally.

When I called his attention to the fact that Grew's letter was in answer to Treasury's letter of January 18 the Secretary got in touch with Yost to ask him about the letter of January 23 to Stettinius that Yost had walked over. Yost replied over the phone that he thought he had been asked to give the letter to Mr. Clayton and had done so. The Secretary said that Yost misunderstood but that in any case he would like an answer that same day to his letter of January 23.

Later in the day Mr. Clayton came to see the Secretary, and the meeting is described in a memorandum prepared by Mr. DuBois.

At the end of the conference, Mr. Clayton said that in view of the Secretary's comments (described in the memorandum) he would like to go back to the State Department and canvass the State Department's position.

The next morning Mr. Clayton telephoned to say that he had mailed a reply to the Secretary's letter of January 23, and assumed it had been received. The Secretary told him he had not yet seen it. Clayton said that the State Department had not changed its position and was not in agreement with the view expressed by the Treasury in the letter of January 23. However, since the Treasury was adamant in its position and since Mr. Clayton didn't want to hold things up, they were willing to accept the Treasury's position and go ahead on that basis. The Secretary repeated the question "Then you are ready to agree with the Treasury?", and Mr. Clayton repeated that State Department did not believe that the Treasury's suggestions were the correct ones to adopt but that they were willing to go along with the Treasury.

About half an hour later Mrs. Klotz brought in the letter from the State Department to which Clayton had referred. A copy of the letter is appended. The letter gave the State Department's reason for not agreeing with the Treasury's position and did not indicate that the

Division of Monetary
Research

- 2 -

State Department was willing to go along and accept the Treasury point of view. The Secretary, after reading the letter, tried to get Mr. Clayton. Clayton was out so he got Grew on the phone. He told Grew that Clayton had stated over the phone that State was willing to accept the Treasury position but that the letter which he had received did not say that. In fact, the letter stated that State did not agree with the Treasury position. Mr. Grew said that he would take the matter up with Clayton and get in touch with the Secretary later in the day. A little later Mr. Clayton called up and explained that apparently the Secretary had not quite understood his remarks over the phone. Clayton said that the letter the Secretary received that morning did not agree with the Treasury position but that Mr. Clayton had said in view of the fact that the Treasury did not want to recede from its position, and in view of the necessity to go ahead on the arrangements, that the State Department was willing to change the decision it had indicated in its reply to Secretary Morgenthau's letter and was prepared to accept the Treasury position. He explained that the State Department had come to that decision after the letter had been sent and that in his telephone conversation with Secretary Morgenthau earlier that morning he thought he had made that clear. The Secretary asked: "Then your statement now that you accept the Treasury position replaces the letter?" "In other words," he continued, "the letter which I have just received from Mr. Grew in response to Treasury's letter of January 23 is, in effect, dead?" Clayton said, "That is correct." He said that State now accepted the Treasury point of view and the letter which they had just sent in reply to Secretary Morgenthau's letter of January 23 was superceded by the telephone conversation.

The Secretary also told Mr. Clayton that he had been informed that Collado was going to have a conference with Mr. Monnet to ascertain what the financial situation of France was. Mr. Morgenthau said that it had always been the practice, and he presumed Mr. Stettinius had not done anything to alter it, for the Treasury to undertake talks with regard to financial matters with the French Treasury. He said that he felt if there was any financial information to be obtained or any discussion to be held with the French Treasury that the Treasury should handle it and not the State Department. Mr. Clayton said he wasn't aware of the previous practice and he certainly wouldn't wish to alter the practice if that was what was done. He said that he had asked Collado to talk to Monnet and to inform him of the kind of information the United States would want with regard to French financial affairs but that he would speak to Collado and instruct him to let the Treasury Department handle it.

H. D. White



January 25, 1945

My dear Mr. Secretary:

Upon receipt of your letter of January 18 addressed to the Secretary, concerning a lend-lease agreement for France, I replied on his behalf in a letter, dated January 22, and expressed agreement with your view that lend-lease for France, both in munitions and in non-munitions, generally should rest on the same principles as lend-lease for Great Britain. I also stated that I had asked Mr. Clayton to discuss with Mr. White and Mr. Oscar Cox a text of an agreement which could be presented to Mr. Monnet early this week. It was my understanding that you were in agreement with the Foreign Economic Administration and the Department that a master lend-lease agreement should be signed with the French, and that, thereafter, representatives of the three agencies should hold discussions with French representatives concerning the nature of the supply program to be undertaken and the terms upon which supplies would be furnished.

Apparently, my letter crossed a second letter from you which was received in the Department on January 23, in which you suggested that before a lend-lease agreement is entered into with the Provisional Government of France, a determination should be made as to the extent to which we deem it appropriate that the French should use their gold and dollar exchange resources in meeting their non-munitions requirements. Since this suggestion is at variance with what I understood to be the position of the three agencies, I would like to bring the matter to your attention again.

The Provisional Government of France has now been recognized by this Government, and for the past several months the French nation has participated with us and our Allies in the prosecution of the war in Europe. In view of our political policy with respect to the Provisional Government

of

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

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of France, the Department is anxious that our lend-lease relations be placed on the same general basis as is the case with respect to Great Britain and Russia, and therefore it seems desirable to offer a master lend-lease agreement to the French representatives for signature at this time.

Of course, I am in agreement with you that after such a document has been signed, it will be necessary for representatives of the Treasury Department, the Foreign Economic Administration and this Department to agree upon the amount of French dollar and gold assets, including the holdings of the Bank of France, which we would consider to be a satisfactory position for France so long as non-munitions are being furnished under lend-lease and to determine the extent to which we deem it appropriate that the French gold and dollar exchange resources should be used in meeting the non-munitions requirements. As you know, the provisions of the master agreement will not prejudice our discussions of these matters, but will merely provide a general framework for our lend-lease relations with France.

Since the Department believes that it would be unwise to delay longer the signing of a master lend-lease agreement in view of the present political situation, may I ask that you advise me whether you have any further objection to the submission of the text of such an agreement to the French this week?

Sincerely yours,

(signed) Joseph C. Grew

Acting Secretary

January 26, 1945
2:01 p.m.

HMJr: Hello.

John McCloy: Hello.

HMJr: Yes.

M: I think we can go ahead with that O'Dwyer business.

HMJr: Wonderful.

M: I talked to -- I got the Secretary to agree to it and then I had Judge Patterson.

HMJr: Wonderful.

M: So you can start putting it through. He's got to apply for inactive service.

HMJr: I see.

M: And get out of his uniform.

HMJr: Uh huh.

M: And he'd better start that right along and I'll get that cleared up.

HMJr: Fine.

M: So that I'll meet it -- I'll get it -- meet it coming up -- as it comes up, and so I think you can go right ahead.

HMJr: Well, I'll just talk to Grew.

M: Yes.

HMJr: I haven't talked to him yet.

M: Yes.

HMJr: Or Stettinius.

M: Yes.

HMJr: But I'll tell him it's all right with Stimson and me.

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M: Okay.

HMJr: That's very good service.

M: All right.

HMJr: Come on over and play some more with your camera.

M: All right, I'll be over and break in in the midst of an argument again.

HMJr: All right.

M: All right. I got your letter.

HMJr: Okay.

M: Okay. All right, bye.

January 26, 1945
2:04 p.m.

HMJr: John.

John Pehle: Yes, sir.

HMJr: General O'Dwyer is cleared by McCloy.

P: Wonderful.

HMJr: And now I'm going to try to clear him with Grew.

P: Grew, yeah.

HMJr: Yes. And whoever's brainstorm that was, I think it was a good one.

P: Yeah, I think it was Lux's.

HMJr: What?

P: I thought it was Luxford but I didn't know.

HMJr: Well

P: Maybe it was yours.

HMJr: No.

P: You have so many of them, you don't need credit for this one. (Laughs) It was a very good suggestion. If Grew -- if Grew shows some resistance, I think we ought to go ahead and put him in as acting and settle it later.

HMJr: Yes.

P: How about the White House?

HMJr: I'm not going to bother them.

P: You're not going to bother them?

HMJr: No. I'm not going to bother the White House.

P: Right. That's wonderful.

HMJr: Right.

P: All right, sir.

January 26, 1945
2:27 p.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello. Hello. Hello. Hello.

Joseph
Grew: Hello.

HMJr: Morgenthau speaking.

G: Hello, Mr. Secretary.

HMJr: How are you?

G: Fine, thanks.

HMJr: Two matters: John Pehle has been and still is
the Director of the War Refugee Board. Hello?

G: Yes.

HMJr: I've given him other work in the Treasury and I
recommended yesterday to Mr. Stimson, in the place
of Pehle we appoint General O'Dwyer. Hello?

G: General who?

HMJr: O'Dwyer.

G: Dwyer, yes.

HMJr: No, O'Dwyer.

G: Oh, how do you spell it?

HMJr: O

G: O'Dwyer, yes.

HMJr: O'Dwyer. He's been in Italy.

G: Yes.

HMJr: I think he comes from Brooklyn.

G: Yes.

HMJr: And I've also asked the Army, in view of the importance, would they let him return to civil life and Mr. McCloy has just phoned me and said that Mr. Stimson likes the idea very much and they will release him from the Army.

G: Well, now, what committee is that?

HMJr: War Refugee Board.

G: War Refugee Board, yes.

HMJr: Of which Stettinius is a member with Stimson and myself.

G: Yes.

HMJr: And I recommend it.

G: As far as I know, it will be all right. Can I look into it and give you an answer back?

HMJr: Surely.

G: You want an answer this afternoon, do you?

HMJr: If possible.

G: Yes. I'll get right at it and let you know.

HMJr: If you could. Now the other thing -- just a moment -- I got the letter you wrote me on the French situation around noon today. It only came over at noon. Previous to that Will Clayton and I had a conversation and I told Will Clayton that I felt that we should settle the dollar balance thing first. See? And he has acceded to my position. Hello?

G: Yes. He told me that.

HMJr: Well, I just wanted to make sure. And I told him I thought we'd stop corresponding and just take it for granted that as long as he said that he would accede to the Treasury's position. Hello?

G: Yes.

HMJr: Now, I don't have to write you a formal letter on that, do I?

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G: I don't believe so. In other words, you accept our letter. Is that it?

HMJr: Well, no. No, you see Clayton now takes the Treasury's position -- we should settle the dollar balance thing first.

G: Yes.

HMJr: And then go in and give them a lend-lease agreement.

G: I see. Well, now

HMJr: It's perfectly clear with Clayton, but that does not jibe with your letter.

G: I see. Well, I'll have to look that up and see if we have to -- if there'll be any modifications.

HMJr: Well, if you -- yes -- I mean, as the letter stands now, is not the way Clayton and Oscar Cox and I propose to carry it out.

G: All right.

HMJr: I didn't know

G: I'll go into that and let you know.

HMJr: And now -- and I'm seeing you at four, I believe.

G: Yeah. Now, one question comes up, Mr. Secretary, as the Secretary of State is chairman of this legislative committee

HMJr: Yes.

G: Wouldn't it be appropriate to have the meeting over here? I think it would if it's convenient to you.

HMJr: If you want to stand on protocol, it doesn't make any difference to me.

G: I don't give a damn about protocol.

HMJr: Well

G: Uh

HMJr: Then for what other reason?

G: If it's more convenient to you, this time I'll come over, but I think that future meetings ought to be over here probably, because the Secretary of State is chairman. Will that be agreeable?

HMJr: Oh, yes. I don't -- I don't -- I don't care where the meeting is held.

G: Well, we'll come over to you today anyway.

HMJr: I'd just as ^{like} leave come over.

G: No, it's all right with me.

HMJr: All right.

G: So we'll come over at four o'clock in your office.

HMJr: Yeah, but I -- I recognize that the Secretary of State is chairman. Hello?

G: Yes.

HMJr: But I just thought that

G: Well, I'm not the Secretary, myself. I

HMJr: What's that?

G: I say, I am not the Secretary, myself, so I'm glad to come over to your office.

HMJr: Well, I realize that.

G: I think our future meetings, perhaps, ought to come over here.

HMJr: Uh

G: I'll be there at four o'clock then.

HMJr: All right.

G: All right. Thank you. Good bye.

January 26, 1945
3:05 p.m.

NEGOTIATIONS WITH CHINA

Present: Mr. White
Mr. Friedman
Mr. Kung
Mr. Chi
Mrs. Klotz

H.M.JR: I am sorry, Doctor Kung, that I am late.

MR. KUNG: I want to especially thank you for the trip you made down to see me.

H.M.JR: That was all right.

MR. KUNG: And I am coming here to thank you first for that.

H.M.JR: Well, I will come to Chungking if you invite me.

MR. KUNG: I will invite you any time.

H.M.JR: Take it easy; you are supposed to be in the hospital.

MR. KUNG: I just came out for the first time.

H.M.JR: How did you get along on a vegetable diet?

MR. KUNG: All right.

MR. WHITE: He hasn't tried. (Laughter)

MR. KUNG: I have not reduced any; my weight is just the same.

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H.M.JR: Mrs. Morgenthau said she wanted to send you up some food, but I said I didn't think we could compete with Mrs. Soong.

MR. KUNG: I am trying to get my figure back. The Doctor says I weigh too much.

H.M.JR: You lost ten pounds?

MR. KUNG: I lost half a pound. He wanted me to lose ten pounds.

H.M.JR: I imagine your family sent you good food.

MR. KUNG: They gave me some chicken soup.

H.M.JR: The war is going much better, isn't it?

MR. KUNG: Yes. Isn't that good?

H.M.JR: Wonderful! What do you make out of the Russians?

MR. KUNG: The Russians are very clever. They make progress when they start, and they will go ahead.

H.M.JR: It is amazing what they have done, isn't it?

Well, we have from the 1st of February to the 1st of October back of us, haven't we?

MR. KUNG: Yes.

H.M.JR: All we have to worry about is October, November, and December. Is that right?

MR. KUNG: Yes. I am not worried.

H.M.JR: Have you spent all of that one hundred and fifty million dollars and four cents?

MR. WHITE: I think they got the four cents.

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MR. KUNG: No, we deposited it. When the war is over, I hope I won't have to worry, myself, but my Government will.

H.M.JR: They have this road open now.

MR. KUNG: Yes.

H.M.JR: That ought to help, oughtn't it?

MR. KUNG: Yes.

H.M.JR: How many tons can go over that?

MR. KUNG: That depends on how many trucks you put on. The more trucks they put on--

H.M.JR: Five thousand tons on a month?

MR. KUNG: More than that.

H.M.JR: More than that?

MR. KUNG: Yes.

H.M.JR: Ten thousand?

MR. KUNG: Maybe thirty thousand! You see, the smallest truck would take two tons. With a big truck you can take four tons, and then if you have, say, fifteen thousand cars, they would be able to make two trips during the month.

MR. WHITE: During the best part of the other road, I think you got thirteen thousand tons a month at its peak.

MR. FRIEDMAN: They do have the advantage now of having a pipeline being built by the American Army for its military operations, so they will be able to carry petroleum in pipes.

MR. KUNG: Originally they had to carry that gasoline by trucks. Now they have to pipe it.

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H.M.JR: That will help.

MR. KUNG: The pipes reach--

H.M.JR: The fact that they know the road is open-- has that had any effect on prices?

MR. KUNG: Yes.

H.M.JR: Stuff will come out of hoarding?

MR. KUNG: Yes, stock will come out of hoarding, because as soon as you know the goods can be moved in, then the merchant would know--they think the price would drop--and they take that and dispose of their goods first. Then outside goods come in gradually, and you have more supply. Naturally the price will go down.

H.M.JR: Your friend K. P. Chen was in here for about five minutes.

MR. KUNG: Was he? He came to see me.

H.M.JR: He was here about five minutes.

MR. KUNG: He is coming back again.

H.M.JR: You know what he always said, he is scared of being called a politician. He said, "I am a banker." He said, "All politicians die young. Remember, I am not a politician; I am a banker." (Laughter)

MR. KUNG: Bankers live to an old age? Not always.

H.M.JR: He said he was coming back. He looks very well.

MR. KUNG: Yes, he is only one year younger than myself. He looks very well.

H.M.JR: Just a couple of young fellows?

MR. KUNG: We are not old yet.

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H.M.JR: No. Well, sir?

MR. KUNG: Well, sir.

H.M.JR: What is the business for today?

MR. KUNG: You know what the business is for today. Or are you just saying that?

H.M.JR: I am not sure that I do. Do you know, Harry?

MR. WHITE: I thought that Doctor Kung was coming here to give us some data which would constitute the basis of consideration of what adjustment would be made for the last three months of last year.

H.M.JR: Is that it?

MR. KUNG: Yes, that is the question. According to the agreement that we reached for those three months, another settlement should be made.

MR. WHITE: Have you got some data on the settlement as to the expenditures, because we didn't get any?

MR. KUNG: I tell you, the loans to your Army for October, November, December, and January are for each month two billion dollars.

MR. WHITE: Two billion dollars each month, or a total of eight billion dollars.

MR. KUNG: Including January.

MR. WHITE: Including the four months.

MR. KUNG: If they leave January out, they owe six billion dollars advanced to the U. S. Army, and then there is another account, the request of the Army advance that was made to the National Engineering Commission. That is a commission set up to build or to repair any airfield or buildings and roads--anything you want. That is, up to the end of the year, two billion, eight hundred million.

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MR. WHITE: For those three months?

MR. KUNG: Yes.

MR. CHI: Your excellency, for January the direct advance is three billion.

MR. KUNG: For January three billion?

MR. CHI: Yes.

MR. WHITE: Do you have all of that down in a memo?

MR. CHI: No, we didn't write it.

MR. KUNG: I asked for the figure they wanted from the Minister of Finance from the Central Bank. Most of the money is, of course, advanced by the Central Bank, and as to how much is advanced by the Minister of Finance, I don't think it is very much; I don't have that, but I wired for it.

MR. WHITE: Wouldn't the next step be to submit a memo with the data on it and check it with the Army? Other than that we can't begin discussion.

MR. KUNG: I think your Army knows that.

MR. FRIEDMAN: The Army actually has not received yet from Chungking the figures for December. They know that for October and November the figures more or less jibe with the ones that Doctor Kung has given for the months, but they don't have them for the third month, or last month of the year.

MR. KUNG: For the last three months there has been each month a request for two billion dollars in Chinese currency. That is for the Army's use, besides some advance that was made to the Engineers Commission at the request of the Army at our request, and for January, as he just said, it is three billion.

MR. WHITE: How soon did you get an indication that the Army would be able to supply figures for the third period?

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MR. FRIEDMAN: The Army said that they felt they ought to give headquarters until the 31st.

MR. WHITE: Until the 31st of this month?

MR. FRIEDMAN: That would give them a whole month to get the necessary data to end up the previous month.

MR. WHITE: They are a month behind.

MR. FRIEDMAN: Before they go back and ask General Wedemeyer and say things are slow, they have agreed to go back to them at the beginning of next week for the figures.

MR. WHITE: Isn't the thing to do, Mr. Secretary, to wait until the Army would supply us with the data? They can't get the end of December figures until at least the end of January. We've got the October, November, figures, and since you want to make an adjustment for the three months, we can wait another week or two and the information will be here.

H.M.JR: As I say, I wasn't fully prepared for this meeting when you suggested that you come down. I looked forward to seeing you.

MR. KUNG: That is very kind of you.

H.M.JR: But we are shy of which month yet?

MR. WHITE: December.

H.M.JR: December. I see.

MR. WHITE: There is also a month's lag.

H.M.JR: So I just don't know.

MR. KUNG: We can wait until the December figures come in.

H.M.JR: When will they be in?

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MR. WHITE: The Army said they expect them by the end of the month, but they don't like to go back to Wedemeyer and needle him until they've given him that month. Therefore, it may be the end of the month, either that, or they can supply us--

H.M.JR: All right.

MR. KUNG: That's all right.

MR. WHITE: They can supply us with data on a memo and you can consider that, and the first two months are apparently the same, and if the figures are delayed, we can go on the basis of your data.

H.M.JR: If they are in a hurry, I think it is nicer to do it on the three-month basis, don't you?

MR. KUNG: Yes, it is all right, but I can tell you that the third month of December is the same as October and November, two billion.

H.M.JR: Which General is handling this?

MR. WHITE: I suppose it is General Richards who is giving us the data, isn't it?

MR. FRIEDMAN: That's right.

MR. WHITE: We are getting it from General Wedemeyer.

MR. CHI: The data for these three months is much simpler than before.

MR. WHITE: Doctor, either you give us a memo and we can operate on that basis, and then revise it in the light of the Army so there won't be any delay, or we can wait for the Army, but as it is, we have nothing either from you or from the Army.

MR. KUNG: It is only a few days. I think by the end of this month the Army ought to be able to give you figures for December.

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MR. WHITE: Couldn't you in the meantime send us a memorandum with your figures?

MR. KUNG: I will do that.

H.M.JR: I think if we could have a memorandum from you, it would help.

MR. KUNG: I will do that. How about shipping gold?

H.M.JR: Harry, you are an expert on gold.

MR. WHITE: What was the last shipment that went a week ago?

MR. FRIEDMAN: I don't know exactly when.

MR. WHITE: Well, as soon as another shipment is possible we will make it, but the proposal to ship it through commercial channels is one that we don't think is a very wise one.

MR. KUNG: We prefer if you can, you can ship it, but the Army is so much better, but the only thing is that you say my government hasn't reversed their policy, and it was reported today that the government now is trying to abolish some taxes.

MR. WHITE: Abolish taxes.

MR. KUNG: Yes.

H.M.JR: Where is this going to be? In China?

MR. KUNG: In China.

MR. WHITE: They waited until you got out of town.

MR. KUNG: Formerly my policy was to get them as much as possible from the taxes, see? That was in order to help the inflation.

H.M.JR: I know a lot of bankers in New York will move

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to China. (Laughter) That is, if you abolish taxes.

MR. WHITE: I hope they won't be the same bankers that moved from China.

MR. KUNG: They have abolished some taxes.

MR. WHITE: Are they really going to reduce taxes?

MR. KUNG: Yes.

MR. WHITE: That sounds very strange. I think that would cause more reluctance on sending any gold, because you are going on a policy of inflation. It is going to dissipate gold even more.

Are you sure of that, Doctor?

MR. KUNG: Yes.

MR. FRIEDMAN: We had heard they were going to abolish consumption taxes for one thing.

MR. KUNG: Several taxes have been abolished. Of course, that means the government will lose more revenue as the expenditure grows. Therefore, we have to issue more notes, and in order to try to keep down the inflation, the best thing is just serve the gold to gather money back from the market. Otherwise, you have too much surplus of money and the commodity prices will go up.

MR. WHITE: Well, I think, Dr. Kung, that the question of continuing to ship gold the way we have, which seems to us at the moment to be in line with what you want, would be satisfactory.

Now, raising the question of shipping gold by more rapid means, we will have to take that up with the Army. Maybe with the new road that has been opened up they can send a little more that way, but sending it on commercial vessels we feel is a most unwise policy.

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MR. KUNG: You see, this thing was when Madame Chiang was here and she spoke to the President about this two hundred million dollars of gold, and also the President agreed to it, or almost agreed to ship it, in order to sell it, take advantage of the high prices of gold, to sell it on the market and get as much of this currency back in order to suppress inflation. Well, that has helped some, recently, because we are short of gold. Therefore, we instructed them to sell certificates, that is, sell paper, promise to pay three months afterwards, and the time has arrived. There was no gold to be delivered, and that created black markets, so we had to do something recently. You know that there has been an arrangement to buy some gold from the British government from India to ship into China, and then we pay the British.

MR. WHITE: At a very fantastic price.

MR. KUNG: That is worth the price.

MR. WHITE: I mean the extra, the five percent.

MR. KUNG: Well, that is representative.

H.M.JR: How much do you pay?

MR. WHITE: Five percent.

H.M.JR: Interest?

MR. WHITE: It isn't interest. It is supposed to be various charges.

MR. KUNG: Shipping charges, service charges.

MR. WHITE: But inasmuch as the gold was there already, the question is whether there should be any charges.

H.M.JR: What is a good price for an ounce of gold now?

MR. WHITE: In Chungking?

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MR. KUNG: In Chungking we sold gold at, I think it was eighteen thousand five hundred dollars an ounce, but the shortage that kept up recently caused no gold to be delivered. Therefore, well, people are speculating. Those people who had enough gold sell on the market and try to get more.

H.M.JR: Well, we had a message that the Central Bank has been selling gold.

MR. KUNG: Yes. We have been selling gold.

H.M.JR: What is the highest price they get now-- how high?

MR. KUNG: Eighteen thousand five hundred. That is the official price, and that was the price of it at the time on the theory when there was no gold to be delivered. Therefore, until recently, a black market appeared, and when we got gold shipped by you the black market has dropped, but you don't have gold to meet the demand. That is so that we can not deliver. I am afraid another black market will appear.

H.M.JR: Well, we keep watching it all the time.

MR. WHITE: I think we ought to examine what the possibilities are of the new road opening up. That might provide additional facilities. That's the bottleneck.

MR. KUNG: You see, we suggest an increase in the demand both by the Chinese government to prepare and for the war against the Japanese, and also your army's demand. Your personnel is increasing in China all the time, and a year ago you only had ten thousand, but now you have nearly forty thousand.

MR. WHITE: Troops?

MR. KUNG: Yes--personnel--people connected with the work, see, of building air fields, and the ground forces, and so forth; and, of course, now including also the

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reason why Mr. Nelson and the WPB--

MR. WHITE: He is spending some money there?

MR. KUNG: I had to advance ten billion dollars to him.

H.M.JR: Well, you had to advance ten billion to whom?

MR. KUNG: To the WPB.

H.M.JR: To Nelson?

MR. KUNG: Yes. Well, he said he was going to try to get all these factories to work. Then you have to give them money in order to get materials and so on, money to pay their laborers.

MR. WHITE: Was that a government advance, or did he get that from private banks?

MR. KUNG: From the Central Bank.

MR. WHITE: ~~Couldn't~~ he borrow from private banks?

MR. KUNG: No.

H.M.JR: I understood from Nelson he got the Generalissimo to order that the interest rates be reduced.

MR. KUNG: Yes.

MR. WHITE: Were they?

MR. KUNG: Oh, yes.

MR. WHITE: If they don't borrow from them, I thought that the new program which he initiated was going to be financed by borrowing from banks.

MR. KUNG: From the Central bank?

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MR. WHITE: From private banks.

MR. KUNG: From the four banks, the four government banks. Take the Bank of China--they made a loan, but if they need to, they are allowed to take their paper to discount with the Central Bank.

MR. WHITE: I see. Well, have the private banks taken any of the financing?

MR. KUNG: No.

MR. WHITE: No? Well, I thought that Mr. Nelson thought that he had convinced the banks. It is the government that is financing.

H.M.JR: It was the private banks I thought he had convinced.

MR. WHITE: That is what I thought, because the other is--

MR. KUNG: They really--the Central Bank is a government bank. The other banks are not entirely government banks. The Bank of China, the Bank of Communications, Farmers Bank--

MR. WHITE: Are not government banks?

MR. KUNG: The government has shares, but--

MR. WHITE: We have always regarded them as government banks.

H.M.JR: Well, sir, we shall meet again soon.

MR. KUNG: All right.

H.M.JR: At your pleasure. We will get some kind of memo from you? Mr. White will call up the Army and tell them to hurry up with the December figures.

MR. WHITE: And we will also explore the other possibility.

MR. KUNG: There is another thing, Mr. Secretary,

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I would like to request from your good office, and that is I would like to know, that is, my government would like to know what is the frozen fund, the Chinese--

MR. WHITE: The total?

MR. KUNG: Yes, and, of course, I know that total, and put on there frozen, the whole total including the government fund, bank fund, everything else included, but now I would like to know how much of that really belongs to the private Chinese.

MR. WHITE: How much is government and how much--

MR. KUNG: ...is private.

MR. WHITE: Do you know the total? You don't know the total?

MR. KUNG: I think I knew the total.

MR. WHITE: Just deduct the government, and the rest is private.

MR. CHI: We knew the total as of June, 1941, but not since then.

H.M.JR: We will give it to you.

MR. WHITE: You would like the total government and total private at this time.

MR. KUNG: Yes, at this time.

H.M.JR: That is easy. Anything else?

MR. KUNG: Another thing I would like to speak to you about is you say when they should have savings certificates. The purpose of that was to help the Chinese industries to put their money into this instead of buying commodities, so as soon as the road opens, the war is over,

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they can use that for purchasing machinery, materials, from this country in order to bring to their industry and business and the bond--that over short term, and the buyer could either choose it for one year or two years or three years. The interest varies, and two years is a little more than one year, and three years a little more than two years, and the bond issued by the government is a little longer in term.

The money, of course, is already set aside for that, the demand, but since then we have figured out, as I think I told you, if we did this in gold as originally planned and drew them for ten years, the government will have to pay something, I think, like thirteen million dollars as interest. I think that China is in a difficult position, especially after this war, and at Bretton Woods, now, we wanted some currency, see, so my government is thinking of shortening that time.

MR. WHITE: Refinancing.

MR. KUNG: Leave the money here for nothing and then we have to pay into it all the time. I think if we can-- in view of this road to be opened, the war may be shortened-- we would like to have the people with their money to use it with the papers and it will help them and also reduce the government obligation.

MR. WHITE: Well, the idea is to refinance some of the notes, instead of making them long term, make them short term, because he says the dollars have to be here anyhow. They are kept sort of frozen behind them, and they are paying interest on that. If they can't use the money, they would rather release those dollars after the war is over, so they can be spent here and thereby save the interest.

I think there is much in that. I think you might want to consider in that program some suggestion that if the money is going to be released that way, you might want to consider whether you can get sufficient assurance as a mechanism that it will be spent for that

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purpose and not be spent for investments in American securities.

MR. KUNG: That money will be. When they want that they will have to say what they want to buy in this country, see?

MR. WHITE: I think probably--are you asking the Secretary's advice on this?

MR. KUNG: Yes.

H.M.JR: I would like to think it over a little.

MR. WHITE: We shall submit the proposal in a memo.

MR. KUNG: Of course, the Chinese government originally-- the government could have made it five years or four years. I think that was probably overlooking on our part to make it a long instead of a short term, forgetting we had interest to pay, because we issued that one hundred million. Now that is--

MR. WHITE: That isn't in U.S. dollars, too.

MR. KUNG: That is credit. The capital for the redemption of that bond is here, but when this goes on our government will have to pay three million dollars.

MR. WHITE: Haven't you got the right within the bond to pay them off whenever you want to?

MR. KUNG: Yes.

MR. WHITE: You have that, and you are questioning whether you should exercise it? The war isn't over yet. You can always make that decision.

MR. KUNG: Yes.

MR. WHITE: I will submit it.

MR. KUNG: The government has a right to shorten it,

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you see. I'm trying to save a little money.

H.M.JR: Good.

MR. KUNG: For the future.

H.M.JR: We all try to do that. We are not very successful.

MR. KUNG: Well, all right.

H.M.JR: All right, sir, take care of yourself now. You know what I told you.

MR. KUNG: Thank you.

(Mr. Kung and Mr. Chi leave the conference.)

MR. WHITE: That's going to be tough.

H.M.JR: You can do it very well. I'll throw it to you the next time. You can say Friedman--

MRS. KLOTZ: ~~His~~ turn will be next.

MR. WHITE: We were very grateful for the most part that they never raised the question of commercial shipments. Then somebody tipped them off.

H.M.JR: In this cable I looked at they said they were selling that for twenty thousand dollars.

MR. WHITE: But they have sold it in the past for much lower rates than they could have sold it.

MR. FRIEDMAN: They just raised it, the official price from eighteen thousand, five hundred, to twenty thousand, but they could get forty thousand at any time.

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H.M.JR: He didn't seem to know the price was twenty thousand.

MR. FRIEDMAN: He seemed to be out of touch with the latest in the picture.

MR. WHITE: I don't know. I'm surprised he's satisfied, unless he is worn out or tired. I am surprised he is satisfied with the answer we gave him on gold, because it's no answer at all. Sooner or later he is going to--

H.M.JR: I am surprised he is satisfied with any answer.

MR. FRIEDMAN: Did you get any sense in the feeling he was trying to give his friend to O.K.?

MR. WHITE: On taxes it was indicated as soon as they left, they lowered taxes.

H.M.JR: This one hundred million dollars they want refunded, isn't that the one all the big boys bought?

MR. WHITE: How much is the total? One Hundred million?

MR. FRIEDMAN: One hundred million savings was bought at twenty-one. They sold at sixteen to one to make it a little more attractive, because it was a ten year bond.

MR. WHITE: And now--well, they are getting a good interest on it. I think he has got a case there.

H.M.JR: If they don't pay the interest, maybe he loses the income. Maybe he doesn't have these particular bonds.

MR. WHITE: If they don't pay the interest, the holders of the bonds will lose, but they can increase--

H.M.JR: Maybe this isn't a block in bonds that he has. I thought what he was leading up to was he knows

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we are checking on who owned these bonds, and that the first question was just who has the frozen funds, and the next will be--

MR. WHITE: The next will be who has them. The first is he wants the total. As a matter of fact, they have asked us if we will give them a list of who owns what.

H.M.JR: Personally, I wasn't surprised that he wasn't up to date, but I was surprised that you fellows weren't more up to date on what we owed them. Have you had any talks with the Army on those three months?

MR. FRIEDMAN: We have had a number of conversations.

H.M.JR: In United States dollars.

MR. WHITE: The Army leaves that wholly up to us. They only give us the one figure.

H.M.JR: The one figure is meaningless.

MR. WHITE: It is up to you to convert it into meaning.

H.M.JR: I didn't even get a thank you from Stimson on the last one. The next time I see McCloy I am going to tell him. I didn't even get a thank you.

MR. WHITE: All you will get is the expenditures, and you will have to decide what you are going to pay in dollars. The Army isn't going to offer any suggestions now on that. You have taken over the negotiations, and presumably it will have to be your decision, with or without their approval, but it will have to be your decision.

Now, that it is really coming to a crux, the next time we will talk it over, and we will prepare a memo suggesting what--

H.M.JR: Coming to a crux did you say?

MR. WHITE: Did I use the word crux?

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MR. FRIEDMAN: You said it was right--

H.M.JR: Now, wait a minute.

MRS. KLOTZ: He is well trained.

H.M.JR: Did he say it was coming to a crux?

MR. FRIEDMAN I don't remember. (Laughter)

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Read by Hob 1/29/95.
January 26, 1945
4:25 p.m.

HMJr: Hello.

John Pehle: Yes, sir.

HMJr: John, Mr. Grew says that the State Department will go along on General O'Dwyer.

P: Fine.

HMJr: So you've got to do two things. You should resign from the Board and recommend -- you know, fix something up for the Board to accept your resignation. See?

P: Yeah.

HMJr: And at the same time, fix up a piece of paper recommending your successor that the Board can sign.

P: Yeah.

HMJr: And see that it's circulated.

P: All right, I'll take care of the whole thing.

HMJr: Will you carry the ball?

P: Yes, sir, I will.

HMJr: And I needn't worry?

P: Thank you.

HMJr: I think that's a happy solution.

P: Very happy.

HMJr: And then I don't think that -- I don't -- do you think that I should give him your office over here?

P: I would, if possible, like to hold on to that.

HMJr: You want to hold on to it?

P: If I can, yes.

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HMJr: Well, that's all right.

P: But I'll tell you what I'll do, Mr. Secretary -- I'll prepare a proposed memorandum from you to Mr. Bell indicating what we need, and you can sign it tomorrow.

HMJr: I think we could move them off this floor.

P: Oh, yes, they don't need to be there. I'm the only one that's up there anyhow.

HMJr: Well, I didn't know that. I think we could move them somewhere. But you take care of that.

P: Right.

HMJr: Anything else?

P: That's all.

HMJr: I thank you.

P: I thank you.

Draft II
1-26-4892

The CIO needs no reminder that the welfare of American labor is tied to the welfare of America as a whole. It demonstrated its knowledge of this fact last Fall by taking part actively -- and, I may say, fairly effectively -- in the political life of the Nation. It did so because it understood, as Sidney Hillman put it, that "The activity of such groups in shaping the course of their government is essential to the functioning of our democracy."

The discussion of the Bretton Woods proposals which has taken place on this program indicates that organized labor understands also that it must play a responsible part in the shaping of international affairs. It has a vital stake in the peace no less than in the war.

It is too often assumed that international affairs are beyond the grasp of the ordinary citizen -- that they must be left to the diplomats in the political field and to the bankers in the economic field. If they are left entirely in such hands, the chances are that they will be shaped no better than in the past. Your hands must share in the shaping.

- 2 -

There is nothing remote about the Bretton Woods proposals. They involve your bread and butter. They are an essential part of the President's program for the attainment of 60 million jobs here in the United States. We cannot reach such a level of employment at home unless there is a lifting of living standards abroad and a revival of international trade.

The International Monetary Fund is simply a device to make it possible for workers in all parts of the world to exchange the goods they produce on a stable basis and in an orderly way. It would free the flow of commerce from artificial currency barriers. It would substitute economic cooperation for economic warfare among the nations of the earth.

The International Bank, on the other hand, is intended to give economic help to the people of war-torn lands. Only with such help will they be able to buy what we produce. The only good customers are prosperous customers.

And what is even more important is this: The only kind of world in which enduring peace can be assured is a prosperous world -- a world in which people everywhere have an opportunity to fulfill their reasonable hopes through honest

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work and free interchange of the things they grow and make. The agreement reached by the United Nations at Bretton Woods is one of the cornerstones of such a world. ~~It is a charter to free the world from economic as well as political aggression.~~

Mrs. Klotz 285**Office Memorandum • UNITED STATES GOVERNMENT**

TO : Mrs. Klotz and Mr. Shaeffer

DATE: 1/26/45

FROM : Lt. (j. g.) Levy, USNR

SUBJECT:

*Wish**C 90 Broadcast
of 1/27/45.*

Attached is the "PROCEDURE TO BE FOLLOWED IN THE EVENT OF BROADCAST BY SECRETARY MORGENTHAU." Items four and five are actually handled by my phoning the radio station concerned and having their station manager check with Mr. FitzGerald.

PROCEDURE TO BE FOLLOWED IN THE EVENT OF BROADCAST
BY SECRETARY MORGENTHAU

1. As soon as the time for the broadcast is established, notify Messrs. Gamble, Coyne, and other persons who may request that information.

2. Ascertain the point of origin (studio, projection room, Secretary's office, or remote point.)

3. Notify network of point of origin (so that lines may be installed.)

4. Arrange with the Telephone Company for approximate time when lines will be installed.

a. In case of origination in the Secretary's office, notify Mr. Fitzgerald as to the time when lines will be installed.

b. In case of origination in the projection room notify Mr. Fitzgerald and Mr. Turner as to the time when the lines will be installed.

5. In the event that the broadcast originates in the Treasury Building, give Mr. Fitzgerald a list of names and the time of arrival of the announcer, production man, engineer, etc.

6. Order three sets of reference recordings:

- a. One for projection room)
- b. one for Radio Section, War Finance Division) 33 1/3 revolutions
- c. one set of records (78 revolutions) to be sent to Miss Chauncy as soon as possible.

7. Advise Mr. Masters so that he may send field memoranda or telegrams over Mr. Coyne's signature to all state administrators and publicity men notifying them of the time, date and network of the broadcast, and also send them a publicity release with the request that it be relayed to all newspapers.

8. Notify all Washington and New York newspapers as well as news agencies.

9. Notify all radio commentators and news announcers.

10. If broadcast is on Blue Network notify station WKIP in Poughkeepsie, New York.

11. Notify Mr. Kuhn of OWI overseas Branch as far in advance as possible. Send him a copy of the speech if available. Request him to supply us with a report on what use is made for overseas broadcasting.

12. Request network to make at least three advance announcements regarding the speech on the day of the speech.

13. Send a special notice regarding the broadcast to all Treasury people named on our "special notice list."

14. Make sure that a copy is sent to the Washington outlet of the network for clearance as far in advance as possible.

House -

January 26, 1945

MEMORANDUM FOR THE SECRETARY

From: Mr. Blough

Subject: Characteristics of a qualified pension plan
with special reference to R. H. Macy & Co.(For your information, as previously requested;
no action required)

Pension payments to retired employees are deductible expenses under the income tax and present no important tax problem. However, many corporations wish to take the deduction, not when the pension is paid, but in advance, at the time money is set aside to finance the pension -- perhaps long before the employee retires. When the money is put into a trust fund for this purpose we have a "pension trust." If there were no restrictions the allowance of the deduction when the funds are set aside would invite the creation of all sorts of "phony" plans at the expense of the Government.

Accordingly, restrictions have been imposed, particularly by the Revenue Act of 1942. To be entitled to the deduction, and to tax-free accumulation of interest in the trust fund, a pension or annuity plan must have the following principal characteristics:

1. The plan must be for the exclusive benefit of employees (or their designated beneficiaries). The employer must not benefit except indirectly through increased employee morale, loyalty, ability, and efficiency.
2. Contributions by the employer to the plan must be final and not recoverable by the employer.
3. The plan must either: (1) benefit 70 percent or more of all regular employees (56 percent in case of plan where the employees make a contribution), or else (2) satisfy the Commissioner that it does not discriminate in favor of officers, stockholders, supervisory employees, or highly paid employees.

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4. The scale of benefits and the scale of contributions under the plan must not discriminate in favor of officers, stockholders, supervisory employees, or highly paid employees.

5. It will be recalled that the old age retirement provisions of the Social Security Act cover the first \$3,000 of wages. Pension plans are usually supplementary to social security benefits. The Treasury regulations require that benefits from a pension plan on earnings above \$3,000 must be proportionately no greater in value than those provided under the Social Security Act for employees with earnings under \$3,000, or by both social security and the plan combined. (The Treasury's interpretation of the law on this point has resulted in a great deal of criticism by certain members of the Senate Finance Committee, notably Senator Taft. There may be more criticism yet to come.)

Despite the restrictions, the pension trust provisions of the statute undoubtedly are being used by many corporations largely as a method of reducing wartime taxes.

Based on newspaper reports, the plan of R. H. Macy and Company, Inc., involves both (1) a pension plan and (2) a profit sharing plan. Without seeing the plan, it is not possible to say exactly what if any objection the Bureau may have to it in its present form. With respect to the pension plan, it would appear that the objections, if any, would likely be of minor character. The profit sharing plan presents some problems which have not yet been fully resolved because of the infrequency of plans of this type.

If desired, a more careful study of the Macy plan will be made and a further report prepared for you.

Roy Blough

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Houd,

MEMORANDUM FOR THE SECRETARY.

January 26, 1945.

Mail Report

Reflecting current news stories the Treasury definitely had a "bad press", so far as the mail went this past week. It was not quite as heavy in routine matters as it has been, but contained few words of praise and many complaints or criticisms.

In both signed and unsigned communications correspondents said in effect that Blaze could go to blazes, and most of them, as usual, threatened to stop buying bonds or to sell those already purchased since service men are so treated. The same action was indicated by the few writers who referred to the nomination of Henry A. Wallace to the post of Secretary of Commerce. All such letters indicated strong disapproval, and most of them dragged in the bond issue. Another cause of dissatisfaction was the question of excessive expenditures for advertising. Opposition to this grew stronger this week, with several writers questioning the sincerity of the Treasury's stand against inflation. There were several inquiries as to the unfavorable rate of exchange allowed American soldiers paid off in the French area.

On the tax front, demands for refunds were perhaps not quite so many, and there were fewer complaints from families of service men about delays in receiving bonds, although this problem is still a pressing one. Questions and suggestions about new withholding procedures increased in volume as the others decreased.

Only 5 contributions to the war effort were received this week. The smallest was a \$5.00 Money Order from a resident of Canada, and the largest a \$1,000.00 check transmitted by the Navy Department.

General Comments

Mrs. Florence T. Bateman, Route #4, Walla Walla, Washington. I am enclosing a copy of a Power of Attorney signed by my husband shortly before he voluntarily enlisted in the Armed Forces. Apparently it is of no value as far as our Government is concerned, for when it was attached to a Government check issued from the Collector of Internal Revenue's Office at Tacoma, it was returned, stating that it was not acceptable because it did not explicitly state that I could endorse checks issued by the Treasurer of the United States. I certainly cannot understand this. It is true that there is no mention of the Treasury Department, but you will notice in the next to the last paragraph it states - "I also give my said attorney full power to collect all money due me from anyone". * * * At the present time my husband is overseas, someplace in the Pacific -- God, a few unfortunate Japs and the U. S. Army alone know where. It has been hard enough for me to manage everything alone, maintain our home and keep it in good repair, buy War Bonds regularly and do every other thing possible so that he will have something to come back to. It certainly seems to me that the Government could cooperate a little bit and not make it any harder for us than it already is. * * * The enclosed Power of Attorney has never been questioned before and it was drawn up for the express purpose of giving me authority to do what should be done so that while my husband is doing his job as well as he can, I might look after all his affairs without any worry on his part. * * * The check was a refund on our 1942 income tax and was not received by us until after January 7, 1945. I attempted to deposit this check to the account of Byron E. and Florence T. Bateman, the same names as appear on the check. The fact that it was deposited to his account, and by the way, it is a special account I use for all the money sent me by my husband, would appear to me to be almost

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a sufficient endorsement. That, however, was not enough, so we attached one of the original signed copies of the Power of Attorney and our local bank sent it in to the Federal Reserve Bank of San Francisco, California, only to be returned as stated above. Needless to say, I will attempt to secure another Power of Attorney, one acceptable to you and which mentions the Treasury Department explicitly. I have no idea when it will be forthcoming, or if my husband will have time or proper authorities at hand to execute it according to your standards. * * * I only hope and pray you are equally diligent in looking after the money we are all saving and putting into War Bonds to see it does not go astray. * * *

Leila O. Stone, Modesto, California. In the current issue of TIME magazine I read, "Last week the Treasury Department was glumly trying to sell 76,712 discarded caps", etc., etc. I am doing my second season this year as a lookout on a station atop a peak of the Mt. Shasta National Forest, as fire guard for the U. S. Forest Service. * * * I wore out ski caps and what-not on my post last year. I looked everywhere for a suitable cap for this work. The wind blows a gale much of the time, and we women have to wear something which keeps our hair "corralled", as well as something which will shade our eyes from the glare. I have always looked with envy on nurses, WACs and others who were privileged to buy and wear those snug-fitting caps of olive drab. Could not these discarded caps be taken over by the Forest Service and disposed of among us women who are doing such jobs? We could purchase them directly from our Rangers. I would be very happy to send you, by return mail, the \$2.20 cost of one cap, size seven and one-fourth for my own use, this summer. If the cap were dressed with the pine tree, insignia of the Forest Service, it would be considerably enhanced, in the eyes of the hundreds of women who could certainly make use of them, if the caps were brought to their attention by the Forest Service officials for whom they work.

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Mrs. Sylvester Davis, R. 6, Box 68-B, Pine Bluff, Arkansas. Treasury Department, office of the Secretary. please send me special Forms to File Claim against my husban. Sincely.

J. E. W. Linwell, Linwell & Mathison, Realtors, Grand Forks, N.D. Lawrence O. Larson, who lists himself as a "common laborer", is 68 years old and was born in this County, the son of Norwegian immigrants. He is a single man and a deaf mute. He had his 1944 Federal Income Tax Return prepared in our office a few days ago and paid his tax of \$172.00 willingly. In addition, he handed us a \$10.00 bill with a penciled note reading: "I want to make a gift to my Government to help smash the Axis. I am glad to do my best for my Government." I thanked him for this gift and told him that I would send the money in, with a special letter. The \$10.00 bill is enclosed.
* * *

Alvin Wortham, The Devon, New York City. Your valuable suggestion to make an agricultural nation of Germany was thrust aside by the Department of State as if it had no value or substance whatsoever. I believe your suggestion will see accomplishment if the Russian advance continues and the Russians reach Berlin first. * * * The entire ideas of the State Department on foreign policy are religiously absurd. The foreign policy is utterly at variance with our domestic policy as laid down by Abraham Lincoln.
* * *

Herman W. Johnson, M.D., Houston, Texas. (Telegram) Would you as fiscal agent of our Government appoint Wallace as Chairman of the RFC with the billions involved? Does his business experience warrant such appointment? Further purchase of Government securities awaits your reply.

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The following letter from Mrs. Claudia M. Horn, Bethesda, Maryland, was forwarded to the Secretary by Senator Tydings: " * * * The current exchange rate of the French franc is approximately 128 francs to the dollar; but American soldiers in France are paid at the rate of 50 francs per dollar. This means a pay cut of more than 50%. The administration may have good reasons for this unfairness to overseas troops; but the reasons are not apparent to the men themselves nor to their relatives and friends. You would earn the eternal gratitude of plenty of G.I's. if you could do something to remedy this situation."

Miss Ann A. Ammerman, Box 56, Kenvil, New Jersey. We are studying about New Jersey in school. I write to you to see if you could send me some information about the music of New Jersey. Last year for graduation play my sister Jane wrote to you for some pieces of sheet music so I thought you could send me so song of New Jersey. I would like it very much if you would send me so information and music on New Jersey or music written by and composed by someone in any part of New Jersey. It would help me very much in my work at school on the study of New Jersey.

Favorable Comments on Bonds

William W. Maynor, Slc, USNR, c/o Fleet Post Office, New York City. I am stationed in French Morocco and as a citizen of the United States, and having my country's interest at heart, I wish to convey a thought to you which I think might prove beneficial to our great cause. It has come to my attention, while conversing with people who reside in French Morocco and also people of a transient status, that they are particularly interested in converting a portion of their wealth or monies into some form of American bonds or securities. * * * My suggestion, because of the tremendous demand of these peoples to back our cause and show faith in our Government, is that these people should be allowed, under some form of War Bond, to invest their surpluses in our Government securities. It might be necessary to in some manner limit the redemption period, say five years from date of issue, without interest, or some other plan along these lines which I know that you will have cognizance of, and exercise the best of judgment. I am addressing this letter to you directly instead of going through the proper Naval channels, because I believe this to be a matter concerning the individual citizen more than the sailor, which I am.

Martin Travieso, Chief Justice, Supreme Court of Puerto Rico, San Juan, P.R. Your very kind letter of the ninth instant received this morning, has given me great pleasure and made me feel very proud. You certainly deserve, Sir, congratulations for the great successes which are due more than anything else to your able and splendid leadership. Whatever success I may have had as Insular Chairman was due to the cooperation of the fine young man who represents you in this island -- Mr. Raphael H. O'Malley -- whose unflagging enthusiasm and loyalty made our success possible. * * *

Unfavorable Comments on Bonds

Mrs. Alexina Pauzi, Holyoke, Massachusetts. I'm the holder of five War Bonds, which I want to cash in. Last Wednesday the radio station WSPR of Springfield, Massachusetts, broadcasted a program which was an insult to me. My name is Mrs. Pauzi and I'm a widow, and their program was about the widow Mrs. Pauzi who wanted to get married. Now the name Pauzi is a rare name -- there's only two families in Holyoke and three in Springfield, so I cannot help but think that their program was meant to reflect on me. Now please send me the necessary blanks to cash in the following bonds -- \$2,100 in all. After the program was over I telephoned the radio station and told them how crazy and insulting their program was. The girl who answered the phone very boldly said there was nothing they could do about it. * * * I'm quite sure they said the program was sponsored by the War Department to promote the sale of bonds.

Mrs. M. G. Thompson, Beechwood Hill Farm, Castile, New York. It is shocking and distressing to us who are continually asked to buy War Bonds to hear of an Army plane being used to transport a dog, instead of our soldiers. Certainly, Mr. Elliott Roosevelt's war effort is no shining example for our men. I have lost two near relatives in this war, with another who has been overseas almost three years, but the Roosevelt dog is given an Army plane from England to California! My War Bonds are for sale and I hope I'll never hear the plea to buy more for the War effort!

G. W. Higinbotham, President, State Bank of Victor, Victor, New York. We are now told by Lowell Thomas, and other news commentators, that a Roosevelt dog outranks, in cargo space, a soldier with dying relatives. What a hell of a travesty? Is this what our boys are dying for? To save the Roosevelt dynasty? Down to

the dogs? Is this what we bankers are selling bonds for? To save time for a dog at the expense of a soldier who wants to get home quickly? * * *

The following letter from Douglas Featherstone, Mays & Featherstone, Law Offices, Greenwood, South Carolina, was forwarded to the Secretary by Congressman Butler B. Hare: "In several instances I have encountered a great deal of unnecessary red tape in transferring or changing the beneficiary of some of our War Bonds which have been issued in recent years. It seems to me that this unnecessary red tape over a period of years will do an increasing amount of harm by way of making people dissatisfied with their investments in these bonds and will prevent them from buying in the future. * * * The most unnecessary and flagrant instance of this red tape is in connection with War Savings Bonds which are issued in the name of the purchaser and payable on death to some other member of the purchaser's family. For example, recently a client of our office asked us to assist her in changing some Series E War Savings Bonds. * * * Mr. Joshua M. Craig, a son of Mrs. Mollie H. Craig, died on August 12, 1944. Mrs. Craig wished to change these bonds to make them payable on her death to some of her other children. I found that it would be necessary for The County Bank to order some special forms which it would be necessary for Mrs. Craig to fill out to request this change. * * * Mrs. Craig had paid for these bonds with her own money and could have cashed the bonds at the Bank without the signature, consent or approval of Mr. Joshua M. Craig, both before and after his death. * * * However, in order to have a change made so as to show another beneficiary in the event of death of the purchaser, it was necessary to fill out a rather technical form (PDL787) requesting a re-issue of the bonds. It was also necessary to furnish evidence of the death of Joshua M. Craig. It was not specified as to what evidence would be acceptable. Therefore, we sent in

with these forms affidavits from the undertaker who had buried Mr. Joshua M. Craig. All of these papers with the bonds were sent to the Federal Reserve Bank of Richmond. Thereupon we were advised by the Federal Reserve Bank that before proceeding with the re-issue, it would be necessary for them to receive a certified copy under seal of the official certificate of death of Joshua M. Craig from the South Carolina Bureau of Vital Statistics. We thereupon secured such certificate from the Bureau of Vital Statistics of the State of South Carolina and forwarded it to the Federal Reserve Bank, pointing out that the certificate set out the name of the deceased's mother, who is and was the owner of the bonds in question. * * * On December 29, 1944, we again wrote the Federal Reserve Bank enclosing affidavit of the Cashier of The County Bank that Joshua M. Craig and Josh M. Craig were one and the same person. We have heard nothing further. * * * If Mrs. Mollie H. Craig could have cashed these bonds on her own signature, it seems entirely unnecessary to require all of this red tape to change the name of the secondary beneficiary to some one else after the death of the original secondary beneficiary. * * * I have also found that there seems to be a great deal of unnecessary red tape in connection with bonds after the death of the purchaser. * * * For instance, if John Doe buys a bond and has it issued to him and has it 'payable on death to Mrs. John Doe', and then Mrs. John Doe wishes to either cash these bonds or have them re-issued in her own name, it requires so much red tape that it really taxes the capacity of a plain country lawyer or banker. * * * Recently, I had a matter where the secondary beneficiary, who was also the Executor of the deceased bondholder's estate, was an invalid. I found that she could not have her signature verified either before the Clerk of Court, a magistrate or a Notary Public, but could only have the signature verified before an authorized bank official. Although either a magistrate, Clerk of Court and a Notary Public would have been available, the matter had to be delayed until the good lady could get up and come to a bank where there was an authorized official to verify her signature. I know you have your hands full of other business, but it seems to me that this is a matter where the elimination of some red tape might

be very helpful in connection with future Bond Drives, and by way of keeping the purchasers of such bonds satisfied with their investments. * * * "

Carol L. Cook, Brooklyn, New York. * * * I have lately learned that a request was made to you to have the Treasury's policy allowing wartime advertisements to flourish at the Government's expense, be halted. The public is asked not to buy, to save us from inflation. Also it would save the waste of critically needed paper. Yet the Treasury permits these colossal profits to make advertising deductions as an "ordinary cost of doing business". It is both contradictory and wasteful. It seems to me the Treasury officials should show a greater sense of justice and courage to consider the public's interest, instead of smiling at the advertisers while accepting War Bond advertising which ineffectively seeks to offset the damage that has been done by daily extravagance of "buy now" ads. We hope since this is repeatedly being called to your attention you will take some notice and act promptly. You wish us to heed your plea to buy bonds, then reciprocate -- save wasteful spending on advertising and save the taxpayers' money for something more essential. * * *

F. D. Patterson, Chief Medical Adviser, The Pennsylvania Railroad, Philadelphia, Pennsylvania. I am very much concerned as to whether or not the Government intends to repudiate the War Bonds, for I have distinct recollections of how much upset my wife was when they cancelled the Food Stamps, which they said would be good indefinitely. * * *

Harold W. Ranes, Pastor, The North Baptist Church, Indianapolis, Indiana. If you have any influence with the President, that you can honestly use without jeopardizing your own, in God's name use it. I say

this reverently. How can we buy the Nation's bonds if Henry A. Wallace is to spend them? If he killed our pigs, he'll fleece the soil of its natural resources and our pockets of our financial and economic reserves. Is our Nation of no consequence to our National Fathers?

Mary Carroll, Corpus Christi, Texas. I held \$3,150 of Home Owners' Loan Corporation Bonds of the issue due in 1952, held for safekeeping by The State National Bank, Corpus Christi, Texas. Last week the clerk sent in for collection the interest coupons due on the bonds in November, 1944. Yesterday she advised me that this issue was called on May 1, 1944. She also advised me that I had not received notice of the Government's decision to call in the bonds in advance because the Bank had not been advised of this action, and hence had not been in a position to advise its customers. By withdrawing these bonds from circulation in this way, your office has caused me to lose \$47.50. * * * I know that this amount is an infinitesimal sum to you, but to me, a white-collar worker, a teacher, now retired, it is a neat sum. * * * I am protesting to you for the reason that the method employed by the Government in this call of bonds does not seem to be a fair and equitable method of doing business with its customers. I was told by the clerk that the Government had pursued this same policy in other calls of this year. * * *

Mrs. A. H. Bryant, McAllen, Texas. I am writing you in behalf of two of my sons. One, Sgt. Edward L. Bryant, 18201146, is in China with the 14th Air Force and he has not received any pay for more than 9 months, and I would like to know what the trouble is. Surely that is not much of a morale-builder where he never has any money. Then his bonds have stopped coming. The last one was for August, 1944, and he has been getting one every month since December, 1942, before that. He has been overseas since October, 1943. The other boy's bonds have not all come either, as he did not get any during 1942 and only one in 1943. * * *

Unfavorable Comments on Taxation

John J. Barry, Bronx, New York. Attached are copies of letters to the New York Office of the Collector of Internal Revenue, inquiring about my 1943 income tax. Not one of them has been acknowledged. * * * This silence raises the question, what must one do to get action? It is far from pleasurable for me to have to write you on this matter, but you seem to be the court of last resort. Comparisons, they say, are odious, but your Department sets a deadline for the payment of our taxes, and the failure to do so within the time limit, subjects us to penalties. Perhaps that is why we are the soul of promptness, and perhaps penalties against departmental personnel for failure to observe and practice ordinary business ethics would correct a condition for which there does not seem to be an excuse. * * * I have called there twice and gained nothing but experience. In the vernacular, I got the "brush off". This time I shall await with confidence an acknowledgment that will contain a satisfactory explanation, or a promise of action that will be promptly fulfilled.

Fred Merlin, New York City. I have a claim of an insignificant sum of \$18.44 due me from the tax refund. For over 7 months I have been trying to get said refund. I know there must be some sincere and square people in your Department. In the New York Office they must be few and far between. I have been given so many run-arounds and surly brush-offs that it is unbelievable. I will not trouble you with concrete illustrations -- suffice to say I have been deeply hurt. There is real need of censuring of the local office. Not because I am merely a Bowery derelict but there must have been numerous respectable citizens who were subjected to the same fate. * * *



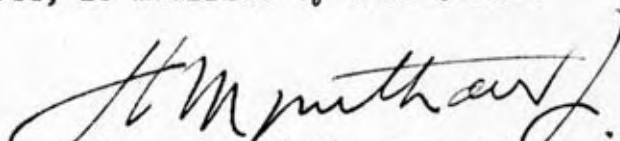
THE SECRETARY OF THE TREASURY
WASHINGTON

JAN 26 1945

TREASURY DEPARTMENT ORDER NO. 58

Effective from and after this date the Division of Monetary Research and Foreign Funds Control will continue under the supervision of Mr. Harry D. White, Assistant Secretary of the Treasury.

Treasury Department Order No. 52, dated April 15, 1944, is superseded, and Order No. 56, dated ~~December 1, 1944~~, is modified by this Order.


Secretary of the Treasury.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Jan.26,1945

TO Secretary Morgenthau
 FROM Mr. White
 Subject: Treasury Men Scheduled to Go Abroad.

The following list contains the latest information we have in respect to probable departures.

<u>Name</u>	<u>Post</u>	<u>Departure Date</u>
Dillon Glendinning	Cairo	January 26
Walter Ostrow	Bern	February 27
William H. Taylor	Special Mission (London, Paris, Brussels, etc.)	Probably within a week
Orvis Schmidt	Bern	Probably within a week
Henry Tasca	Rome	Mid-February

In addition to the above, Colonel Bernstein will probably request that Mr. Allan Fisher and Mr. Andrew Kamarck of Monetary Research and Mr. Hynning of the Legal Division shall be assigned to him for work on German materials in London. It is anticipated that these men will be moving sometime within the next month. Mr. James Saxon is expected to return to Paris as soon as he recovers from his present illness.

In addition, we have been informed by the British Treasury Representatives here that Mr. Wade of the British Treasury is going to Italy in early February to make a study of the financial situation there. The British have requested that Mr. Harold Glasser should go to Italy at the same time in order to similarly review the situation from the American side. No decision has been taken in respect to this request at the present time.

TREASURY DEPARTMENT

314

INTER OFFICE COMMUNICATION

DATE Jan. 26,
1945

Pehle

TO Secretary Morgenthau (through Mr. Gaston)
FROM J. W. Pehle

Attached is a proposed reply to Reverend Johnston.

As the reply indicates, the previous letter which Mr. Gaston prepared on the basis of information received from me was not accurate. I regret that you were placed in the position of having made an inaccurate statement to Mr. Hannegan.

Attachment

Please read JWP

January 27, 1945

Dear Mr. Hannegan:

Reference is made to Secretary Morgenthau's letter to you of January 12, 1945, concerning Dale Johnson, a Procurement Division employee at St. Louis, concerning whom Father Johnston of St. Patrick's Church wrote to you.

There is transmitted herewith for your information a copy of a letter dated January 23, 1945 received from Father Johnston, together with the reply which I have sent to him today.

Needless to say I regret that the previous information furnished to Father Johnston was inaccurate.

Very truly yours,

(Signed) J.W. Pehle

J. W. Pehle
Assistant to the Secretary

Mr. Robert E. Hannegan
Chairman, Democratic National Committee
Mayflower Hotel
Washington, D. C.

JWP:lhk 1-27-45

Regraded Unclassified

January 27, 1945

My dear Father Johnston:

Your letter of January 23, 1945, addressed to Secretary Morgenthau, with respect to Mr. Dale Johnson, an employee of the Procurement Division Office in St. Louis, Missouri, has been referred to me.

In Secretary Morgenthau's letter to Mr. Hannegan, it was stated that Mr. Stephens, the Regional Director, was considering promoting Mr. Johnson and placing him in charge of the St. Louis District Office.

This statement was made by the Secretary on the basis of information obtained from me and, I regret to say, was not accurate. The real situation is as follows. The promotion for which Mr. Dale Johnson is being considered is to District Chief of Operations in St. Louis, with an increase in salary from \$3200 to \$3800 per year. Such a promotion would involve a rather substantial increase in responsibility for Mr. Johnson but he would, of course, be under the supervision of our District Manager in St. Louis.

I might say that I am also advised, I trust accurately, that Mr. Johnson has indicated that he is more than delighted with his pending promotion and that his relations with our District Manager, Mr. Swink, are of the best.

Needless to say I am very sorry that the previous statement furnished you with respect to this matter was not accurate and I appreciate your calling the matter to our attention.

Very truly yours,

(Signed) J.W. Pehle

J. W. Pehle
Assistant to the Secretary

The Reverend James P. Johnston
1207 North Sixth Street
St. Louis, Missouri

JWP:lh 1-27-45

January 26, 1945

My dear Father Johnston:

This is in reply to your letter of January 23, 1945, with respect to Mr. Dale Johnson, an employee of the Procurement Division Office in St. Louis, Missouri.

In my previous letter to Mr. Hannegan I indicated that Mr. Stephens, the Regional Director, was considering promoting Mr. Johnson and placing him in charge of the St. Louis District Office.

As you indicate in your letter, this statement unfortunately was not accurate. The real situation is as follows. The promotion for which Mr. Dale Johnson is being considered is to District Chief of Operations in St. Louis, with an increase in salary from \$3200 to \$3800 per year. Such a promotion would involve a rather substantial increase in responsibility for Mr. Johnson but he would, of course, be under the supervision of our District Manager in St. Louis.

I might say that I am also advised that Mr. Johnson has indicated that he is more than delighted with his pending promotion and that his relations with our District Manager, Mr. Swink, are of the best.

I am sorry that the previous statement furnished you with respect to this matter was not accurate and I appreciate your calling the matter to my attention.

Very truly yours,

The Reverend
Rev. James P. Johnston
1207 North Sixth Street
St. Louis, Missouri

Rewritten for Mr. Peble's signature.

WWP

JWP

Peble:lh 1-26-45

FATHER DEMPSEY'S HOTEL FOR WORKING MEN

1421 HOBAN STREET

FATHER DEMPSEY'S HOTEL FOR WORKING WOMEN

1417 HOBAN STREET

FATHER DEMPSEY'S DAY NURSERY

1208 NORTH SIXTH STREET

FATHER DEMPSEY'S RUMMAGE DEPARTMENT

3828 CASS AVENUE

FATHER DEMPSEY'S CONVALESCENT HOME

1417 HOBAN STREET

REV. JAMES P. JOHNSTON

PASTOR AND SUCCESSOR

REV. CHARLES W. HOFER

REV. THOMAS B. BUTLER, ASST. PASTOR

1207 NORTH SIXTH STREET

ST. LOUIS, MO.

319
SAINT PATRICK'S CHURCH

SIXTH AND BIDDLE STREETS

TIME HOLY MASS

SUNDAYS 7, 8, 9:30 AND 11

January 23 1945

"PERSONAL"

Mr. ~~X~~ R Morgenthau
Secretary of the Treasury
Washington - D.C.

Dear Mr. Morgenthau:

Our mutual friend Bob Hannegan sent me your nice letter regarding Mr. Dale Johnson, Procurement Division Employee here. I only wish it were true that Mr. Stephens did intend promoting him and placing him in charge of the St. Louis office and that my fears were needless. However Mr. Stephens has placed a Mr. Schwenk, or some similar name, and Mr. Johnson finds himself instead of being left in his original position taking orders from the new appointee of your Mr. Stephens. I only mention this for your information, for I realize a man as busy as you are don't always get the true picture when you're a long way off from the scene of action. Certainly, Mr. Morgenthau, its swell of you to even take an interest in my little request, and I'm deeply grateful to you if you could leave Dale Johnson in there to pitch as he understands the game, and the way its played in Bob Hannegan's home town.

Gratefully again,

Father James Johnston

"HELP FATHER JIM CARRY ON FOR FATHER TIM"

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Friday, January 26, 1945.

Press Service
No. 44-89

Secretary Morgenthau today issued the following statement:

I have studied Mr. Wallace's statement before the Senate Committee on Commerce.

I believe he has done the country a genuine service in offering a concrete program for achieving the President's goal of 60,000,000 jobs after the war. Without attempting at this time to weigh the merits of each of his proposals, we can all thank Mr. Wallace for the courage he has displayed in coming forward with specific suggestions. Only through a thorough study and discussion of these proposals and others that will be stimulated by them will this country be prepared to meet with intelligence and purpose the economic problems we shall face after the war. Intelligent planning for problems we know will arise after the war spells the difference between an orderly transition period and a logjam of poorly considered measures conceived in the throes of emergency and crisis.

I think too that Mr. Wallace is correct in stating that the real issue involved is not his lack of experience in the financial field. As Secretary of the Treasury during most of the period Mr. Wallace was in charge of the Commodity Credit Corporation, the Farm Security Administration and the Rural Electrification Administration, I can say that I know that Mr. Wallace's record in making loans in excess of \$6,000,000,000 is beyond reproach. He is in the truest American tradition--a Yankee business man with the horse sense to recognize that we are living in a world of change.

I know that Henry Wallace made a genuine contribution to good government and free enterprise as Secretary of Agriculture. I believe he can make an even greater contribution as Secretary of Commerce.

1-25-45 321

**ADMINISTRATION OF CERTAIN LENDING AGENCIES
OF THE FEDERAL GOVERNMENT**

HEARINGS

BEFORE THE

COMMITTEE ON COMMERCE

UNITED STATES SENATE

SEVENTY-NINTH CONGRESS

FIRST SESSION

ON

S. 375

**A BILL TO PROVIDE FOR THE EFFECTIVE ADMINIS-
TRATION OF CERTAIN LENDING AGENCIES
OF THE FEDERAL GOVERNMENT**

JANUARY 24 AND 25, 1945

Printed for the use of the Committee on Commerce



UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1945

66424

ADMINISTRATION OF CERTAIN FEDERAL AGENCIES
OF THE FEDERAL GOVERNMENT

HEARINGS

COMMITTEE ON COMMERCE

UNITED STATES SENATE

SEVENTH CONGRESS

COMMITTEE ON COMMERCE

JOSIAH W. BAILEY, North Carolina, *Chairman*

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THEODORE G. BILBO, Mississippi	ARTHUR H. VANDENBERG, Michigan
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ALBERT B. CHANDLER, Kentucky	C. WAYLAND BROOKS, Illinois
JOHN L. McCLELLAN, Arkansas	
WARREN G. MAGNUSON, Washington	

A. HAND JAMES, *Clerk*

II

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III

ADMINISTRATION OF CERTAIN LENDING AGENCIES
OF THE FEDERAL GOVERNMENT

WEDNESDAY, JANUARY 24, 1945

UNITED STATES SENATE,
COMMITTEE ON COMMERCE,
Washington, D. C.

The committee met, pursuant to call, at 2:30 p. m., in room 318, Senate Office Building, Senator Josiah W. Bailey (chairman) presiding.

Present: Senators Bailey (chairman), Overton, Bilbo, Radcliffe, Pepper, O'Daniel, Chandler, McClellan, Vandenberg, Brewster, Burton, Robertson, Wiley, Cordon, and Brooks.

The CHAIRMAN. The committee will come to order.

We have for consideration Senate bill 375, which was introduced by Senator George.

(S. 375 is as follows:)

[S. 375, 79th Cong., 1st sess.]

A BILL To provide for the effective administration of certain lending agencies of the Federal Government

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Federal Loan Agency created by Reorganization Plan Numbered I under the Reorganization Act of 1939 is hereby reestablished as an independent agency in the executive branch of the Government, with a Federal Loan Administrator at the head thereof. The Federal Loan Administrator shall be appointed by the President, by and with the advice and consent of the Senate, and shall receive a salary at the rate of \$12,000 per annum.

Sec. 2. The Federal Loan Administrator shall appoint an Assistant Federal Loan Administrator, who shall receive a salary at the rate of \$9,000 per annum. The Assistant Administrator shall act as Administrator during the absence or disability of the Administrator, or in the event of a vacancy in that office, and shall perform such other duties as the Administrator shall direct.

Sec. 3. All functions, powers, and duties transferred to the Department of Commerce under Executive Order Numbered 9071, dated February 24, 1942, and all functions, powers, and duties of the Department of Commerce or the Secretary of Commerce with respect to all other corporations created or organized by the Reconstruction Finance Corporation under section 5d of the Reconstruction Finance Corporation Act, as amended, or any other subsidiaries of the Reconstruction Finance Corporation, together with the respective personnel, records, and property (including office equipment), of the agencies to which such functions, powers, and duties relate, are hereby transferred to the Federal Loan Agency.

Sec. 4. The Administrator shall supervise the administration, and shall be responsible for the coordination of the functions and activities, of the agencies transferred under the provisions of this Act to the Federal Loan Agency. The Administrator may appoint such officers and employees and make such expenditures as may be necessary to carry out the provisions of this Act.

Sec. 5. So much of the unexpended balances of the appropriations, allocations, or other funds available or to be made available for the use of the De-

partment of Commerce in the exercise of any function transferred by this Act, as the Director of the Bureau of the Budget with the approval of the President shall determine, shall be transferred to the Federal Loan Agency for use in connection with the exercise of the functions so transferred. In determining the amount to be transferred the Director of the Bureau of the Budget may include an amount to provide for the liquidation of obligations incurred against such appropriations, allocations, or other funds prior to the transfer.

Sec. 6. Nothing in this Act shall be construed to transfer any functions from the National Housing Agency or from any other agency or establishment other than the Department of Commerce.

The CHAIRMAN. Senator George, you may proceed with an explanation of the bill and make such comments as you deem proper.

**STATEMENT OF HON. WALTER F. GEORGE, UNITED STATES
SENATOR FROM THE STATE OF GEORGIA**

Senator GEORGE. Mr. Chairman and gentlemen of the committee, I introduced S. 375 in the form in which it appears before the members of the committee. Later I may suggest an amendment by way of a substitute, which I think accomplishes all the purposes of this bill and makes it somewhat clearer that the purpose of the bill is not to create a new agency but is merely to revive an inactive existing agency.

If I may, I will direct the committee's attention to the following, which appears as a part of Reorganization Plan No. 1, creating the particular office in question here. Section 402 of this Plan No. 1, which was made effective July 1, 1939, pursuant to the Reorganization Act of 1939, approved April 3, 1939, is as follows [reading]:

FEDERAL LOAN AGENCY

There shall be at the seat of the Government a Federal Loan Agency with a Federal Loan Administrator at the head thereof. The Federal Loan Administrator shall be appointed by the President, by and with the advice and consent of the Senate, and shall receive a salary at the rate of \$12,000 per annum.

(b) The Federal Loan Administrator shall appoint an Assistant Federal Loan Administrator who shall receive a salary at the rate of \$9,000 per annum.

The Assistant Administrator shall act as Administrator during the absence or disability of the Administrator, or in the event of a vacancy in that office, and shall perform such other duties as the Administrator shall direct.

POWERS AND DUTIES OF THE ADMINISTRATOR

The Administrator shall supervise the administration and shall be responsible for the coordination of the functions and activities of the following agencies:

Reconstruction Finance Corporation, Electric Home and Farm Authority, RFC Mortgage Company, Disaster Loan Corporation, Federal National Mortgage Association, Federal Home Loan Bank Board, Home Owners' Loan Corporation, Federal Savings and Loan Insurance Corporation, Federal Housing Administration, and Export and Import Bank of Washington.

It is not necessary to read further respecting the powers and duties of the Administrator or the functions of this agency, certainly not at this time.

May I say, Mr. Chairman, not only did the Reorganization Act under which this Reorganization Plan No. 1 was issued provide for its legislative approval by the terms of the act but by special resolution or act of Congress the approval of this particular order was hastened; that is to say, by special legislative act it was approved earlier than it would have become effective under the Reorganization Act itself. So that this particular agency is the direct creature of the Congress, as well as the various lending agencies covered under

the Federal Loan Agency and entrusted to the Administrator of the Federal Loan Agency for administration.

Under the First War Powers Act of 1941 the President is given the express authority to make such redistribution of functions among executive agencies as he may deem necessary. I will not read that act, but that is the authority under which the President acted in issuing Executive Order 9070 on February 24, 1942, transferring certain functions from the Federal Loan Administrator to the National Housing Agency, and Executive Order No. 9071 of February 24, 1942 transferring certain functions of the Federal Loan Agency to the Department of Commerce.

Senator PEPPER. Excuse me. Is that April, Senator?

What is the date, what month?

Senator GEORGE. February 24.

The particular part of the Executive order which is here pertinent is as follows [reading]:

All functions, powers, and duties of the Federal Loan Agency and of the Federal Loan Administrator which relate to the Reconstruction Finance Corporation, Electric Home and Farm Authority, RFC Mortgage Company, Federal National Mortgage Association, Disaster Loan Corporation, Export and Import Bank of Washington, Defense Plants Corporation, Rubber Reserve Company, Defense Supplies Corporation, and War Insurance Corporation, together with all other functions, powers, and duties not transferred by the Executive order establishing the National Housing Administration—

to which reference has already been made—

are transferred to the Department of Commerce and shall be administered under the direction and supervision of the Secretary of Commerce.

Now, with reference to the duties and powers to the agencies affected—the restoration, rather, of duties and powers to agencies affected the pertinent part of the First War Powers Act provides—

All laws or parts of laws conflicting with the provisions of this title are, to the extent of such conflict, suspended while this title is in force.

Upon the termination of this title, all executive or administrative agencies, governmental corporations, departments, commissions, bureaus, offices, or officers shall exercise the same functions, duties, and power as heretofore or as hereafter by law may be provided, any authorization of the President under this title to the contrary notwithstanding.

The time under which the President could act under the War Powers Act, the First War Powers Act, as we call it, of course is familiar to all members of this committee, but for the purpose of the record, I will simply read the following:

Titles I and II of this Act shall remain in force during the continuance of the present war and for 6 months after the termination of the war, or until such earlier time as the Congress, by concurrent resolution, or the President may designate.

So, Mr. Chairman, as I stated to the committee yesterday, the purpose of this bill is merely to revive an existing agency, without adding powers or changing powers of any of the loaning agencies of the Federal Government, and that being true, I think, by way of amendment in the nature of a substitute, the committee may wish to consider this, which is in briefer form and in strict compliance with the law as it exists.

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That the Federal Loan Agency created by section 402 of the President's Reorganization Plan No. 1, under authority of

the Reorganization Act of 1939 shall continue as an independent establishment of the Federal Government and shall continue to be administered under the direction and supervision of the Federal Loan Administrator in the same manner and to the same extent as if Executive Order No. 9071, dated February 24, 1942, transferring the functions of the Federal Loan Agency to the Department of Commerce, had not been issued.

Section 2 merely transfers all of the powers, functions, and so forth, as in the original bill which I introduced, and also carries forward all unexpended balances of funds made available to the Secretary of Commerce by Public Law 365, Seventy-eighth Congress, for administrative expenses of supervising the loan agencies, and so forth, to the Federal Loan Agency.

(See appendix for joint resolution in full.)

Senator GEORGE. As I say, I submit this suggested amendment because it is more concise and because it is in strict harmony with the legal status of the Federal Loan Agency.

Now, Mr. Chairman, by way of argument in support of this bill, and at the risk of being a bit tedious, I wish to read a statement which summarizes the powers and authority of the Reconstruction Finance Corporation relating to loans and investments.

Before reading, I wish to make this observation, that many of these powers and authorities upon examination will be found to be subject to little or scant limitation, due to the fact that the R. F. C. was itself an emergency agency of the Government. Perhaps I am the only Member of Congress now in service who was called as a member of a committee of representative people of the United States, some official and many nonofficial, to consider appropriate legislative action prior to the creation of the Reconstruction Finance Corporation. Therefore, I am clearly within the facts when I say that it was originally conceived or originally advanced as an emergency agency, at a time when there was, of course, a great economic upheaval in the country, with the resulting business disruptions, unemployment, and so forth. At least all those things were in the offing and very clearly visible at that moment.

Then, again, many of the broad powers given to the R. F. C. have been given since we were over the horizon and facing the present global war. This, I think, must be taken into consideration in viewing the language, the lack of limitations, the lack of restrictions, the lack of definite directives with which Congress safeguarded the grant of these vast powers and this vast authority.

Now, Mr. Chairman, if I may repeat by way of argument for the approval of this measure at this time, I simply recite the powers and authority of the Reconstruction Finance Corporation with respect to loans and investments—investments particularly. It is authorized to make [reading]:

I. Loans, under section 5 of the Reconstruction Finance Corporation Act, as amended, to aid in financing agriculture, commerce, and industry, to—

(a) Financial institutions; banks; savings banks; trust companies; building and loan associations; insurance companies; mortgage loan companies; credit unions; Federal land banks; joint-stock land banks; Federal intermediate credit banks; agricultural credit corporations (including regional agricultural credit corporations); livestock credit corporations; banks, savings banks, and building and loan associations closed or in process of liquidation to aid in their reorganization or liquidation.

(b) State insurance funds established for paying or insuring payment of compensation to injured workmen and those disabled by disease contracted in the course of their employment, or to their dependents.

(c) State funds created for insuring repayment of deposits of public moneys of such States or of their political subdivisions.

(d) Railroads or receivers or trustees thereof to aid in financing, reorganization, consolidation, maintenance, or construction, by purchase or guarantee of railroad obligations or by loans (loans and commitments outstanding limited to \$500,000,000 in addition to loans and commitments made prior to January 31, 1935, and renewals thereof).

(e) Parties to marketing agreements entered into by Secretary of Agriculture with processors, producers, et al., engaged in handling agricultural commodities or products (sec. 8b, Agricultural Adjustment Act, approved May 12, 1933, as amended April 7, 1934, and August 24, 1935).

(f) Persons, associations, or corporations for financing the production, etc., and orderly marketing of fish of American fisheries or products thereof (sec. 15, act approved June 19, 1934).

(g) Processors or distributors for payment of processing taxes (sec. 19 (c), Agricultural Adjustment Act, approved May 12, 1934).

II. Loans to facilitate the exportation of agricultural or other products and their sale in foreign markets—

(a) By acceptance of drafts and bills of exchange (sec. 5a, Reconstruction Finance Corporation Act, approved January 22, 1932).

(b) By loans (sec. 201 (c), Emergency Relief and Construction Act of 1932, approved July 21, 1932).

III. Subscriptions for or loans upon nonassessable stock and purchase of capital notes or debentures of national mortgage associations, mortgage loan companies, trust companies, savings and loan associations, and similar financial institutions whose principal business is lending on mortgages, etc.; to assist in the reestablishment of a normal mortgage market; limited to \$100,000,000 outstanding (sec. 5c, Reconstruction Finance Corporation Act, as amended January 31, 1935).

IV. Loans to and purchase of securities and obligations of business enterprises direct, or in cooperation with banks and other lending institutions through agreements to participate or by purchase of participations, or otherwise (sec. 5d, Reconstruction Finance Corporation Act, as amended April 13, 1938); loans to and purchase of the obligations of any business enterprise including, when requested by the Federal Loan Administrator, subscription to the capital stock thereof, for any purpose advantageous to the national defense. The War Department and the Navy Department are authorized to participate in or guarantee any such loans (sec. 5d (2), Reconstruction Finance Corporation Act, as amended June 25, 1940, and June 11, 1942).

V. Loans upon or purchase of the assets of banks, savings banks, or trust companies closed 1930 to 1933, inclusive (sec. 5e (a), Reconstruction Finance Corporation Act, added by act of June 16, 1934, and amended by act of January 31, 1935).

VI. Purchase of debentures or other obligations of the Federal Deposit Insurance Corporation; outstanding limited to \$250,000,000 (sec. 5e (b), Reconstruction Finance Corporation Act, added by act of June 16, 1934).

VII. Loans and contracts:

A. Under section 201 (a), Emergency Relief and Construction Act of 1932, approved July 21, 1932, as amended, to finance projects self-liquidating in character, to (power of Reconstruction Finance Corporation to approve applications under such sec. 201 (a) terminated June 26, 1933, pursuant to sec. 301, National Industrial Recovery Act, approved June 16, 1933):

(a) States, municipalities, and political subdivisions of States; public agencies of States, municipalities, and political subdivisions of States; public corporations; boards and commissions, and public municipal instrumentalities of one or more States.

(b) Corporations formed to provide housing for families of low income or for reconstruction of slum areas.

(c) Private corporations to aid in carrying out the construction, replacement, or improvement of bridges, tunnels, docks, viaducts, waterworks, canals, and markets devoted to public use.

(d) Private limited dividend corporations to aid in financing projects for the protection and development of forests and other renewable natural resources.

(e) Aid in financing the construction of publicly owned bridges to be used for railroad, railway, and highway uses.

(f) Nonprofit corporations organized to finance the repair or reconstruction of buildings damaged by earthquake, fire, tornado, or cyclone in 1933; limited to an aggregate of \$20,000,000—\$8,000,000 in the case of private property, and \$12,000,000 in the case of municipalities or political subdivisions of States or their public agencies, including public-school boards and districts.

B. Under section 301 of the National Industrial Recovery Act, approved June 16, 1933, as amended June 19, 1934; further loans and contracts for completion or proper functioning of projects or which will increase assurance of repayment of Corporation's investments in loans or contracts made under section 201 (a) of the Emergency Relief and Construction Act of 1932, as amended (A (a) above).

C. Under section 5d, Reconstruction Finance Corporation Act, as amended April 13, 1935, to aid in financing projects authorized under Federal, State, or municipal law—

(a) States, municipalities, and political subdivisions of States.

(b) Public agencies and instrumentalities of States, municipalities, and political subdivisions of States.

(c) Public corporations, boards, and commissions.

VIII. Loans to finance the carrying and orderly marketing of agricultural commodities and livestock produced in the United States (sec. 201 (d), Emergency Relief and Construction Act of 1932, approved July 21, 1932).

IX. Subscriptions for preferred stock of National or State banks or trust companies, loans secured by such stock as collateral, and purchases of capital notes or debentures of State banks or trust companies (sec. 304, act approved March 9, 1933, as amended March 24, 1933).

X. Subscriptions for preferred stock and purchases of capital notes, or other forms of indebtedness, of insurance companies, and loans secured by such stock or notes, or other forms of indebtedness, as collateral; limited to \$75,000,000 outstanding (secs. 1 and 2, act approved June 19, 1933, as amended June 19, 1934, and January 31, 1935).

XI. Mining loans (sec. 14, act approved June 19, 1934, as amended January 31, 1935, and September 16, 1940) to corporations, individuals, and partnerships engaged in—

(a) Mining, milling, or smelting of ores.

(b) Development of ore bodies containing gold, silver, tin, or strategic or critical minerals; limited to \$10,000,000, and not over \$40,000 to any corporation, individual, or partnership.

XII. Loans to or for the benefit of public-school districts or other public-school authorities—

(a) For payment of teachers' salaries due prior to June 1, 1934; outstanding limited to \$75,000,000 (sec. 16, act approved June 19, 1934).

(b) To reduce and refinance outstanding indebtedness or obligations incurred prior to August 24, 1935; and for repairs, extensions, or improvements necessary to protect such loans; limited to \$10,000,000 (act approved August 24, 1935).

XIII. Loans to corporations, partnerships, individuals, municipalities, or political subdivisions of States or of their public agencies, including public-school boards and public-school districts, and water, irrigation, sewer, drainage, and flood-control districts for financing—

(a) The repair, construction, reconstruction, or rehabilitation—

1. Of structures or buildings, including necessary equipment, appliances, fixtures, machinery and appurtenances;

2. Of water, irrigation, gas, electric, sewer, drainage, flood control, communication, or transportation systems, highways and bridges;

damaged or destroyed by catastrophe in the years 1935 or 1936.

(b) The acquisition of structures, building, or property in replacement of property destroyed or rendered unfit for use by catastrophe in the years 1935 and 1936.

Limited to \$50,000,000. (Act approved April 13, 1934, as amended July 26, 1935, and April 17, 1936.)

XIV. Loans and advances to the Secretary of Agriculture to acquire, handle, and market cotton owned or held as collateral by other governmental departments and agencies (sec. 5, Agricultural Adjustment Act, approved May 12, 1933, as amended June 19, 1934).

XV. Loans to or for the benefit of agricultural improvement districts—drainage, levee, irrigation, etc.—to reduce and refinance outstanding indebtedness; purchase, acquire, construct, complete, repair, extend, improve, or make additions to, projects; or purchase or acquire additional drainage, levee, or irrigation works, or property, rights, or appurtenances in connection therewith. Limited to \$125,000,000 (sec. 36, Emergency Farm Mortgage Act of 1933, approved May 12, 1933, as amended June 22, 1936).

XVI. Loans to managing agencies of farmers' cooperative mineral-rights pools for defraying the cost of organizing such pools (sec. 13, act approved June 19, 1934).

XVII. Loans to Administrator of the Rural Electrification Administration. Limited to \$50,000,000 for fiscal year 1937 (Rural Electrification Act of 1935, approved May 20, 1936); \$100,000,000 for fiscal year ending June 30, 1939 (Rural Electrification Act of 1936, approved May 20, 1936, as amended by sec. 401, Rural Electrification Act of 1938, approved June 21, 1938; \$100,000,000 to the Secretary of Agriculture for loans in accordance with the Rural Electrification Act of 1936, as amended, by Department of Agriculture Appropriation Act, 1941, approved June 25, 1940; \$100,000,000 by Department of Agriculture Appropriation Act, 1942, approved July 1, 1941; and \$10,000,000 by Department of Agriculture Appropriation Act, 1943, approved July 22, 1942; and \$25,000,000 by Department of Agriculture Appropriation Act, 1945, approved June 28, 1944).

XVIII. Loans to receivers appointed under section 29 of the Federal Farm Loan Act, as amended, or by a United States district court, to pay taxes on farm real estate owned or pledged to land banks (sec. 27, Emergency Farm Mortgage Act of 1933, approved May 12, 1933).

XIX. Loans to the Corporation of Foreign Security Holders, a corporation authorized to be created to protect, conserve, and advance the interests of holders of foreign securities in default. Limited to \$75,000 (sec. 209, Corporation of Foreign Bondholders Act, 1933, approved May 27, 1933).

XX. Advances to the reclamation fund, upon request of Secretary of the Interior, for the completion of projects under construction or approved and authorized on May 12, 1933. Limited to \$5,000,000 (sec. 37, Emergency Farm Mortgage Act of 1933, approved May 12, 1933).

XXI. Purchase of marketable securities from the Federal Emergency Administration of Public Works (now Public Works Administration, Federal Works Agency). Amount held limited to \$400,000,000 (Emergency Appropriation Act, fiscal year: 1935, approved June 19, 1934; and Public Works Administration Extension Act of 1937, approved June 29, 1937).

XXII. Purchase from United States Housing Corporation certain mortgages on property in Lincoln Gardens project, New Brunswick, N. J. (act approved June 25, 1938).

XXIII. Purchase from Secretary of the Treasury of capital stock of Federal home-loan banks (sec. 2, Reconstruction Finance Corporation Act, as amended June 25, 1940, and sec. 304, act approved March 9, 1933, as amended June 25, 1940).

XXIV. Loans to or subscriptions for preferred stock of Export-Import Bank of Washington: Loans or other obligations of bank outstanding at any one time shall not exceed \$700,000,000. Loans to or subscriptions for preferred stock of Export-Import Bank to enable bank to make loans to governments, their central banks, or other acceptable banking institutions, and, when guaranteed by such government, a central bank or other acceptable banking institution, to a political subdivision, agency, or national of such government, not to exceed \$500,000,000, outstanding at any one time (sec. 5d, Reconstruction Finance Corporation Act, as amended September 26, 1940, and sec. 9, act approved January 31, 1935, as amended September 26, 1940).

XXV. Loans to or purchase of capital stock of any corporation—

(a) For producing, acquiring, and carrying strategic and critical materials, and

(b) For plant construction, expansion, and equipment, and working capital, to be used by the corporation in the manufacture of equipment and supplies necessary to the national defense.

(sec. 5, Reconstruction Finance Corporation Act, as amended September 26, 1940).

XXVI. Creation or organization, at any time prior to July 1, 1943, of a corporation or corporations with power—

(a) To produce, acquire, carry, sell, or otherwise deal in strategic or critical materials;

(b) To purchase and lease land, purchase, lease, build, and expand plants, and purchase and produce equipment, facilities, machinery, materials, and supplies for the manufacture of strategic and critical materials, arms, ammunition, and implements of war, any other articles, equipment, facilities, and supplies necessary to national defense, and such other articles, equipment, supplies, and materials as may be required in the manufacture or use of any of the foregoing or otherwise necessary in connection therewith;

(c) To lease, sell, or otherwise dispose of such land, plants, facilities, and machinery to others to engage in such manufacture;

(d) To engage in such manufacture itself, if the President finds it necessary;

(e) To produce, lease, purchase, or otherwise require railroad equipment (including rolling stock), and commercial aircraft, and parts, equipment, facilities, and supplies necessary in connection with such railroad equipment and aircraft, and to lease, sell, or otherwise dispose of the same;

(f) To purchase, lease, build, expand, or otherwise acquire facilities for the training of aviators and to operate or lease, sell or otherwise dispose of such facilities to others to engage in such training; and

(g) To take such other action as the President and the Federal Loan Administrator may deem necessary to expedite the national defense program.

Aggregate amount of funds of Reconstruction Finance Corporation outstanding at any one time to carry out clause (g) shall not exceed \$200,000,000.

(sec. 5d, Reconstruction Finance Corporation Act, as amended June 10, 1941.)

XXVII. To acquire real estate, or any right or interest therein, by purchase, lease, condemnation, or otherwise determined by the Corporation to be necessary or advantageous to the carrying out of any authority vested in any corporation created pursuant to section 5d of the Reconstruction Finance Corporation Act, as amended. (See previous item.) (Sec. 5d, Reconstruction Finance Corporation Act, as amended by sec. 1 of act approved March 27, 1942.)

XXVIII. Loans to foreign governments, to their central banks, or to any person, commission, association, corporation, or bank acting for or on behalf of such government, for the purpose of achieving the maximum dollar exchange value in the United States for the securities or property of any such government, central bank, person, commission, association, corporation, or bank (sec. 5d, Reconstruction Finance Corporation Act, as amended June 10, 1941).

XXIX. Loans to the Secretary of Agriculture for farm tenancy loans in accordance with Bankhead-Jones Farm Tenant Act approved July 22, 1937, \$50,000,000 by Department of Agriculture Appropriation Act, 1941, approved June 25, 1940; \$50,000,000 by Department of Agriculture Appropriation Act, 1942, approved July 1, 1941; \$32,500,000 by Department of Agriculture Appropriation Act, 1943, approved July 22, 1942, and \$30,000,000 by Department of Agriculture Appropriation Act, 1944, approved July 12, 1943, and \$15,000,000 by Department of Agriculture Appropriation Act, 1945, approved June 28, 1944.

XXX. Loans to the Secretary of Agriculture for rural rehabilitation loans, \$125,000,000 by Emergency Relief Appropriation Act, fiscal year 1941, approved June 26, 1940; \$120,000,000 by Department of Agriculture Appropriation Act, 1942, approved July 1, 1941; \$97,500,000 by Department of Agriculture Appropriation Act, 1943, approved July 22, 1942; \$60,000,000 by Department of Agriculture Appropriation Act, 1944, approved July 12, 1943. (Increased to \$67,500,000 by First Supplemental National Appropriation Act, 1944, approved December 23, 1943, and \$67,500,000 by Department of Agriculture Appropriation Act, 1945, approved June 28, 1944.)

XXXI. Loans or purchase of securities to cooperate with States to finance, or to aid in financing, the acquisition of right-of-way necessary or desirable for road projects eligible for Federal aid under the Federal Highway Act (Federal Highway Act of 1940, approved September 5, 1940).

XXXII. To supply funds to War Damage Corporation (created pursuant to section 5d of the Reconstruction Finance Corporation Act, as amended) only on the request of the Secretary of Commerce with the approval of the President, not exceeding \$1,000,000,000 (sec. 5g, Reconstruction Finance Corporation Act, as amended by sec. 2 of the act approved March 27, 1942).

XXXIII. To purchase or make loans upon the security of any article or commodity the sale or distribution of which is rationed under authority of the United States (sec. 5h, Reconstruction Finance Corporation Act, as amended by act approved May 11, 1942).

Funds of Reconstruction Finance Corporation allocated and made available to other governmental agencies:

I. (a) To the Secretary of Agriculture for crop loans (sec. 2, Reconstruction Finance Corporation Act; act of February 4, 1933; (b) for the capitalization (by Reconstruction Finance Corporation) of the regional agricultural credit corporations (sec. 201 (e), Emergency Relief and Construction Act of 1932, approved July 21, 1932); and (c) to the Farm Credit Administration for revolving fund for capitalization production credit corporations (sec. 5, Farm Credit Act of 1933, approved June 16, 1933); \$200,000,000.

II. To the Land Bank Commissioner and the Federal Farm Mortgage Corporation for loans to farmers and capitalization of Federal Farm Mortgage Corporation (\$200,000,000) (section 32, Emergency Farm Mortgage Act of 1933, approved May 12, 1933, as amended; and sec. 3, Federal Farm Mortgage Corporation Act, approved January 31, 1934).

III. To the Land Bank Commissioner for loans to joint-stock land banks (\$100,000,000) (sec. 30 (a), Emergency Farm Mortgage Act of 1933, approved May 12, 1933, as amended June 3, 1935).

IV. To the Federal Housing Administrator:

(a) To carry out provisions of National Housing act (not limited) (sec. 4, National Housing Act, approved June 27, 1934).

(b) For defense housing insurance fund (not to exceed \$10,000,000) (sec. 602, National Housing Act, added by act approved March 28, 1941).

V. To the Secretary of the Treasury for capital of Federal home-loan banks subscribed by the United States (\$125,000,000) (sec. 2, Reconstruction Finance Corporation Act, as amended by sec. 6 (f), Federal Home Loan Bank Act, approved July 22, 1932).

VI. To the Secretary of the Treasury for capital of Home Owners' Loan Corporation subscribed by the United States (\$200,000,000) (see 4 (b), Home Owners' Loan Act of 1933, approved June 13, 1933).

VII. For relief:

Emergency Relief and Construction Act of 1932, approved July 21, 1932 (\$300,000,000).

Federal Emergency Relief Act of 1933, approved May 12, 1933 (\$500,000,000).

Emergency Appropriation Act, fiscal year 1935, approved June 19, 1934 (\$500,000,000).

Emergency Relief Appropriation Act of 1935, approved April 8, 1935 (\$500,000,000).

VIII. For expenses of regional agricultural credit corporations (not limited) (sec. 201 (3), Emergency Relief and Construction Act of 1932, approved July 21, 1932, and section 33 (b), Farm Credit Act of 1937, approved August 19, 1937).

IX. To Commodity Credit Corporation for acquisition of its non-assessable capital stock. Limited to \$97,000,000 (act approved April 10, 1936).

X. To Disaster Loan Corporation for acquisition of its non-assessable capital stock. Limited to \$40,000,000 (act approved February 11, 1937, as amended March 4, 1939).

NOTE.—The material presented above covers the powers of the Reconstruction Finance Corporation to June 30, 1944. Since that date additional powers and

authority have been granted to the Reconstruction Finance Corporation by or pursuant to the following acts of Congress:

A. Title III of the act approved June 22, 1944 (G. I. bill of rights), provides for the guarantee of loans to veterans for the purchase or construction of homes, farms, and business property and authorizes the Administrator of Veterans' Affairs to issue rules and regulations and to designate such agency or agencies as he finds equipped to determine whether the guaranty of a loan should be approved. On December 22, 1944, the Administrator issued regulations relating to the guaranty of loans made for the purchase of business property and subsequently, on January 5, 1945, by letter to the chairman of the board of directors of the Reconstruction Finance Corporation, designated the Reconstruction Finance Corporation as an agency with authority to receive and consider veterans' applications for loans and to forward to the Veterans Administration written recommendations as to the approval or disapproval of the applications.

B. The Contract Settlement Act of 1944, approved July 1, 1944, authorizes certain contracting agencies, including the Reconstruction Finance Corporation and any corporation organized pursuant to the Reconstruction Finance Corporation Act, as amended, to make available interim financing, through loans and discounts and commitments and guaranties in connection therewith, in contemplation of or related to termination of war contracts.

C. The Reconstruction Finance Corporation has been designated as the disposal agency for capital and producer's goods under regulations issued by the Surplus War Property Administrator pursuant to Executive Order No. 9425, dated February 19, 1944, and has continued to act as such disposal agency pursuant to section 35 of the Surplus Property Act of 1944, approved October 3, 1944. As of December 31, 1944, property having an acquisition cost of \$1,944,316,000 had been declared to the Reconstruction Finance Corporation as surplus. Included in this amount is Reconstruction Finance Corporation owned property having an acquisition cost of \$181,421,000. Also as of December 31, 1944, sales were made of property having an acquisition cost of \$127,724,000, the sales price of which totaled \$91,268,000, leaving a balance of such surplus property to be sold having an acquisition cost of \$916,592,000.

D. The Reconstruction Finance Corporation and corporations organized pursuant to the Reconstruction Finance Corporation Act, as amended, are named as contracting agencies by the War Mobilization and Reconversion Act of 1944, approved October 3, 1944, and as such are governed by the demobilization and reconversion policies prescribed in the act and as may be prescribed by the Director of War Mobilization and Reconversion.

Now, Mr. Chairman, as I said before reading this summarized statement of the powers and authority given to the R. F. C. and its various subsidiaries, organized under the R. F. C. Act or otherwise, I think the vast powers and vast authority given is the strongest possible argument that anyone can make for the return, or for the hastening of the return, of these powers to an independent agency of the Government created by the Congress and responsible to the Congress.

More and more, the responsibility of Congress for the creation of these vast powers and for the grant of these vast authorities is placed upon the Senate of the United States as a member of the legislative branch of this Government.

I am firmly of the opinion, myself, that as we follow through the mobilization period to the end of the war, whenever it may come, and as we also enter into and follow through the reconversion period, that this direct responsibility ought to be recognized by the Congress and ought not to be placed, or continued, in an officer in the executive branch of the Government who is a part of the official family, so to speak, of the Chief Executive of the Nation.

These powers are too vast and are too sweeping; the economic control over this country, and the political controls, if I may be bold enough to say so, simply cannot be estimated. And for both reasons, and all reasons, and under all the circumstances, I hope that the com-

mittee will approve the bill which I have introduced; or, preferably, the amendment by way of a substitute which I am offering for the record today.

I believe, Mr. Chairman, that that is all that I have to say.

The CHAIRMAN. Do the members of the committee have any questions of Senator George?

Senator GEORGE. Yesterday some member of the committee did ask about an amendment to the bill as drawn, or to the substitute, and I stated that I would be glad to prepare one for the consideration of the committee.

(The proposed new section to be added to S. 375 is as follows:)

SEC. 7. No functions, powers, or duties shall be transferred from the Federal Loan Agency under the provisions of title I of the First War Powers Act, 1941, or any other law, unless the Congress shall otherwise by law provide.

Senator BREWSTER. Does that have to do with exempting it from the retransfer powers of the War Powers Act?

Senator GEORGE. Exactly.

Senator BREWSTER. And that amendment would be acceptable, so far as you are concerned?

Senator GEORGE. So far as I am concerned.

Senator BREWSTER. Have you considered the question of whether other loan agencies might be transferred by this same action to the Federal Loan Agency?

Senator GEORGE. I have, Mr. Chairman and Senator Brewster, but I had not thought that this committee would have jurisdiction with respect to the transfer of other agencies that were in other executive branches of the Government, of which this committee itself has no jurisdiction.

Senator PEPPER. I would like to ask a question, Mr. Chairman.

The CHAIRMAN. Go ahead, Senator Pepper.

Senator PEPPER. Senator George, I have before me your bill, S. 375, which you presented to the committee on yesterday. I do not have a copy of the amendment to which you referred, and from which you read, nor of the amendment to which, evidently, the Senator from Maine referred in his question to you.

Would you be good enough to point out the difference between your resolution, if I understand it correctly, which is the proposed substitute for your S. 375, and S. 375?

Senator GEORGE. Practically the only difference, Senator Pepper, is that as S. 375 was drawn, and is now printed, the language reestablishes the Federal Loan Agency, as created by Reorganization Plan No. 1. The substitute accomplishes the same result, but it more accurately reflects, I believe—and I think in that I am correct—that the Federal Loan Agency is an existing agency now. Indeed, under the War Powers Act, under which the Executive order was issued making transfers from the Federal Loan Agency to certain departments of Government, provision is made for the return of these agencies to the agency from which transferred, on the termination of the war or 6 months thereafter, or sooner, if the Congress by concurrent resolution should declare the war ended.

Senator PEPPER. Is that in the form of a bill or in the form of a joint resolution or in the form of a concurrent resolution?

Senator GEORGE. It is in the form of a concurrent resolution; it has the effect of a bill.

Senator PEPPER. But in the form of a concurrent resolution, you say?

Senator GEORGE. Yes.

Senator PEPPER. Well, do you mean by that that it would become effective, have the force of law or the full legal force intended for it, when it was passed by both Houses of Congress, by a majority of both, without requiring the signature of the President, or without being allowed to become law without the President's signature?

Senator GEORGE. I think a concurrent resolution is approved by the President just as an act of Congress is.

Senator PEPPER. Maybe I err. I had the impression that a joint resolution required the signature of the President to become effective and had the character of a bill and was in all respects like a bill; but that a concurrent resolution required only a majority vote of the two Houses and did not require the signature of the President to become effective.

Senator GEORGE. Very well, whatever the legal effect, that is what is intended.

Senator PEPPER. So this is a concurrent resolution instead of a bill?

Senator GEORGE. It is an amendment to this bill by way of substitute.

Senator PEPPER. But the amendment, if effectuated, will make it a concurrent resolution?

Senator GEORGE. No, sir; I find it is a joint resolution. So you are talking to no purpose.

Senator PEPPER. Well, at least I have elicited a clear statement from the able Senator so that we know the character of this bill.

Senator GEORGE. I read it into the record, and it is in form a joint resolution. I believe I inadvertently stated a moment ago that a concurrent resolution is approved by the President. As the Senator from Florida has indicated, concurrent resolutions do not go to the President, but joint resolutions do. In any event, I presume that the substitute which I have offered, if approved by the committee, would be made an amendment in the nature of a substitute to S. 375, so that we need not be disturbed about the particular form in which it stands now, except that I should emphasize that, of course, it is designed as a legislative enactment.

Senator PEPPER. The legal effect of the joint resolution, if enacted, would be simply to divide, or to sever, upon the Senator's theory that the Federal Loan Agency is an existing agency, that agency from the Secretaryship of Commerce?

Senator GEORGE. Simply to return those loan agencies vested in the Department of Commerce to the Federal Loan Agency, which I conceive to be still an existing agency.

Senator PEPPER. I was just trying to clarify the legal significance of the Senator's bill.

Senator GEORGE. That is the full significance of it, I may say to the Senator, with the exception of those technical provisions which simply carry back unexpended balances appropriated to administer those functions.

Senator PEPPER. I was wondering what, in the Senator's theory—and there are no abler lawyers around here than the able Senator from Georgia—upon his theory what, for example, would be the status of

Mr. Jones, who has formerly occupied the office of Secretary of Commerce, and then the head of the Federal Loan Agency. Does the Senator happen to know whether he has occupied both of those offices at the same time, or has, in the Senator's theory, the Federal Loan Agency head been submerged into the office of Secretary of Commerce?

Senator GEORGE. All I know on that point is that the Congress itself, by a joint resolution, authorized Jesse H. Jones, Federal Loan Administrator, to be appointed to and perform the duties of the office of Secretary of Commerce, and that that joint resolution was approved September 13, 1944. Whether Mr. Jones—

Senator BURTON. Wasn't that 1940, Senator?

Senator GEORGE. I should have said 1940—September 13, 1940. Whether Mr. Jones has resigned from the Federal Loan Agency as Federal Loan Administrator, I don't know. If so, there would be a vacancy, and under the President's order that vacancy would be filled by appointment of the President by and with the advice of the Senate.

Senator PEPPER. But if the Senator's bill were enacted and became law, and Mr. Jones has not resigned from his office of Federal Loan Administrator, then he would still remain the Federal Loan Administrator?

Senator GEORGE. I think he would be at this time, if he has not resigned or retired from that office.

Senator PEPPER. Now, Senator, recalling the clear tracing of the history of the present situation, if I recall correctly the present War Powers Act allowed the President, as you say, to distribute executive functions among the executive agencies according to his judgment?

Senator GEORGE. Yes; that is correct. There is no question about that.

Senator PEPPER. If this bill were to be enacted, it would have the effect of denying the Executive the power to assign to the executive branches of the Government the functions of the Federal Loan Agency, either now or in the future, by the amendment to which the Senator from Maine referred?

Senator GEORGE. Yes; it would be a congressional expression that this vast power and authority ought to be placed in an agency directly accountable to and created by the Congress itself, and not hidden away in an executive office where it virtually is immune from any reasonable examination, even by Congress itself.

Senator PEPPER. Well, does the Senator happen to know the legislative history or the congressional past of whether or not the present incumbent of the Federal Loan Agency has submitted or has agreed to or made possible the auditing of his agency by the auditing agency of the Government which is responsible to Congress, for example, the Comptroller General's office?

Senator GEORGE. I do not recall.

Senator PEPPER. I had gained the impression, from the Senator's able presentation yesterday to the committee, that it was his opinion that this bill should be enacted because these vast powers, which the Senator has pointed out very vividly, are too much for one man to possess, especially to hold at the same time the duties of Secretary of Commerce. Now it had seemed to me that probably it was a case of the tail wagging the dog, and that the experience of the past had not, perhaps, indicated that one man was incapable of performing

the duties of both positions—of the Federal Loan Administrator's office and the office of the Secretary of Commerce. In other words, if you turn it around and ask the question whether an able man who is qualified to be Federal Loan Administrator could also perform the duties of Secretary of Commerce, would the Senator think that a qualified man would find that impossible?

Senator GEORGE. I think it would be very difficult to find any man, regardless of his great ability and wide experience, who did not come up with this vast grant of authority under the R. F. C., who could satisfactorily administer both offices.

Now, I am not critical of the past Administrator, Mr. Jones, because he came into R. F. C. before this administration came into office. He has lived through it; he has seen it put together; he has been largely instrumental in putting every piece of timber, so to speak, into the building, and his capacity and his ability and his experience need not be compared with other able and experienced men in the country. But he certainly is one of the few who have had the opportunity of coming up with this vast organization, having the familiarity that he has, necessarily, with it, who could step into the Department of Commerce and carry on this vast operation to the reasonable satisfaction, as I think, of the people.

Senator PEPPER. Well, Senator, the peculiarity—

Senator GEORGE. And, therefore, I think that there should be a separation of these functions.

Senator PEPPER. The peculiarity of the present situation is that this joint resolution is proposed, of course, as legislation by the able Senator from Georgia.

Senator GEORGE. I beg your pardon?

Senator PEPPER. This joint resolution is proposed by the Senator as legislation.

Senator GEORGE. Yes.

Senator PEPPER. The impression is difficult to escape that what precipitated the introduction of this proposed legislation by the Senator from Georgia was the nomination of Mr. Henry A. Wallace by the President to be Secretary of Commerce, and if that inference were well founded, that would indicate that the Senate was holding in suspense the exercise of its constitutional power and duty to advise and consent, or not, to the nomination of the Secretary of Commerce until, in substance, the office for which the nomination was made had been limited in authority and jurisdiction.

In other words, would not the Senator admit that it would be difficult to escape the impression that the Senate was holding up the nomination of the nominee, Mr. Wallace, until legislation could be enacted to change the character of the duties of the Secretary of Commerce?

Senator GEORGE. Well, I do not know how difficult it is to escape any particular impression or any particular conclusion. In all events and under all circumstances, it is my belief that this bill ought to be passed, and that these vast powers ought to be again segregated into an independent agency over which the Congress itself may have very much closer control and very much closer scrutiny.

Senator PEPPER. But, Senator, due to the fact that the legislation was offered in the Senate the same day, the same afternoon, that the nomination of Mr. Henry A. Wallace came to the Senate to be Secre-

tary of Commerce, and due to the obvious desire on the part of some, although the desire may not be shared by the Senator from Georgia, that the nomination not be considered until this particular piece of legislation can be disposed of by the Congress, isn't the impression justified that the introduction of this bill is directly related to the nomination of Henry A. Wallace, by the President, to be Secretary of Commerce, and it wouldn't have been introduced the day it was introduced, or wouldn't be pressed as it is now being pressed, in time, had not a new nomination for the office of Secretary of Commerce come down to the Senate from the President?

Senator GEORGE. The appointment of Mr. Wallace may have been an aggravating circumstance. [Laughter.] But I still believe that the bill is meritorious, and I don't think my motive or my purpose has very much to do with the merits or demerits of the bill. It is either a good bill or a bad bill, and I think it is definitely a good bill.

Senator PEPPER. Well, I was just wondering whether or not it might be accurate to say, instead of the nomination of Mr. Wallace being an aggravating circumstance, it was the impelling circumstance for the introduction of this legislation?

Senator GEORGE. No; I wouldn't go so far, because I am very little concerned about Mr. Wallace, if appointed, being able to fill the routine duties of the Secretary of Commerce, or Secretary of Labor, or Secretary of Agriculture, where he once served. I have no fight on Mr. Wallace. But I would not vote for any man, I think, unless he was a man of demonstrated experience and business capacity, when I look at the vast powers given to the Administrator of the Federal Loan Agency, and also the not insignificant or inconsequential powers of the Secretary of Commerce. I am not here appearing on the nomination of Mr. Wallace, because this committee will, of course, finally report either favorably or unfavorably upon that nomination, and I will have to consider it as any other Member of the Senate. But I think that the suggested legislation here is necessary legislation, and I think that that is particularly true as we travel a bit further toward the end of this war and finally out of it, and through the re-conversion period, with all of the commitments which this Nation will be asked to make.

I don't care to expand upon that statement, because I think all of us must know that those commitments are going to be vast, and it seems to me that we ought to have an agency that will function in large part to carry out any commitments that we may make, that will have a direct responsibility to the Congress and that can be rigidly scrutinized and examined by the Congress.

Now, I should not like to discuss the confirmation, or whatever the Senate may finally determine to do with Mr. Wallace's nomination as Secretary of Commerce.

Senator PEPPER. Does the Senator from Georgia intend to press for the enactment of this bill, or the final disposition of this bill, prior to the final consideration of the nomination of Mr. Wallace?

Senator GEORGE. Prior to and subsequent, if he is finally confirmed, and regardless of who is nominated. I want to make it clear. I am not making any fight on Mr. Wallace. I certainly regard him as a gentleman of integrity and character, and I am not making any fight on Mr. Wallace. And regardless of who is nominated, I think I will

continue to press for consideration in the Senate, and also in the House so far as a Senator is permitted to confer with Members of the House on legislative matters.

Senator PEPPER. Thank you, Senator.

Senator BURTON. Mr. Chairman.

The CHAIRMAN. All right, Senator Burton.

Senator BURTON. I have one or two questions I would like to ask.

In order to make absolutely clear in our record the legislative history that relates to this step, the Senator referred to the fact that Congress had taken action joining in the approval of the creation of a Federal Loan Agency; is that correct?

Senator GEORGE. Yes; I did, and I said that the effective date of the Federal Loan Agency had been expedited by direct congressional action, also. That statement is not literally true. Mr. Boots of the Legislative Counsel's office called my attention to the fact that that wasn't actually a true description. A resolution was passed fixing the effective date of plan No. 1, creating the Federal Loan Agency, thus approving the plan, although the time had not then expired for the consideration of the plan by Congress. The effect was to expedite the approval date of the plan although actually the effective date was postponed a few days. My point is that there was specific congressional action on this plan No. 1 which created the Federal Loan Agency.

Senator BURTON. But in contrast to that there has been no action of Congress approving the placing of the Federal Loan Agency under the jurisdiction of the Secretary of Commerce. I understand that that was done solely by Executive order, is that not correct?

Senator GEORGE. That was done solely by Executive order. On the contrary the Congress had, by an unusual resolution, authorized Mr. Jones, who was the Administrator of the Federal Loan Agency, to hold both the office of Administrator of the Federal Loan Agency, and Secretary of the Department of Commerce.

Senator BURTON. That is precisely the action of Congress that I wish to emphasize.

Senator GEORGE. That is correct.

Senator BURTON. The only action that the Congress has taken relating to the placing of the Federal Loan Agency under the jurisdiction of the same man who was Secretary of Commerce, is included in the resolution to which the Senator referred, as having been approved on September 13, 1940?

Senator GEORGE. That is correct.

Senator BURTON. And I will read it as I have it here and see if it is the one that the Senator has in mind. [Reading:]

Resolved by the Senate and the House of Representatives of the United States assembled, That notwithstanding any provision of law to the contrary, Jesse H. Jones, Federal Loan Administrator, may continue in such office and be appointed to, in the manner now provided by law, and may exercise the duties of, the office of Secretary of Commerce, provided that the total compensation to be paid him as Secretary of Commerce and as Federal Loan Administrator, shall be that provided by law for the Secretary of Commerce.

Is that the resolution to which you had reference?

Senator GEORGE. That is the resolution, which was duly passed by both the House and the Senate, and approved by the President under date of September 13, 1940.

Senator BURTON. Therefore, Mr. Chairman, I would like the privilege of reading very briefly for the record two paragraphs containing the sense of the discussion of that resolution which took place on the floor of the House and the Senate, thereby indicating the basis upon which the House and Senate took that action.

First I refer to the discussion, which was very brief, which took place on the floor of the House on September 9, 1940, when this resolution was unanimously passed, and I quote the following from the remarks of Congressman Steagall, chairman of the Committee on Banking and Currency which approved the resolution, and who was supporting it before the House. He said this, referring to Mr. Jones [reading]:

He has an experience of nearly 10 years in connection with the lending agencies of the Government. I do not think it is unfair to say that, in the light of his experience, his judgment cannot be duplicated by any other public official. We do not want to lose the benefit of his services in connection with these agencies, by having him surrender these duties in order to accept the appointment to the office of Secretary of Commerce.

The House thereupon unanimously passed the resolution.

On September 10 it came before the Senate. There was only one Senator who made a statement as to it, and that is my colleague, Senator Taft, who was serving as a member of the Committee on Banking and Currency of the Senate, which had recently acted favorably upon a similar resolution introduced in the Senate, and, if I may, I will read Senator Taft's remarks which, Mr. Chairman, are the only remarks on this matter as it came before the Senate on September 10, 1940. He said [reading]:

Mr. President, I do not wish to object to the joint resolution, since I have the highest respect for Mr. Jones and think he is one of the ablest men in the public service. I merely wish to call attention to the fact that Mr. Jones already probably has more power than any other man in the Government, with the single exception of the President. He has unlimited power to lend money to anyone, to any industry in the United States, or refuse to lend. We gave him unlimited power to invest Government money in any Government plant which manufactures any form of supplies or any other kind of material which has the remotest relation to war. I do not think, with the exception noted, any man in the United States ever has enjoyed so much power. I have no great objection to giving Mr. Jones the additional power to act also as Secretary of Commerce, but I think it is an extraordinary precedent, which is justified only by the character of the man, and which I hope may not be repeated.

Thereupon the Senate unanimously passed the joint resolution.

The CHAIRMAN. Senator Radcliffe?

Senator RADCLIFFE. Senator George, your statement illustrated the wide extent of the powers of the head of the R. F. C. and also the vast authority which he exercised. Is it your opinion that either the extent or the importance of those responsibilities likely to be lessened materially within the near future?

Senator GEORGE. I do not see how that can be possible. I think they will continue, at least for an unforeseeable time. There may be some time in the remote future when some of them will go out, but those powers are likely to be more and more exercised as we pass out of the war, through demobilization and into a definite reconversion period at home and abroad.

Senator RADCLIFFE. That was certainly my impression, but I wanted to know your opinion on the subject.

The CHAIRMAN. Are there further questions?

Senator OVERTON. Mr. Chairman.

The CHAIRMAN. Senator Overton.

Senator OVERTON. Senator George, in your opinion, does the office of Federal Loan Administrator still exist, as a matter of law?

Senator GEORGE. I think it does, Senator. After appearing before the committee yesterday I made a reexamination and I do think so, definitely.

Senator OVERTON. Now, then, the Congress of the United States deemed it necessary, in order for Mr. Jones to qualify as Secretary of Commerce, that he should be authorized to hold both offices, that is, the office of Federal Loan Administrator and the office of Secretary of Commerce.

Senator GEORGE. It authorized him to hold the office of Secretary of Commerce notwithstanding the fact that he was the Administrator of the Federal Loan Agency.

Senator OVERTON. Well, that is equivalent to the same thing.

Senator GEORGE. Yes.

Senator OVERTON. Now, then, that resolution applied personally to Mr. Jones?

Senator GEORGE. Entirely; yes, sir.

Senator OVERTON. Now, then, we have another nomination, that is, the nomination of someone else, and that is Mr. Wallace. In your opinion, would it be necessary for a similar resolution to be passed in order that Mr. Wallace might discharge the functions of both the Federal Loan Administrator and the Secretary of Commerce?

Senator GEORGE. No; I think not, because there have been transferred to the Department of Commerce, and to the Secretary of Commerce, now, certain powers, and I think anyone who becomes Secretary of Commerce would have the right to exercise those powers without more. He would not be colliding with the general principle, Federal principle, which we have enacted, that one can't hold two offices at the same time.

Senator OVERTON. I think I go along with you in that conclusion, but I am constrained to differ with you in another conclusion, and that is that if this bill should be passed, and the duties of the former office of Federal Loan Administrator should be segregated, and that office revived, Mr. Jones would not continue as Federal Loan Administrator. He has discharged the duties of the Federal Loan Administrator simply because he is the Secretary of Commerce, but the revival of the office wouldn't revive the appointment.

Senator GEORGE. I think it would, because the act itself provides for it.

Senator OVERTON. Well, I would like that information so as to get this clear.

Senator GEORGE. I think you will find that it does. If I am not mistaken, I think this is the provision which, in my judgment, makes clear that the enactment of S. 375 would immediately revivify, so to speak, or revive, the Agency, which already exists ready to function, I suppose, when it has any functions to perform.

The bill I have introduced gives it those functions.

[Reading:]

Upon termination of this title, all executive or administrative agencies, governmental corporations, departments, commissions, bureaus, offices, or officers, shall exercise the same functions, duties, and powers as heretofore or hereafter by law may be provided, any authorization of the President under this title to the contrary notwithstanding.

Senator OVERTON. Was that officers or offices?

Senator GEORGE. Both. It seems to me that that is the intent of it.

Senator OVERTON. Just one other question—

Senator GEORGE (interposing). I said that I did not know whether Mr. Jones was still in office as Administrator of the Federal Loan Agency, because he may have resigned, so far as I know.

Senator OVERTON. You have made the statement that the authority vested in the Federal Loan Administrator is a very vast authority, not only from an economic standpoint but even from a political standpoint, and that that authority is so vast that you do not think it wise to continue the offices of Federal Loan Administrator and Secretary of Commerce in one and the same individual, regardless of who he may be.

Senator GEORGE. I think so.

Senator OVERTON. That is correct?

Senator GEORGE. Yes.

Senator OVERTON. Would you go a step further, and do you think that the powers vested in the office of the Federal Loan Administrator are so vast that they ought not be lodged in one man, but that they ought to be subdivided into several agencies and have several men exercise those functions, rather than give this vast authority to one individual, regardless of whom he may be?

Senator GEORGE. I haven't considered that, I might say, Senator Overton, in connection with this particular bill, because here I thought the only jurisdiction of the committee—or that it might be held to be the only jurisdiction of the committee—was to determine whether or not you would let something come into Commerce, or let something go out of Commerce.

Senator OVERTON. I think that is correct, but I would just like to have your views in that regard?

Senator GEORGE. I think his powers are very vast and I am satisfied that Congress failed to limit or restrict them in certain instances at least, maybe as they should have been limited or restricted, because of the personal confidence in Mr. Jones who had been connected with the R. F. C., and under whose guidance it had developed from year to year. I do not say that that was a very sound basis for legislation, even in the first instance, but I think that is a fact, and I am simply stating it as a fact.

Senator PEPPER. Mr. Chairman, may I ask another question?

The CHAIRMAN. Yes, Senator Pepper.

Senator PEPPER. Senator, I recall that the duties of the Department of Commerce, I believe, if I have the correct language of the statute, among other things are as follows:

It shall be the province and duty of said Department—
referring to the Department of Commerce—

to foster, promote, and develop the foreign and domestic commerce, the mining, manufacturing, shipping, and fishery industries, and the transportation facilities of the United States.

Now, looking at that as one of the principal positions in our Government, would the Senator not agree that these vast powers which are vested in the Federal Loan Administrator are very directly related to those objectives which are set out there for a member of the President's Cabinet?

Senator GEORGE. Certainly, because the vast powers vested in the Administrator of the Federal Loan Agency are all-embracing; they cover everything, and they therefore must cover the direct responsibilities of the Department of Commerce.

Senator PEPPER. Would the Senator recognize that as some argument for the fact that the two offices are so intimately related—as no doubt the President thought when he made the Executive order—that it was more appropriate that they should be held by the same man than that they should be held by two men?

Senator GEORGE. No. I don't know what was in the President's mind, of course, but I apprehend that he felt that Mr. Jones' long experience, and his entire familiarity with the Loan Agency, would enable him to discharge the functions of both offices, and I imagine that the President must have felt that way about it. But I do not think that now and for the future these vast powers ought to be vested in an executive department secretary.

Senator PEPPER. Well, the Senator will agree that of the two offices the Federal Loan Administrator's office has far greater power to foster, promote, and develop the foreign and domestic commerce, the mining, manufacturing, shipping, and fishery industries, and the transportation facilities of the United States, than the office of Secretary of Commerce?

Senator GEORGE. I think so, because the Secretary of Commerce could only do those things with such funds or tools as Congress might provide him, and the Administrator of the Federal Loan Agency has, I undertake to say, the vastest power lodged in any single official of this Government unless it be the President—and of course they are not comparable powers.

Senator PEPPER. And yet, as the Senator from Louisiana has pointed out, the Senator's bill does not propose to distribute those powers among several men, or create a board, or anything like that, but it still allows those powers to continue to be vested in one man, as vast as those powers are.

Senator GEORGE. Yes. You can't unscramble it all at once, and I don't think this committee has jurisdiction over—

Senator BREWSTER (interposing). Wouldn't the suggestion of the Senator from Florida argue, also, that the Federal Loan Administrator might with equal propriety be the Secretary of the Treasury and the Secretary of Agriculture, since there are vast powers relating to those Departments also?

Senator GEORGE. Yes, indeed, because as I say, the powers here granted to the Administrator of the Federal Loan Agency cover practically the whole of our business, financial, and economic life, and it is remarkable, I think, that any one man, though he grew up with this Agency, acquiring one by one at different times these vast powers, could really handle them all in the capable way that he has.

I question whether it would not be very difficult to find any man, regardless of his general business ability or capacity or experience, who could step into the shoes of Mr. Jones and do both of these jobs, which he has done because of his peculiar opportunity to know and learn.

All of that is wholly aside from another question which, in my opinion, is very important. I don't think that in a republic like this,

such vast possible political control or power should be placed in one man's hands in the executive branch of the Government, or perhaps in any branch of the Government, because I think we must know, as practical men, that if one were disposed to, if he wished to be a politician in this office, there is absolutely no way of measuring the consequences of his administration of it.

Senator PEPPER. Just one other question. I am not sure from the language of the Senator's bill that he throws any great safeguards around the exercise of this power by whoever it might be.

Senator GEORGE. No, Senator, I did not, and I didn't attempt to do that because I think that the Committee on Banking and Currency would have jurisdiction of that kind of a bill. I do not mean to say that this is the last bill that I may offer on this matter if this bill goes through, but I didn't think that the Commerce Committee would want to conflict with the Banking and Currency Committee in considering limitations on the power, or exercise of power, under any one of the loan agencies set up by the Congress, because that isn't within the jurisdiction, I didn't think, of this committee.

Senator PEPPER. That, if I may say so to the able Senator, is what leaves an aspect of peculiarity to this particular legislation at this particular time. It has all the aspects of a piece of legislation which admittedly is not complete in character and which evidently was designed in haste, and was related to the incumbency of the office of Secretary of Commerce by the former Vice President of the United States. So that it is difficult for the citizen who reads about these matters in the paper, and hears the reports about it, not to infer that as soon as the immediate past Vice President of the United States, who had previously been a cabinet officer, was proposed to occupy this office, that immediately an attempt was made to shear him of the greater part of the powers which had pertained to that office, by the Congress; as distinguished from the appearance of such legislation to the citizen if the Senate had rejected or confirmed the nominee, according to its judgment in the exercise of its constitutional power, and then that the Senate had proceeded to the consideration of any legislation that might affect the jurisdiction of that office in the ordinary legislative course.

Senator GEORGE. Well, I don't think that I care to argue the point at all. I merely call the Senator's attention to the fact that under the very order which consolidated or brought into the Department of Commerce these extraordinary powers, express provision is made for their return, so that if the war ended today they would be returned within 6 months anyway, and might be returned much earlier if a concurrent resolution of the two Houses declared the war to be at an end.

Senator O'DANIEL. Mr. Chairman, may I ask a question?

The CHAIRMAN. Go right ahead. We want to get through with Senator George, though, so that we may proceed with Mr. Jones.

Senator O'DANIEL. Senator George, if and when the Congress should adopt your joint resolution, restoring the powers to the Federal Loan Agency, would it be your opinion that the President or Chief Executive would then later have the authority to retransfer those powers back from the Federal Loan Agency to the Secretary of Commerce, as he did before?

Senator GEORGE. Not if the amendment which I handed to the reporter here was incorporated in the bill, because that expressly freezes it and makes that impossible. I do not think he would anyway, I don't think the President would. I don't believe that the President can be unmindful of a solemn act of the Congress, if it should take such action and should say that these lending agencies or loan agencies should go back into an independent agency, an over-all, supervising agency. I do not think that the President then would undertake to transfer them back to Commerce.

Senator O'DANIEL. But you do believe that he would have the authority?

Senator GEORGE. Not after the approval of the bill; I wouldn't think so.

Senator O'DANIEL. With the added amendment that you suggest?

Senator GEORGE. Well, without that amendment I wouldn't think that if this bill passes and is approved by the President, that thereafter he would have that authority. But he might have the naked power to make the transfer before he approved the bill, or he might veto the bill. I have just never assumed that the President will follow that course when he knows the will of Congress, if there is a foundation for what Congress is doing.

Senator O'DANIEL. I agree with you that I doubt if he would follow that course. I was trying to ascertain your opinion as to whether he would have the authority to follow that course.

Senator GEORGE. Not if this bill passes and is approved. If he approves it, thereafter he couldn't make this transfer because here is a law standing, directly to the contrary.

Senator O'DANIEL. You mean as you originally introduced it or as you propose to amend it?

Senator GEORGE. With the proposed amendment.

Senator BILBO. Mr. Chairman?

The CHAIRMAN. Senator Bilbo.

Senator BILBO. Senator George, I assure you that this is a friendly question. Some question has been raised about the proximity of the time of the submission of Mr. Wallace's name and your bill. In order that no one may question your motive in presenting this legislation, if on tomorrow the President should withdraw the name of Wallace and submit the name of Jones, would you be willing to say that you would pursue the same zeal in the enactment of this legislation?

Senator GEORGE. I don't know that any member of any committee has a right to question my motive, either here or elsewhere, but I do not mind you questioning my motive if you want to do it. I have answered explicitly that I would pursue it as I am now pursuing it, regardless of who was appointed or when he was appointed.

Senator BILBO. That is the point I want to make.

The CHAIRMAN. If there are no more questions, Senator George, I will express the thanks of the committee to you for coming and so thoroughly discussing this matter.

Senator GEORGE. And I wish to thank the committee for its attention.

The CHAIRMAN. We will now proceed to hear, pursuant to the invitation of this committee, the Honorable Jesse H. Jones.

STATEMENT OF HON. JESSE H. JONES, SECRETARY OF COMMERCE AND FEDERAL LOAN ADMINISTRATOR

Secretary JONES. Mr. Chairman, I hardly know where to start or how you would like to have me start.

The CHAIRMAN. You can start by making a statement, if you prefer, or if you wish to proceed by way of questions I am sure there are Senators here who will desire to ask some of you. That is up to you. Do you have a prepared statement?

Secretary JONES. Well, I have a good deal of material from which I can testify. I do have a very short prepared statement that I might make if the committee is interested in hearing it.

The CHAIRMAN. We are interested, and you may proceed.

Secretary JONES. Mr. Chairman and members of the committee, as I see it, the paramount issue before this committee, in considering the resolution offered by Senator George, is not the location of the powers which the Congress has from time to time delegated to the R. F. C. but the proper character of their administration.

It is fully within the province, and certainly the responsibility, of Congress, to determine whether the R. F. C. and its many agencies and functions, are to be separated from the Department of Commerce.

It has been stated here by Senator George and others that Congress, by a joint resolution, authorized me personally to hold both offices, but I want to say that they were careful to provide that I could only draw one salary.

The R. F. C. and its subsidiaries, conduct probably the most gigantic business enterprise, or series of business enterprises, that the world has ever known, under one roof—

The CHAIRMAN (interposing). Can you give us some figures on that?

Secretary JONES. I will in just a minute if I may, Senator.

The CHAIRMAN. All right.

Secretary JONES. We have engaged in literally hundreds of separate businesses. Individually and collectively they affect the entire economy of this Nation. The way in which they are administered from now on is even more important, if that is possible, than their administration in the past, since the post-war adjustments will need to be most carefully handled in order not to destroy—and I should like to emphasize that—our entire business and financial structure.

The man who is given the vast responsibilities contained in the R. F. C. Act should be one of proven and sound business experience. He should be a man who will attract to him, men of sound judgment, with business knowledge gained from experience in business. The country has a right to expect a man in this important place whose philosophy is in line with the principles which made our country great.

It is my firm conviction that the Government's investment in plants and facilities, and in raw materials, represented by billions of dollars of the taxpayers' money, should not be made the subject of careless experimentation.

It is equally important to stop and think how the lending power of the R. F. C. will be administered in the future. For the past 13

years the resources of the R. F. C. have been used to supplement private credit, so that funds might be available when private resources were not adequate.

The R. F. C. Act specifies, and always has specified, that loans should only be made either with full and adequate security, or latterly, when they were so secured as reasonably to assure their repayment. The discretion which the latter leaves with the directors of the R. F. C. could easily be abused either by inexperienced, visionary planning, or a disregard of the taxpayers' money.

Certainly the R. F. C. should not be placed under the supervision of a man willing to jeopardize the country's future with untried ideas and idealistic schemes.

The lending agencies of the Government can be administered, as they have been, on a purely nonpartisan basis for the benefit of all of the people, or they can be used to destroy what we have built up in this Nation in our 170 years of independence. That, to my mind, is the issue which this committee and the Congress must decide. It must decide all of this without any regard whatever to any individual, including myself.

I have been honored by the Congress a great deal, and by the President. You have passed laws that gave authority for my administration, enough to make me lay awake nights and worry, and as a result I have found it necessary to work about 12 hours a day, 7 days a week, for 13 years, or certainly 12, since I have been head of the R. F. C.

It is an honor, of course, to be in the President's Cabinet. I assume most anyone would like to be in his Cabinet if there was a place he could properly fill.

The President first mentioned to me, as early as 1936, that he would like me in his Cabinet. Well, I didn't encourage it; I didn't discourage it. I was asked by him if I would be interested in an appointment as Secretary of the Navy, prior to Mr. Edison's appointment to that post as successor to our lamented friend, Secretary Swanson. I thanked him and told him that I thought I was not suited for that, and that I thought I could do better work where I was.

Later, in 1939, he created the Federal Loan Agency and made me the Administrator in charge of the various lending agencies, which were, from time to time, taken away by Executive order, but leaving the principal one, the R. F. C., and its subsidiaries.

In 1940 the President stated to me that he would like to appoint me Secretary of Commerce. I said, "Mr. President, I appreciate that but will I take with me my responsibilities as Federal Loan Administrator?" He said, "No, you will have to give that up." I said, "Thank you, Mr. President, but I would rather stay where I am, I am needed there. Someone else can do the other job." Then he said a few days later, "If Congress is willing for you to hold two statutory jobs, which you can't do simultaneously except by permission of Congress, I am willing."

And Congress very graciously paid me the compliment of passing the joint resolution that has been referred to here this afternoon. It is an honor to be in this Cabinet, but it is a greater honor to serve where you can be the most useful, and that is the only place that I want to serve my Government, where I can be useful and the most useful.

I am not looking for a job and have never looked for a job—I don't need one.

Now you asked for figures. I sent each Member of Congress a few days ago a report of what the R. F. C. had done in the war emergency, and I would like to make another reference, which is not in my notes. In May 1940 Mr. Harry Hopkins told me that the President would like for me to buy some tin and some rubber, and that is all that was said.

When I saw the President at the next Cabinet meeting, I mentioned it and he said, "Yes, I think you had better," and that was all that was said. I said, "All right, but I will need legislation." He said, "Go get it."

We had drafted a simple bill to buy critical materials and so forth, and it was presented to the committees on Banking and Currency of both Houses, and when the members of those committees got through rewriting and redrafting and amending and expanding that bill, it was all over the lot. It had everything in it from manufacturing shoe strings to as far as you would want to go. It was too much authority, it frightened me, and I said to that committee, to the members of the Senate Banking and Currency Committee—and, I think repeated it in the House—"If you are going to give all of that authority to the Reconstruction Finance Corporation I would like to place some safeguards. Give authority to do these things only when requested to do so by the Federal Loan Administrator with the approval of the President of the United States."

And that is in the law, and it is in there at my request because of the tremendous amount of authority which I did not want the directors of the R. F. C. to have the responsibility of exercising without supervision. So that everything that has been done in the war effort had had the written approval of the President of the United States and has been done at my request, first as Federal Loan Administrator, and then as Secretary of Commerce.

Now that is the way I feel about this authority. I think it is too much authority. I thought so at the time I was asked to become Secretary of Commerce. I didn't want to leave what I was doing because I thought I was needed there. I still think that somebody with a proven business experience of an extended nature is needed in charge of the R. F. C. and its multiple organizations.

It is bigger than General Motors and General Electric and Montgomery Ward, and everything else put together and you don't hear much about it because it is being run by businessmen, by men experienced in business, by men who haven't any ideas about remaking the world. [Laughter and applause.] Plodders—not smart, just plodders, trying to do a job honestly and constructively, and they have done it. It is not to my credit that we have done a big job or a good job. It is to the credit of the men who have done the job. I have never failed to give them credit for all the successes, and I hope always to take the blame for all the mistakes.

The CHAIRMAN. Well, is it your view that the powers of the Loan Administrator and the R. F. C. chairmanship, and all this lending that has been authorized, are so great that they might be used by one in your place to determine the economic direction of the country and affect its whole social and political structure?

Secretary JONES. You think they should be separated—is that it?

The CHAIRMAN. No. I say, Is it your view that the powers of the Loan Administrator and the Reconstruction Finance Corporation

are so great that the man who has charge of them could so administer those powers as to determine the economic direction of the country, and with that, its social and political character?

Secretary JONES. I think they could affect it very seriously. If it is up to the Loan Administrator or the Secretary of Commerce or the Directors of the R. F. C. to do a thing for which we have full authority—

The CHAIRMAN (interposing). Have you ever used your powers as Loan Administrator and R. F. C. Chairman for the purpose of determining the economic character or the social character of this country?

Secretary JONES. I certainly have not, except to the extent of being helpful. Naturally, in periods of depression we have tried to make all the loans and investments we could justify to maintain and increase employment.

The CHAIRMAN. But you have undertaken to preserve the American economy?

Secretary JONES. Yes. We have never used anything like all of the borrowing authority that we had or the power that we had or the money that we had available. We have been conscious every minute of every hour, and every hour of every day, of responsibility that we have, and if we were praying men we would pray to God to give us the courage to do what we thought was right.

The CHAIRMAN. What is the extent of your power to borrow and to lend money?

Secretary JONES. We have at this time borrowing authority for general purposes something over \$14,000,000,000. We have borrowed of that amount, and used, about \$8,000,000,000. We have available now about \$6,000,000,000.

The CHAIRMAN. That is in your capacity as Chairman of the R. F. C.?

Secretary JONES. I was referring to the borrowing authority of the R. F. C.

The CHAIRMAN. All right.

Secretary JONES. Now, of that \$6,000,000,000 we are committed for expenditures of 8½ billion dollars. In other words, we are 2½ billion dollars overcommitted.

We came to Congress 2 years ago and asked for an increase in our borrowing authority of \$5,000,000,000. That got tangled up at the end of the session and didn't carry. At that time we were getting requests from the War Department and Navy Department and Maritime and the War Production Board and every other agency for 50 million, 100 million, 700 million, 600 million, and it looked as if we would soon be out of funds. That is the reason we asked for the increase.

The committees both reported favorably, and it would have passed except that Congress was about to go home for Christmas, and it was the end of a Congress, too. We have spent in the war effort something over \$18,000,000,000.

The CHAIRMAN. You are referring now to the R. F. C.?

Secretary JONES. Yes; and the other agencies. The R. F. C., Defense Plant, Metals Reserve, Rubber Reserve, Defense Supplies, Rubber Development.

While we have spent the 18 billion, we have received back more than \$9,000,000,000 for the sale of materials, rent on plants, part

payment on plants, and various collections. We have been gradually collecting also from previous peacetime loans and investments. So that we are as well off now, or a little better off, than we were when we went to Congress 2 years ago for more money.

I don't think we need any more money; I think we have enough borrowing authority to go right on through the war because of the fact that we are selling all these materials.

We buy and sell every gallon of 100-octane gasoline that is used in the war, and we do many things, too numerous to mention now, which I could mention if I had the time. I condensed that when I sent each of you a copy, as much as I could, so that you could read it. It is the only time I have had an opportunity to report to Congress as to what we have done with all of this extraordinary authority, and I was glad to be able to do it and to show you exactly what we had done—and it is all there.

We have authorized some 32 or 33 billion dollars in war work; it hasn't all been used. We have not held anybody up 1 minute on any decision. We have built plants for the War Department that they should have built maybe, but they didn't because of the lack of authority or money or for other reasons. Back in 1940 we started building plants, and we would do it on the telephone. Knudsen would call up, "Can you do this; can you do that—\$100,000,000 here, \$200,000,000 there?" "Yes." That is the way we have run the business.

Fiscally, our business is as well handled as the biggest private corporation in the United States. We have as efficient men, as capable people, as anyone; we have our running audits; they are auditing all the time to see where we make any mistakes, where we get out of bounds, or where we are being imposed upon.

The CHAIRMAN. What are the limits? What are your financial limits or your resources for borrowing money as Loan Administrator?

Secretary JONES. What are the limits?

The CHAIRMAN. Yes. Is there a limit? How far can you go?

Secretary JONES. We can lend anything that we think we should. [Laughter.]

The CHAIRMAN. That means the sky, does it not?

Secretary JONES. Any amount, any length of time, any rate of interest.

The CHAIRMAN. And to anybody?

Secretary JONES. And to anybody that we feel is entitled to the loan.

The CHAIRMAN. You have to come to Congress for your money, do you not?

Secretary JONES. Yes; but you have given us a lot of money.

The CHAIRMAN. How much altogether?

Secretary JONES. Well, as I explained a while ago, we have 6 billion unexpended, but we have committed 8½ billion against that.

The CHAIRMAN. How much have you got loaned out?

Secretary JONES. At this time not a great deal. I think you would be interested to know that the billion and a quarter that we put in as capital in banks, back in 1933, 1934, and 1935, has all come back except less than 300 million.

The CHAIRMAN. That goes into the revolving fund?

Secretary JONES. Yes.

The CHAIRMAN. And you lend it out again?

Secretary JONES. It is there to lend out or do whatever you want to do with it.

The CHAIRMAN. What I am trying to get at is some conception of the total fund in your hands as R. F. C. head, and as the Loan Administrator—what is the total?

Secretary JONES. As I explained a while ago, Senator, \$14,000,000,000 is the total that can go. Of that, 8 billion has been spent. We still have 6 billion, and that is committed. But it comes back.

Senator BURTON. The Senator was asking what other authority, besides that under the R. F. C., you had to loan. Your 14 billion was R. F. C., was it not? The chairman was asking what additional authority you had to loan besides under the R. F. C. through your position as Federal Loan Administrator?

Secretary JONES. Nothing.

Senator BURTON. So \$14,000,000,000 is the total?

Secretary JONES. Yes.

Senator BREWSTER. Mr. Chairman.

The CHAIRMAN. Senator Brewster.

Senator BREWSTER. You said that you had spent 18 billion on Government plants. That must have been outside the 14 billion.

Secretary JONES. Government work.

Senator BREWSTER. Government work?

Secretary JONES. About 9 billion of it was Government plants, and the balance was buying materials.

Senator BREWSTER. Do you now own those plants under the Defense Plant Corporation?

Secretary JONES. Yes; we own plants now to the cost of about \$7,000,000,000, a little more.

Senator BREWSTER. And that is in addition to the 14 billion?

Secretary JONES. No.

Senator BREWSTER. That is included?

Secretary JONES. That is included.

Senator BREWSTER. So you have that as assets against—

Secretary JONES. We have these plants. The only money, Senator, that we will lose is in the war work. On everything that the R. F. C. did before the war, including the bad days back in the panic days, the R. F. C. has a definite profit, over all operating expenses and interest that we paid to borrow the money that we loaned and invested; we will have a profit of about \$500,000,000. So that the R. F. C. has not cost the taxpayer a dime except in war work.

Senator RADCLIFFE. Mr. Chairman.

The CHAIRMAN. Senator Radcliffe.

Senator RADCLIFFE. Mr. Jones, how much have you loaned out in the aggregate, how much have you collected back, and about what is the value of your present holdings?

Secretary JONES. We have loaned out and invested in bank stocks and a few securities, a total of about \$10,000,000,000—that is not counting war work.

Senator RADCLIFFE. I had reference to all the loans which you have made since you have been occupying the position.

Secretary JONES. I am trying to analyze them.

Of that, it is all back except about one and three-quarters billion. That will all come back with a substantial profit.

As I said a minute ago, the billion and a quarter we put in banks is all back except less than \$300,000,000. And the money we put in 6,102 banks, as capital, it is all back except from 2,100 of those banks; and there are only about 51 banks, of all of them, that are delinquent in their payments.

Senator RADCLIFFE. How much have you loaned for all purposes since you have been head of the R. F. C., or Federal Loan Administrator, and how much have you collected back?

Secretary JONES. We have authorized loans and investments aggregating about \$45,000,000,000.

Senator RADCLIFFE. How much have you collected, and what is the value of your present holdings?

Secretary JONES. We have paid out about \$28,000,000,000 of that, and we have collected about 19 or 20 billions.

I will have to check myself, but those are about the right figures. If I may go back to the period before the war, where the R. F. C. was set up—and the R. F. C. was not set up for the war, but for other purposes—it did its job.

Of our bank capital all is back except less than \$300,000,000.

Of the billion that went to railroads, all is back except less than \$300,000,000.

Most of our loans to industry of close to a billion have been paid.

So that we are gradually winding up our collections on everything loaned prior to the war. In the war work, of course, we have all these plants, and raw materials. In addition, we have authorized nearly \$2,000,000,000 of loans for war work.

Senator RADCLIFFE. I have always been under the impression, Mr. Jones, that your loans have turned out very successfully. That is the reason I asked you for some specific statement as to the figures.

Secretary JONES. I would be very glad, if I may—I am testifying here from memory—but I would like to put into the record of this hearing the figures that I have here for you, so that anybody who is interested in reading them will get the details.

The CHAIRMAN. You may hand those to the reporter.

(The figures submitted by Secretary Jones are as follows:)

RECONSTRUCTION FINANCE CORPORATION—SUMMARY OF ACTIVITIES NOT DIRECTLY RELATED TO THE WAR

In its activities not directly related to the war, Reconstruction Finance Corporation has authorized loans and investments totaling \$13,180,000,000, of which \$3,208,000,000 was canceled and \$9,856,000,000 disbursed. Repayments and other credits total \$7,978,000,000. In addition, Reconstruction Finance Corporation has made allocations to other governmental agencies and for relief by direction of Congress totaling \$2,900,000,000.

The authorizations include—

Loans to 5,825 going banks, 2,780 closed banks, 1,183 building and loan associations, 7 credit unions, 133 insurance companies, and 233 mortgage loan companies, aggregating \$3,395,400,000.

Investment of capital in 6,882 banks and 10 fire and casualty insurance companies aggregating \$1,393,100,000.

Loans to 98 railroads and railroad receivers and trustees aggregating \$1,503,700,000.

Loans on 404 self-liquidating projects and projects authorized under Federal, State, or municipal law, including public-school districts, aggregating \$831,700,000.

Loans to 668 drainage, levee, and irrigation districts involving disbursements of \$100,780,000.

Purchase of 3,319 issues of securities from other governmental agencies having par value of \$694,745,000 (including \$201,000,000 railroad securities).

12,102 loans to business and industry. (This is in addition to 11,216 business loans for defense and war.). The 22,311 business loans aggregate \$2,838,400,000.

Loans for benefit of agriculture totaling \$2,485,000,000.

Loans totaling \$1,011,500,000 to other governmental agencies for rural electrification, farm tenancy, and rural rehabilitation.

21,842 loans aggregating \$47,385,000 directly or through Disaster Loan Corporation to sufferers from floods and other catastrophes.

119,657 loans aggregating \$566,500,000 through the RFC Mortgage Company and Federal National Mortgage Association to reestablish a normal market for mortgages on income-producing urban property and to provide a market for Federal Housing Administration insured mortgages.

A more detailed statement is attached.

BANKS—LOANS

Loans have been authorized to 5,825 going banks, principally in 1932 and 1933, in the amount of \$1,334,880,161 to enable the banks to meet the demands of their depositors that grew out of fears for the safety of their money during the depression. Of this \$1,138,251,619 was disbursed, and 98.9 percent of the amount disbursed has been repaid.

Loans aggregating \$1,419,531,473 have been authorized for distribution to depositors in 2,780 closed banks or banks in process of liquidation. Of this amount, \$1,056,883,720 has been disbursed, and 99.5 percent of that has been repaid.

In addition to the bank loans, the Corporation disbursed \$13,061,631 to the board of deposits of the State of Wisconsin to make funds available to several hundred local governments whose money was tied up in closed or restricted banks. This has all been repaid.

BANKS—CAPITAL

To strengthen the capital structure of the banks of the country, the Corporation has authorized the investment in capital of 6,882 national and State banks in the amount of \$1,345,946,063. Of this \$1,170,296,182 was disbursed to 6,160 banks and over 74 percent has been repaid. The Corporation still has \$304,608,600 invested in the capital of 2,261 national and State banks. In addition, the Corporation holds \$174,000,000 preferred stock of the Export-Import Bank.

BUILDING-AND-LOAN ASSOCIATIONS

Loans aggregating \$179,989,560 were authorized to 1,183 building-and-loan associations and receivers of building-and-loan associations to make funds available to shareholders and depositors and to enable receivers to make distributions to depositors and other creditors of the associations without causing extensive foreclosures of homes. Of this, \$140,156,038 was disbursed and 99.6 percent has been repaid.

CREDIT UNIONS

Loans aggregating \$642,968 were made to seven credit unions, all of which have been repaid.

INSURANCE COMPANIES—CAPITAL

The Corporation authorized \$47,150,000 and disbursed \$47,150,000 to 10 fire and casualty insurance companies, of which \$15,565,560 has been repaid.

INSURANCE COMPANIES—LOANS

The Corporation, principally in 1932 and 1933, authorized loans totaling \$104,439,750 to 133 companies to enable them to meet the demands of policyholders. Of this \$90,695,210 was disbursed and 99.7 percent of the amount disbursed has been repaid.

RAILROADS

The Corporation has made railroad commitments aggregating \$1,563,736,390 of which \$573,906,171 was not used because with a Reconstruction Finance Corporation commitment the roads were able to get the money in the usual channels or because their plans were not carried out. A total of \$851,090,175 was disbursed and of this \$538,828,470 has been repaid. These amounts do not include \$200,800,500 of railroad securities taken over from the Public Works Administration, of which \$191,422,969 has been sold or retired.

SELF-LIQUIDATING PROJECTS

The Corporation has authorized loans on 176 self-liquidating projects; that is, projects which pay for themselves principally from the revenues derived from operation of the project, aggregating \$398,873,884. Of this amount, \$339,531,641 was disbursed and of the amount disbursed, \$324,633,284 has been repaid through retirement or sale of the securities evidencing the loans. A premium of \$16,947,121 was realized in the sale or retirement of these securities.

PUBLIC AGENCIES—STATES, MUNICIPALITIES, ETC.

The Corporation has authorized loans to or contracts with States, municipalities, and political subdivisions of States to aid in financing 190 projects authorized under Federal, State, or municipal law aggregating \$407,395,216. Of this amount \$281,652,226 was disbursed and \$255,751,496 has been repaid through retirement or sale of the securities evidencing these loans. A premium of \$8,011,131 was realized in the sale or retirement of these securities.

PURCHASE OF PUBLIC WORKS ADMINISTRATION SECURITIES

The Corporation has purchased from the Federal Emergency Administration of Public Works 3,319 issues of marketable securities having par value of \$694,744,788 of which \$603,512,388 have been retired or sold at a net premium over par of \$14,579,369.

BUSINESS AND INDUSTRY

The Corporation has authorized 12,102 loans or participations aggregating \$738,108,610 not directly related to the war. Banks participated in 3,624 of these loans to the extent of \$80,950,816, making a total of \$819,059,426. In addition, for purposes of national defense and war programs, the Corporation has authorized 10,239 loans or participations, aggregating \$2,019,342,537, including the banks' share of \$106,082,049 in 2,760 loans. This makes a total of 22,341 loans authorized to business aggregating \$2,838,401,963, including 1,229 in the amount of \$39,350,975 for mining and mining development.

AGRICULTURE

To facilitate the exportation of surpluses of agricultural products and their sale in the markets of foreign countries in which such sales could not be financed in the normal course of commerce, the Corporation authorized loans aggregating \$98,445,246 and disbursed \$47,300,826. Of this \$13,537,388 was taken over by the Export-Import Bank and all the remainder has been repaid.

The Corporation authorized loans aggregating \$1,754,712,665 to Commodity Credit Corporation for loans on cotton, corn, turpentine, tobacco, and several other commodities, of which \$767,716,962 was disbursed. Commodity Credit Corporation has retired its indebtedness to the Reconstruction Finance Corporation in full. The Corporation also authorized \$86,061,513 of loans to other borrowers to finance the carrying and orderly marketing of agricultural products, of which \$19,644,492 was disbursed and 99.7 percent of that has been repaid.

The Corporation has made several other classes of loans for the benefit, directly or indirectly, of agriculture. These include \$387,236,000 disbursed to Federal land banks, all of which has been repaid; \$9,250,000 disbursed to Federal intermediate credit banks and all repaid; \$26,194,970 disbursed to joint stock land banks and 98.8 percent repaid; \$12,649,956 disbursed to livestock credit corporations and all repaid; \$173,243,641 disbursed to the regional agricultural credit corporations and all repaid; and \$5,643,618 disbursed to other agricultural credit corporations and all repaid.

The Corporation authorized loans aggregating \$23,500,000 to the Secretary of Agriculture to enable him to acquire cotton, of which \$3,300,000 was used. This has been repaid.

PUBLIC SCHOOL AUTHORITIES

The Corporation disbursed a loan of \$22,300,000 to pay salaries of 15,000 Chicago school teachers. The loan was evidenced by bonds secured by real estate owned by the Chicago Board of Education, all of which were subsequently sold at a premium.

The Corporation authorized 37 loans aggregating \$3,189,050 to tax-supported public school districts or other similar public school authorities; \$957,175 has been disbursed, of which \$633,400 has been repaid.

NATIONAL MORTGAGE ASSOCIATIONS

To assist in the reestablishment of a normal mortgage market and to aid in carrying out the purpose of the National Housing Act, the Corporation acquired and holds all the outstanding capital of the RFC Mortgage Company in the amount of \$25,000,000 and the \$11,000,000 capital and paid-in surplus of the Federal National Mortgage Association. The Corporation also has outstanding loans to these two companies totaling \$125,453,397.

OTHER MORTGAGE LOAN COMPANIES

In addition to the loans it has made to the RFC Mortgage Company, the Federal National Mortgage Association and mortgage loan companies organized to aid in the reorganization or liquidation of banks, the Corporation has authorized loans to privately owned mortgage loan companies to prevent them from failing, most of this in the first 2 or 3 years of the Corporation's existence. The amount of these loans authorized to 233 borrowers was \$355,915,432, of which \$245,130,980 was disbursed. Over 95.5 percent of the amount disbursed has been repaid.

DRAINAGE, LEVEE, AND IRRIGATION DISTRICTS

The Corporation has disbursed \$100,778,038 in loans to or for the benefit of drainage, levee, irrigation, and similar districts for improvement purposes or for refinancing outstanding indebtedness. Repayments total \$62,134,200. By these loans the bonded indebtedness of several hundred districts was reduced 55 percent and the water charges and bond-service assessments by two-thirds.

RURAL ELECTRIFICATION ADMINISTRATION

The Corporation has authorized loans aggregating \$356,500,000 to the Administrator of the Rural Electrification Administration, of which \$281,000,000 was disbursed. These loans are collateralized, with a 15-percent margin, by the loans made by the Administrator secured by mortgage on the projects financed which bring electricity and electrical facilities to rural districts.

FARM TENANCY

In order to enable the Secretary of Agriculture to carry out the provisions of title I of the Bankhead-Jones Farm Tenant Act the Corporation has been authorized and directed to loan to the Secretary of Agriculture \$177,500,000, of which \$141,909,000 has been disbursed.

RURAL REHABILITATION

In order to furnish the Secretary of Agriculture with additional funds for the purpose of making rural rehabilitation loans to needy farmers, the Corporation has authorized advances to the Secretary of Agriculture in the amount of \$477,500,000, of which \$456,549,000 has been advanced.

CATASTROPHES

The Corporation has authorized 718 loans, totaling \$16,184,521, to finance the repair, construction, or reconstruction or rehabilitation and for the acquisition of property in replacement of property damaged or destroyed by floods or other catastrophes occurring in 1935 or 1936. Of this, \$12,003,055 was disbursed. \$508,634 is still due from the borrowers.

ELECTRIC HOME AND FARM AUTHORITY

By Executive Order 9256, dated October 13, 1942, the President ordered the cessation of the activities of the Electric Home and Farm Authority, as of October 31, 1942, and transferred to the Reconstruction Finance Corporation, for purposes of liquidation and payment of its liabilities, all of its assets, funds, records, contracts, and property. Liquidation is practically complete.

ALLOCATIONS TO OTHER GOVERNMENTAL AGENCIES AND FOR RELIEF

In addition to its lending and investment functions, the Corporation was required by various acts of Congress to allocate funds to other governmental agencies and for relief of distress.

This includes allocations by Congress to the Secretary of the Treasury of \$125,000,000 to capitalize the home loan banks and \$200,000,000 to capitalize the Home Owners' Loan Corporation; \$200,000,000 to the Land Bank Commissioner—later part of the Farm Credit Administration—for loans to farmers and for capital of the Federal Farm Mortgage Corporation and an additional \$100,000,000 to the Land Bank Commissioner for loans to joint stock land banks; \$115,000,000 to the Secretary of Agriculture for crop loans; \$44,500,000 for the capitalization of the regional agricultural credit corporations; \$40,500,000 to the Farm Credit Administration for capitalization of production credit corporations; \$1,800,000,000 for relief; \$97,000,000 for the capital of Commodity Credit Corporation; \$40,000,000 for the capital of the Disaster Loan Corporation; \$97,861,381 advances to the Federal Housing Administrator of amounts necessary to carry out provisions of the National Housing Act; and advances for expenses of the regional agricultural credit corporation.

Pursuant to act of Congress, \$2,784,867,007 of the Corporation's notes held by the Secretary of the Treasury have been canceled on account of disbursements made for such allocations and relief advances.

THE RFC MORTGAGE COMPANY

The RFC Mortgage Company was created in 1935 to assist in the reestablishment of a normal market on urban income-producing property.

From its organization in 1935 the Company has disbursed approximately \$335,400,000 for 63,300 mortgages and loans; has sold or collected \$2,700 totaling \$233,200,000 and now has outstanding \$20,600 totaling \$102,200,000. Over \$100,000,000 of the amount disbursed may be described as relating to war housing.

FEDERAL NATIONAL MORTGAGE ASSOCIATION

This Association was created in February 1938 to establish a market for Federal Housing Administration insured long-term amortized mortgages and make available the full benefits of the National Housing Act to all who wanted to build new homes.

The Association has disbursed \$271,500,000 for 66,900 mortgages, has sold or collected 51,900 totaling \$219,000,000, and has outstanding 15,000 totaling \$52,500,000.

DISASTER LOAN CORPORATION

This Corporation was organized in February 1937. Its function is to provide loans made necessary by floods or other catastrophes that occur between January 1, 1936, and January 22, 1947.

The Corporation has disbursed 21,000 loans totaling \$31,200,000. Of these 14,500, totaling \$27,300,000, have been repaid and 3,000 active loans, totaling \$3,300,000, remain outstanding.

Secretary JONES. Our operations, our regular operations, include the RFC Mortgage Company, the Federal National Mortgage Association, the Disaster Loan Corporation, and the War Damage Corporation.

We are operating more than 125 plants that are manufacturing this, that, and the other for war work. We are operating five pipe lines, including the Big Inch and the Little Big Inch. We buy every drop of oil that goes into those pipe lines at the oil field, and we sell it again when it gets up into this country.

The plants that we are operating now, through industry, acting as our agents, cost about a billion and a half dollars, and they include steel, magnesium, aluminum, chemical, metal-fabricating plants, floating power plant for the Mississippi-Florida area, gas storage—now that is a nice one, I think you would be interested to know that we buy gas and pump it back into the ground in California, to keep it from going to waste, and then we draw it out again and sell it. That sounds a good deal like lending money on a school of codfish, but we really get it back.

Senator BREWSTER. Mr. Chairman.

The CHAIRMAN. Senator Brewster.

Senator BREWSTER. Have you, Mr. Jones, formulated a plan for the liquidation of the assets, with the object of preserving our traditional economy?

Secretary JONES. It can't be done, because the Congress has passed a law about the disposition of the plants.

Now I am very strongly of the opinion that we ought to keep in stock pile the metals and minerals that we have accumulated for stock piles, that do not decay, because we have drawn very heavily on our own minerals in this country. We have subsidized about 3,400 mines that produce copper and lead and zinc and other things, in order to get the production that we need for the war. Whatever we have of those metals that do not deteriorate, we should, in my opinion, keep, and use them when we have to have them.

As for the plants, they cannot be sold in a hurry. We have some 20 plants that cost an average of one hundred million. We have a few that cost two hundred million. Well, there are not many people that are interested in buying a plant that cost one hundred million. There are not many people interested in buying a plant that cost \$5,000,000. But they should be operated privately to supply employment, probably under lease.

Now we own—we built and own outright—completely integrated plants in the number of about 950, and they cost \$6,000,000,000. We also own about 125 parts of plants, where we have added an addition to another plant. In those cases we either own the land or have a long-term lease. We can lock them up and keep them, or we can sell or lease them.

In selling or leasing our plants, the big plants could be subdivided.

The CHAIRMAN. Could you continue to operate them?

Secretary JONES. You could continue to operate them if you wanted to. Congress can do it; yes.

The CHAIRMAN. I mean under the existing law.

Secretary JONES. I hadn't thought much about that. A great many of our plants are leased to industry, most of them in fact, and those leases expire maybe 6 months after hostilities cease, or for other reasons. It would be very easy for the Government, if they wanted to do it, to continue to operate these plants or to have them operated for the account of the Government. We have now 125 important plants that are being operated now for our account, as I said—some of them on a fee basis and some are operated without a fee, as a patriotic duty, by the operator.

If I may, a good deal has been said about little business, and I would like to talk a little about that, because we are all interested

in it; it is the backbone of this country. It has a pretty hard time to survive against mass production and mass distribution, against the chain stores and large production. But in our war work we have authorized more than 11,000 loans to the little fellow. Three thousand of them have been for \$5,000 or less; 1,700 of them have been for less than \$10,000; 2,400 of them have been for less than \$25,000; 1,500 of them have been for less than \$50,000; and 1,250 for less than \$100,000.

Now, we have made those loans to the little contractor, to the little plant—the fellow who is making a gadget or who has a subcontract. Those loans for war work total \$1,990,000,000. Before the war we made over 12,000 loans and 4,500 were \$5,000 or less each.

We have made 2,884 loans under the provisions of the Murray-Patman Act, aggregating \$64,000,000. And under the same authority we purchased 35,000 items that were covered by that legislation, at a cost of about \$8,000,000. They include automobiles and trucks and oil burners and typewriters, and various and sundry things that were covered in that bill. We have met the requirements, wherever they showed up—electric ranges and sundry things.

In addition to loans to the small fellow, the Defense Plant Corporation has furnished Government-owned machine tools to more than 3,200 small manufacturers on a lease basis. We lease a man a tool or two tools, and he pays rent for them; 1,667 of these were in amounts of less than \$10,000, and only 153 of the 3,200 were for as much as \$100,000. So that the little businessman, the little manufacturer, has had almost whatever he asked for in connection with the war.

Now, right after the outbreak of war we authorized our agencies all over the country to make loans on the spot without referring them to Washington, up to \$100,000 without bank participation and up to \$250,000 with bank participation. If it was more than that, they were instructed to send in a telegram with a recommendation for approval.

Senator BREWSTER. Mr. Jones, may I ask a question?

Senator JONES. Yes.

Senator BREWSTER. You have had this unique experience now in handling both of these jobs. Do you care to express an opinion, either out of that experience as to whether or not you would again think it was wise to undertake both, or whether or not you think a divorce would be well warranted?

Secretary JONES. Well, that depends—I think I must first say "Yes." I think they should be divorced, and I didn't want to leave the Federal Loan Agency to get in the Cabinet. I didn't care anything about that. I thought I was where I could do the best work. But since the President was good enough to appoint me to the Cabinet and Congress was willing for me to hold the two jobs, there we are.

I would like to say this, though. During the war the Department of Commerce has had very little to do except as a service agency for the other departments. As you know, the Department of Commerce includes these various technical bureaus, like the Bureau of Standards and the Weather Bureau and the Coast and Geodetic Survey and the Patent Office, and two or three others, including Civil Aeronautics. That required some time, not a great deal because there we have a fine Administrator and a fine organization. There is not much that I can do, or that any other Secretary of Commerce can do, for the

Weather Bureau or for the Patent Office or these other agencies that are purely technical. They are run by technical men.

We can help them, we can advise with them, and do when they want advice. We kind of keep track of how they are getting along. We help them with their budgets and their legislation, but that is about all there is to it.

Now, so far as promoting business, commerce, during the war, it just hasn't been in the cards, because everything has been war.

Now, we have—and I am going to leave for the record here—a very broad program for the Department of Commerce, post-war. I say "broad," intending it to take care of foreign and domestic commerce, and the many things it can do and information it can give to business and industry. We have talked about it between ourselves, and discussed it, and we have got a nice program. It has been available for a month, and we discussed it; it looks like the proper time to discuss it. But the operations of the Reconstruction Finance Corporation, and all of these various corporations, they are just as much business as General Electric and they ought to be run by businessmen—and I am not looking for the job. I have held the job; I have done it for 13 years; I have been in the trenches for 13 years.

The CHAIRMAN. Have you resigned, Mr. Secretary?

Secretary JONES. I don't know whether I have resigned or not. If you read the newspapers you know about as much as I do about it. I am still working; I will say that.

The CHAIRMAN. You are still working?

Secretary JONES. I am still working.

The CHAIRMAN. You are carrying on all the work of the Department of Commerce as Secretary, are you?

Secretary JONES. Well, we have got an Under Secretary and Assistant Secretary, and another Assistant Secretary, but I am still Secretary, I suppose, officially, until someone else is confirmed.

The CHAIRMAN. Then you are carrying on the Loan Administration?

Secretary JONES. That part of it, I can work for the Reconstruction Finance Corporation as a hired hand and I can take whatever salary they are willing to give me. My big responsibility to the country and to the Congress is to be helpful to the Reconstruction Finance Corporation.

Now, I do not run that organization at all. It has five directors, and they are all good men. I will say this, that of all the corporations that we have, the directors of the R. F. C. are the directors of each corporation, and they meet every day, six times a week. When they are in session, then every corporation is in session, and I do not attend the meetings. If they want my advice or my suggestions, they come and ask for it—I am available—and that is the way it is run. They are good men.

Senator BREWSTER. It is your point, then, that the Secretary of Commerce has not had greatly increased responsibilities incident to the war; that many of the activities have been rather inactive on account of the fact that business and commerce has not required a great deal of cultivation and stimulation incident to that office?

Secretary JONES. No. The purpose was to promote commerce, and there has not been much opportunity to promote commerce all during the war.

Senator BREWSTER. As we approach the end of the war those responsibilities will offer great opportunities?

Secretary JONES. They will.

Senator BREWSTER. And it would be will to have a division of responsibilities, as this act provides?

Secretary JONES. It will.

Senator BURTON. Mr. Jones, did you say that you had the post-war plan with you, or will you file it with the committee?

Secretary JONES. I don't know whether I have it with me.

Senator BURTON. I think it would be well, Mr. Chairman, to have that as a part of the record.

The CHAIRMAN. You may file that with the stenographer.

Secretary JONES. Well, I would like to put it in. I would like also to put in as part of the record this other material that I talked about, about the war work, and also about our R. F. C. In other words, if we are coming to a parting of the ways, I want to make a report to the Congress.

The CHAIRMAN. You put in anything in connection with your remarks that you think you should put in. Hand it to the stenographer and it will be put in the record as part of your remarks.

(The post-war plan referred to is contained in the following letter:)

DECEMBER 15, 1944.

The PRESIDENT,
The White House.

DEAR MR. PRESIDENT: You have, in recent public utterances, set as goals for the post-war period full employment and increased production, so that we may find work in this country for 60,000,000 persons and maintain a national income approximating \$140,000,000,000.

These stated objectives, in which the Department of Commerce must play a prominent part, prompt me to submit, for your consideration, what we in the Department believe to be essential so that we may carry out your objectives fully and ably. To do so, we must have your full cooperation and that of the Bureau of the Budget.

In the field of foreign trade, the Department of Commerce needs considerable strengthening. It should be authorized to detail men of proven business experience to all of the principal embassies and legations to serve as economic representatives under the direction, of course, of the ambassadors or ministers.

We have, for some time, proposed an enlargement of the Field Service of the Department of Commerce, in order to provide management advice and counsel to business—particularly small business. Our ideas were embodied in S. 356, introduced at the last session by Senator Mead.

It is our conviction that, when the returning veterans and those who have been engaged in war work begin to set up their own business establishments, Government must make available the knowledge and experience it has gained, in order to minimize the mortality rate of such ventures.

The Department of Commerce, in cooperation with the War Department, already has prepared a series of booklets outlining the best practices for the operation of many types of small business establishments.

This program should be implemented by the addition of experienced men to our field offices to provide additional guidance for those who seek to perpetuate private enterprise and individual initiative.

In order that the Commerce Department may be additionally useful in carrying out its statutory functions, there should also be an enlargement in the number of its Assistant Secretaries.

At the present time, we have an Under Secretary and one Assistant Secretary. The existing Assistant Secretary is, in effect, an Assistant Secretary for Aviation, although not so designated. It would promote efficiency and improve administration if he were to be specifically designated as Assistant Secretary for Aviation.

As you know, the Department's functions include supervision of the Bureau of Standards, the Patent Office, and the President's Patent Planning Commission. These activities are largely in the field of science.

It would be helpful for the Department to have a new Assistant Secretary with scientific background to supervise these activities. He would be particularly effective in promoting greater public use of the excellent facilities of the National Bureau of Standards, especially in the post-war period.

The Bureau of Foreign and Domestic Commerce and the Census Bureau are the two bureaus of the Department of Commerce which can be of the greatest direct service to business.

During the past 4 years much has been done to establish integration and co-operation between these two bureaus.

An Assistant Secretary in charge of Business Service could be very effective in directing the activities of these two bureaus, especially in the field of better service to small business, war workers, and veterans.

The man occupying this position would, in effect, be the Assistant Secretary for Small Business suggested at the last session of Congress in S. 833.

There is need, in addition, for an Assistant Secretary in Charge of Administration.

The Department of Commerce has about 30,000 employees and the Reconstruction Finance Corporation about 9,000, stationed in all parts of the United States and in many parts of the world.

Supervision of this great force entails a tremendous amount of detail work. A considerable part of it now occupies the time of the Under Secretary.

The appointment of an Assistant Secretary for Administration would leave the Under Secretary free for special assignments and for operating relations with other departments and agencies—phases of the Department's work that cannot be emphasized too strongly.

I would appreciate the opportunity of discussing this program with you further, with a view of obtaining your approval for the enlargement of the Department's field offices and the creation of the three additional Assistant Secretaries.

Sincerely yours,

JESSE H. JONES,
Secretary of Commerce.

Number of employees

Reconstruction Finance Corporation:		
Total employees	9,419	
Washington pay roll	5,599	
Loan agencies	3,820	
Department of Commerce:		
Total employees	32,339	
Washington pay roll	10,102	
Field	22,237	

JANUARY 19, 1945.

The PRESIDENT,

The White House.

MR. PRESIDENT: The Department of Commerce has participated in direct national defense and war activities to a major extent. Some of its bureaus, such as the National Bureau of Standards, Civil Aeronautics Administration, Weather Bureau, Coast and Geodetic Survey, and the National Inventors Council, have become virtual adjuncts of the military establishments; and the remaining bureaus—Bureau of Foreign and Domestic Commerce, Bureau of the Census, Patent Office, and Inland Waterways—have subordinated their normal functions to such an extent that war work has become their dominant concern. The war work of the bureaus of the Department of Commerce has consisted both of activities independent in character and those carried on in cooperation with direct war agencies. This has been so to a very great extent, probably more than is realized.

The Bureau of Standards, for instance, has subordinated all of its peacetime functions to tasks concerned with the production and improvement of military matériel. The Bureau grounds have been declared a prohibited zone by the War Department. It flies the Army-Navy E pennant with two stars. It is, today, one of the largest producers of optical glass, and, through the manufacture of lenses and prisms, provided the armed services with their requirements following the outbreak of the war. Due to this production, the supply of range

finders, gun sights, airplane cameras, and field binoculars has been kept abreast of the demand. Equally important have been the precise scientific tests which the Bureau of Standards conducts in the field of ordnance development, leading in many instances to major improvements in the offensive weapons of the United States.

The Civil Aeronautics Administration's direct contribution to the prosecution of the war consists of the maintenance and operation of the 35,000 miles of Federal airways in the United States and the operation of numerous communication and flight-control facilities outside the United States, including Alaska, the Aleutians, the South Pacific, and points in South America, Africa, and India. The Civil Aeronautics Administration, in addition, has taken over traffic control and certain important airports for the Army and Navy and is operating oceanic aircraft control for Pacific air traffic, which is made up entirely of military aircraft operations.

The Airways Engineering Division of the Civil Aeronautics Administration furnishes and constructs communication facilities for the Army and Navy at many locations outside of the United States, and has accomplished the airport construction program involving airports designated by the military services.

The Civilian Pilot Training Program, inaugurated by the Civil Aeronautics Administration before the war, provided the armed services with 100,000 aviation candidates during the early war days when aviators were in such great demand by the military.

The facilities of the Weather Bureau have been adjusted and expanded to meet a great variety of wartime needs. Special forecasting services have been instituted to facilitate artillery and aircraft tests and to serve Army posts, construction projects, munitions plants, and the Air Transport Command. Military aviation communication networks have been extended to service Army establishments wherever necessary. The Alaskan and Caribbean weather services have been reorganized and improved to meet special military needs. Skilled personnel have been assigned to full-time service details with the armed forces. The Weather Bureau has, through the Joint Meteorological Committee, coordinated the activities of civilian and military requirements.

The Coast and Geodetic Survey has placed its products and services entirely at the disposal of the armed services. The production of nautical charts for use by the Navy and merchant marine has been greatly expanded. The output of aeronautical charts for air navigation and pilot training has been tremendously increased, and many special nautical and aeronautical charts have been added. Geodetic control surveys have been expanded and enlarged, many of them being made in regions classed as "combat areas." Certain vessels of the Coast and Geodetic Survey have been transferred to the Navy Department, and certain personnel to the War and Navy Departments, to constitute a part of the active military or naval forces of the United States. The Philippine charts were produced by this Bureau.

The National Inventors Council was established to aid the defense and war effort. It has served as the screening point for thousands of suggestions submitted by American inventors as of possible use in the war effort. Every idea believed to be of even the slightest merit has been considered by some of the outstanding scientists of the country, and a number of devices extremely useful in the war effort have been developed.

The Bureau of Foreign and Domestic Commerce has served not only the military establishments through providing economic information, but has been a storehouse of facts on which the war agencies have drawn continuously. The factual material on which the War Production Board, the Combined Resources and Allocations Board, the Foreign Economic Administration, the Office of Price Administration, and many others have based most of their major decisions, has been provided by the Bureau of Foreign and Domestic Commerce.

The Bureau of Foreign and Domestic Commerce is the issuer of the Proclaimed List of Certain Blocked Nationals. Members of the staff serve on dozens of interdepartmental committees directly concerned with the war effort.

The Bureau of the Census provided much of the basic factual data needed for nearly every phase of planning for total war. It has been drawn upon for such statistical material by nearly every other agency of the Government; and the factual material which it was able to supply time and time again disclosed the location of facilities and manpower which would be employed for war production. Procurement agencies, through the assistance of the Bureau of the Census, have been able to obtain both speedy and accurate economic information needed for hundreds of major decisions. From its population

records, the Bureau of the Census was able to establish the citizenship of hundreds of thousands of workers who needed this proof in order to be employed in our plants; and, immediately after Pearl Harbor, was in a position to give the military services the name and residence of all Japanese nationals residing in prescribed west coast areas.

The Patent Office, through the War Division, initiates searches for applications on inventions deemed important by Government war agencies; it determines cases in which secrecy orders shall be issued to protect the interests of the United States under inventions, and determines the withholding of licenses required to file patent applications abroad, to prevent our inventions from reaching unauthorized persons. It has cooperated with the Foreign Economic Administration and the Alien Property Custodian in matters involving enemy-owned patents.

The resources of the Inland Waterways Corporation have been utilized to a great extent for the transportation of critical and strategic matériel needed in the war effort. It has moved without accident, from the Great Lakes to New Orleans, a number of combat vessels which could not go down the rivers under their own power.

I should like to commend the heads of the various bureaus in the Department and their respective organizations. They have all been prompted by a fine sense of patriotism and have done their jobs well.

Sincerely yours,

JESSE H. JONES,
Secretary of Commerce.

The CHAIRMAN. Have you finished your statement?

Secretary JONES. I do not think of anything else. I may later.

The CHAIRMAN. Are there any questions?

Senator McCLELLAN. Mr. Chairman, I would like to ask a question.

The CHAIRMAN. Yes.

Senator McCLELLAN. Mr. Secretary, probably you have covered this, but if so, I did not understand it, and I would like for the record to show the total amount of loans that have been made by the R. F. C. and its subsidiaries since you came into this picture. As I understand, you loan money and it is repaid and goes into a revolving fund and you loan it again. I would like to know the volume of business that has been handled in the 13 years that you have been there.

Secretary JONES. May I put it in the record and get that accurately?

Senator McCLELLAN. I would like for the record to show it.

Secretary JONES. I will be glad to.

Senator McCLELLAN. Thank you.

(The information referred to is as follows:)

Over-all authorizations, disbursements, and repayments of the Reconstruction Finance Corporation and its subsidiaries

AUTHORIZATIONS	
War.....	\$32,300,000,000
Non-war.....	13,160,000,000
Total.....	45,460,000,000
DISBURSEMENTS	
War.....	\$18,000,000,000
Non-war.....	9,656,000,000
Total.....	27,656,000,000

REPAYMENTS

War.....	\$8,100,000,000
Non-war.....	7,978,000,000
Total.....	17,078,000,000

Senator PEPPER. Mr. Jones, following up the inquiries I made of Senator George as to what would be the legal significance of his bill if enacted, did I understand you to say that you have or have not submitted your resignation as the Federal Loan Administrator?

Secretary JONES. Suppose you read my letter to the President?

Senator PEPPER. I read the one purporting to be your letter in the paper here.

Secretary JONES. That is all I can tell you.

Senator PEPPER. Well, you are present here and you know more about it than anybody, and of course we are not as well informed on it as you are. Did you intend to resign as Federal Loan Administrator by that letter?

Secretary JONES. I had supposed that my term of office would expire when my successor was confirmed. That is what I had been advised. It makes little difference to me. I do not expect to remain as Secretary of Commerce, if that is what you have in mind.

Senator PEPPER. I was wondering whether, if this bill were enacted, you would expect to remain as Federal Loan Administrator.

Secretary JONES. That would be up to the President of the United States. I am not seeking a job, Senator.

Senator PEPPER. I was trying to get the technical situation clear, Mr. Secretary. Is there a term of years in the office of Federal Loan Administrator? In other words, were you appointed for a term of years as Federal Loan Administrator, or at the will of the President, or at the will of Congress, or what was your term as Federal Loan Administrator?

Secretary JONES. I do not know, but I doubt if there was a term. I don't know. Is there anybody here that knows? [Laughter.] I don't know, Senator. My impression is that there was no term.

Senator PEPPER. It is your impression that there was not a term?

Secretary JONES. That is my impression, but I might be wrong about that. It was not for so many years; I know that.

Senator PEPPER. According to your own opinion, your opinion is that with respect to the office of Secretary of Commerce you submitted your resignation. Do you regard your resignation as terminating your tenure of that office, by your letter? Did you regard that as the termination of our office as Secretary of Commerce?

Secretary JONES. I regarded that as terminating whenever my successor was appointed and confirmed.

Senator PEPPER. And you have the same view as Federal Loan Administrator; that is, if another Federal Loan Administrator were appointed by the President and confirmed by the Senate, then that would terminate your office as Federal Loan Administrator?

Secretary JONES. Certainly.

Senator PEPPER. And you are continuing to function as Federal Loan Administrator, in that office, and doing business as usual as Federal Loan Administrator?

Secretary JONES. I would think so, and yet there is not much "function" about it. I am an adviser; I am not a dictator. [Applause.] I don't tell these men what to do.

Senator PEPPER. Perhaps you underestimate, through your modesty, your importance.

Secretary JONES. I do not. May I say this—that the power of the Federal Loan Administrator is to supervise and coordinate. You can read into that what you want to read into it.

Senator PEPPER. Mr. Secretary, you spoke about the R. F. C. That is the parent company, as it were, is it not? It is the holding company or the parent company for all these subsidiary corporations?

Secretary JONES. That is correct.

Senator PEPPER. And that has a board of directors?

Secretary JONES. Yes; five.

Senator PEPPER. Would you give us the names of those gentlemen?

Secretary JONES. Yes, sir; I will be glad to. Charles B. Henderson, a Democrat from California—or Nevada, I believe. Sam H. Husbands, from South Carolina. He is a director. Husbands is president of the Defense Plant Corporation. Henderson is president of Metals Reserve Company, as well as a director. Henry Mulligan—H. A. Mulligan—sitting over here—this red-faced Irishman—he is a director, and he is president of the Defense Supplies Corporation. Charles T. Fisher, Jr., a Republican, he is president of the RFC Mortgage Company, and generally handling R. F. C. loans.

Senator PEPPER. Handling R. F. C. loans generally?

Secretary JONES. That is most of his work, as the work is divided up.

Senator PEPPER. Yes.

Secretary JONES. Howard Klossner, a Republican from Minnesota. He is president of the Rubber Reserve Company.

Senator PEPPER. I believe that makes the five.

Secretary JONES. I think maybe he is also president of the War Damage Corporation.

Senator PEPPER. I see. Now, who is chairman of the R. F. C. board of directors?

Secretary JONES. Charles B. Henderson.

Senator PEPPER. What were Mr. Henderson's duties and what was his general background before he came to be a director of the R. F. C.?

Secretary JONES. He was a businessman in Nevada, a banker, interested in mining, et cetera.

Senator PEPPER. What was Mr. Husband's background?

Secretary JONES. Sam Husbands came from South Carolina. He was a small-town banker and a very able young man, one of the best in the world.

Senator PEPPER. When you say "a small-town banker," what size bank do you mean?

Secretary JONES. Well, I don't know what size, but it was a small town in South Carolina, and your judgment would be as good as mine if you want to guess.

Senator PEPPER. What was Mr. Mulligan's background before he came to be a director?

Secretary JONES. Mr. Mulligan was brought into the Corporation by Eugene Meyer, as Chairman, when it was first set up. He was with the old War Finance Corporation.

Senator PEPPER. He was what?

Secretary JONES. He was with the old War Finance Corporation.

Senator PEPPER. Yes.

Secretary JONES. After the last war. He was brought into this Corporation as assistant treasurer and then promoted to treasurer, and finally to a director of the Corporation, and he is the ablest man, in my opinion, in Washington.

Senator PEPPER. He worked himself up. Except for being connected with the War Finance Corporation—in the last war, you mean?

Secretary JONES. What?

Senator PEPPER. You said he was connected with the War Finance Corporation. Did you mean in the last war?

Secretary JONES. Yes, sir.

Senator PEPPER. Then he came into this organization and apparently worked his way up in the organization.

Secretary JONES. Yes, sir. They all did. Mr. Klossner, Mr. Husbands, Mr. Mulligan, Mr. Fisher—they were all workingmen, they were in the organization, and they are all working directors, they are all promoted for merit, not political appointments at all.

Senator PEPPER. What was Mr. Fisher's background?

Secretary JONES. Who?

Senator PEPPER. Mr. Fisher.

Secretary JONES. He was of the Fisher crowd in Detroit. Former Senator Blaine was a Republican member of the Board from that Federal Reserve district, and we cannot have more than one director from any one district, and when Senator Blaine died there was a Republican vacancy. Chick Fisher, then a very young man, was manager for the R. F. C. in Detroit, one of our biggest offices, and we asked the President to appoint him a member of the R. F. C. board and bring him to Washington, upon the theory that we would like to have his field experience sitting around the board in Washington, and he is a very excellent director.

Senator PEPPER. What is Mr. Klossner's background?

Secretary JONES. I would like to say just a little more.

Senator PEPPER. Proceed.

Secretary JONES. He is president now of the National Bank of Detroit, a bank of about a billion and a half deposits, the biggest bank in the midwestern area outside of Chicago.

Senator PEPPER. Did he become president of that bank since he has been connected with the R. F. C.?

Secretary JONES. He was not with us when he became president of the bank.

Senator PEPPER. But he has retained his presidency of a bank while he was a director of the R. F. C.?

Secretary JONES. He is a nonworking president of the bank now.

Senator PEPPER. A nonworking president?

Secretary JONES. He is not working at that job. He is here in Washington, with his family, working for the R. F. C., with a leave of absence, like a lot of other good people in war work.

Senator PEPPER. What was Mr. Klossner's background?

Secretary JONES. Mr. Klossner had been a bank examiner, I think—worked in banks—and I don't know what else, but he was also an examiner in the R. F. C. in 1932, selected by Mr. Eugene Meyer, and

he also grew up and graduated into being a director. He is a working director, and that is the only kind we have; we have no politicians. [Laughter.]

Senator PEPPER. You mean on the board of directors of the R. F. C.?

Secretary JONES. Yes, sir; that is right. I hope I can qualify on that.

Senator PEPPER. I take it, it is the general opinion that you have done your work well. Now, Mr. Jones, those five men whom you emphasized were able to run the R. F. C. practically without your help—did those men have any background or any legislative positions that you would describe as more important than the job of being Secretary of Agriculture?

Secretary JONES. Just exactly what is your purpose there, Senator? [Laughter.]

Senator PEPPER. Maybe I should ask you what the purpose of your original testimony was and your comment upon the kind of persons who would qualify for this position. The point I attempted to imply—and maybe I can clarify it by stating it—was that I regard Mr. Henry Wallace, having been for several years Secretary of Agriculture and having loaned under that agency, while he occupied that position, several billion dollars, and having thousands of employees under his jurisdiction, as having a background which, according to the importance and responsibility of this position, compares favorably with any of the directors of the R. F. C., which is the parent company of that great unit. [Applause.]

The CHAIRMAN. I hope the public will not indulge in any demonstration. Let us have quiet.

Secretary JONES. I might say, to begin with, Senator, that the Commodity Credit Corporation, which loaned most of that money, was created by the R. F. C., and we ran it for 5 or 6 or 7 years. It is a business organization, created by us, and it was run as a business organization. I think it is still being run pretty well.

Senator PEPPER. You are referring to the Commodity Credit Corporation?

Secretary JONES. What?

Senator PEPPER. Are you referring to the Commodity Credit Corporation?

Secretary JONES. That is what I was talking about; yes.

Senator PEPPER. Am I correct in my memory that at one time that Corporation was under the R. F. C. and was later transferred to the Department of Agriculture, while Mr. Henry Wallace was Secretary of Agriculture?

Secretary JONES. That is just what I stated—that we created it ourselves and ran it and made a business out of it—a going business, and successful business.

Senator PEPPER. Is it a fact, as I have heard it said, that the Commodity Credit Corporation lost money either in 1 year or 2 years preceding the transfer and made money the year following its transfer to the Department of Agriculture?

Secretary JONES. If so, it was not due to management.

Senator PEPPER. I am asking, of course, about the fact.

Secretary JONES. What was that?

Senator PEPPER. Whether it made money after it was transferred to the Department of Agriculture and had lost money prior to that.

Secretary JONES. The Commodity Credit Corporation makes loans on commodities at a percentage of their parity price fixed by an act of Congress.

Senator PEPPER. Yes.

Secretary JONES. Thus if it makes money it is not due to the management at all.

Senator PEPPER. I am afraid I missed the point in the testimony here today. I thought the success of the R. F. C. indicated a reflection on your good management.

Secretary JONES. If Congress tells you to lend a dollar a bushel on wheat and then you make money, that is not because of the management of the man who made the loan, it is because Congress told him to lend the dollar a bushel on wheat. That applies to cotton, it applies to corn, and other things.

Senator PEPPER. You do not think, then, that the question of management enters into the making of loans under the Department of Agriculture, but you do think that management did enter into the making of loans when it was under the R. F. C.?

Secretary JONES. The question of management has nothing to do with that type of operation, except as to their routine and other administration. I guess there are a good many loans, all kinds of loans, made by the Commodity Credit. I think it does a lot of things now, a lot of subsidizing, which we did not do when they were with us. But I have no desire, Senator, and I am not trying to compare the directors of the R. F. C., as men, with Secretary Wallace or Mr. Wallace.

The CHAIRMAN. Well, Mr. Jones, the difference is that in this matter of agricultural commodities Congress sets a certain percent of parity, and if there is a loss or if there is a gain it is probably due to some policy of Congress.

Secretary JONES. Yes.

The CHAIRMAN. In the R. F. C., you are the judge.

Secretary JONES. We have the discretion there; I mean the R. F. C. has the discretion as to whom to make a loan and whether to make a loan or not, and in agriculture Congress has the responsibility.

Senator PEPPER. Of course, it is a question of fact as to whether that is true in every case or not.

Secretary JONES. Well, it is a fact.

Senator PEPPER. You did not mean to imply in every case where loans are made under the Department of Agriculture, that discretion was not properly and favorably used by Mr. Henry Wallace when he was Secretary?

Secretary JONES. I do not know enough about the Department of Agriculture. It is a pretty big organization. I do not know all the things they did, I was just speaking of the Commodity Credit.

Senator PEPPER. Mr. Jones, I understood you to say or to make some reference to the fact that there had been a running audit—that you did keep a running audit of these vast expenditures.

Secretary JONES. Yes, sir.

Senator PEPPER. Was that audit made by the R. F. C. or under the Federal Loan Administrator, or the same kind of audit that applies

to other Federal agencies, the audit that the Comptroller General makes, who is the agent of Congress, when he audits the Government accounts?

Secretary JONES. They are made by the R. F. C.; that is, they are made by the certified public accountants.

Senator PEPPER. Engaged by whom?

Secretary JONES. Engaged by the R. F. C.

Senator PEPPER. So you hire the accountants who audit the affairs of the R. F. C.?

Secretary JONES. That is correct.

Senator PEPPER. Is that true of other governmental agencies?

Secretary JONES. Of what?

Senator PEPPER. Is that true of other governmental agencies?

Secretary JONES. I don't know. I think there are some that do the same.

Senator PEPPER. Do you know what agencies?

Secretary JONES. I do not know.

Senator PEPPER. The general practice—I will ask you, from your vast knowledge of the operation of the Government—the general practice is, is it not, that the office of the Comptroller General, answerable to Congress, audits the accounts of other Federal agencies excepting the agencies that generally have been concentrated under your authority?

Secretary JONES. I think there are some others.

Senator PEPPER. You do not recall the names of them, though?

Secretary JONES. I can get them for you, though.

Senator PEPPER. Will you be good enough to get them?

Secretary JONES. I will be glad to.

(The matter referred to is as follows:)

The following appears as appendix B of the Annual Report of the Comptroller General of the United States for the fiscal year ended June 30, 1944 (pp. 87-88):

Analysis of audit control of Government corporations as of June 30, 1944

Name of corporation	Audited by General Accounting Office
American President Lines, Ltd.	No. ¹
Banks for Cooperatives	No.
Central Bank for Cooperatives	No.
District Bank for Cooperatives (12)	No.
Cargoes, Inc.	No. ¹
Colonial Mica ²	Yes.
Commodity Credit Corporation	No.
Copper Recovery Corporation ³	No.
Defense Homes Corporation	No.
Defense Plant Corporation	No.
Defense Supplies Corporation	No.
Disaster Loan Corporation	No.
Electric Home and Farm Authority	No.
Export-Import Bank of Washington	No. ⁴
Farmers' Home Corporation ⁵	Yes.
Federal Crop Insurance Corporation	Yes.
Federal Deposit Insurance Corporation	No.
Federal Farm Mortgage Corporation	Yes.
Federal home-loan banks (12)	No.
Federal intermediate-credit banks (12)	No.
Federal land banks (12)	No.
Federal National Mortgage Association	No.
Federal Prison Industries, Inc.	No.
Federal Public Housing Authority	Yes.

See footnotes at end of table.

Analysis of audit control of Government corporations as of June 30, 1944—Con.

Name of corporation	Audited by General Accounting Office
Federal Savings and Loan Insurance Corporation	Yes.
Federal Subsistence Homesteads Corporation ⁶	Yes. ¹
Federal Surplus Commodities Corporation ⁷	Yes.
Home Owners' Loan Corporation	No.
Inland Waterways Corporation	No.
Institute of Inter-American Affairs ⁸	Yes. ¹
Institute of Inter-American Transportation ⁹	Yes. ¹
Inter-American Educational Foundation, Inc. ¹⁰	Yes. ¹
Inter-American Navigation Corporation ¹¹	Yes. ¹
Metals Reserve Company	No.
Panama Railroad Company	No.
Petroleum Reserves Corporation	No.
Prelinradco, Inc. ¹²	Yes. ¹
Production credit corporations (12)	No.
Puerto Rico Cement Corporation	No. ¹³
Reconstruction Finance Corporation	No.
RFC Mortgage Company	No.
Regional agricultural credit corporations (2), Washington and Minneapolis	No.
Rubber Development Corporation	No.
Rubber Reserve Company	No.
Smaller War Plants Corporation	Yes. ¹⁴
Smithsonian Institution	Yes. ¹⁵
Steel Recovery Corporation ¹⁶	No.
Tennessee Valley Associated Cooperatives, Inc.	No.
Tennessee Valley Authority	Yes.
Textile Foundation, Inc.	No.
United States Commercial Company	Yes.
United States Housing Corporation ¹⁷	No.
United States Spruce Production Corporation ¹⁸	No.
Virgin Islands Company ¹⁹	Yes.
War Damage Corporation	No.
War Emergency Pipe Lines, Inc. ²⁰	No.
War Hemp Industries, Inc. ²¹	No.
War Materials, Inc. ²²	No.
Warrior River Terminal Company	No.
Welfare and Recreational Association of Public Buildings and Grounds, Inc.	Yes.

¹ No accounts submitted to General Accounting Office, but books and records examined in connection with Maritime Commission audit.

² By agreement, the General Accounting Office has performed a field audit of the Corporation through Dec. 31, 1943. Accounts for transactions after that date are to be submitted in the regular manner, but none had been received by June 30, 1944.

³ Agent of the Metals Reserve Company (Copper Recovery Corporation, Steel Recovery Corporation, and War Materials, Inc., are no longer in active operation).

⁴ Terminated by Executive order, effective Oct. 31, 1942, and assets transferred to Reconstruction Finance Corporation for liquidation. Transactions subsequent to that date are not audited by the General Accounting Office.

⁵ Never in operation.

⁶ Not now in operation.

⁷ Operated with funds provided by other Government agencies (Inter-American Navigation Corporation is now in liquidation).

⁸ Transactions in which the Corporation is involved are audited by the General Accounting Office to the same extent as transactions of the agencies providing funds to the Corporation.

⁹ In the fiscal year 1944, submission began of accounts covering transactions of the corporations under the jurisdiction of the Coordinator of Inter-American Affairs, from the date of their creation.

¹⁰ In connection with the audit of the Puerto Rico Reconstruction Administration, an audit of the books and records of the Corporation was made in January 1943.

¹¹ Administrative expenses only.

¹² The Federal funds are audited by the General Accounting Office but not the private funds.

¹³ In liquidation.

¹⁴ In liquidation since June 28, 1922.

¹⁵ No direct appropriations have ever been made to this company, since it finances its operations from allocations made from relief appropriations.

¹⁶ Agent of the Defense Supplies Corporation.

¹⁷ Agent of the Commodity Credit Corporation.

Senator PEPPER. As a matter of fact, has not there been considerable question, and in fact hasn't it been recommended by the Byrd Committee on Curtailment of Federal Expenditures, that the accounts under the Federal Loan Administrator, and under the R. F. C.; that is, that the R. F. C. itself be subjected to the audit of the Comptroller General like all other Federal agencies?

Secretary JONES. That is right.

Senator PEPPER. Now, Mr. Jones—

Secretary JONES. Just a minute, please. At the time of those hearings, when that was brought out, your Comptroller General and I worked out an agreement where he was either to do the auditing or he was to employ the auditors. He hasn't the manpower to do the auditing at this time. He says that.

Senator PEPPER. You say you worked out an agreement. Was not there something about some legislation which was being prepared and was to go to the Congress, which would make it a matter of duty and not an agreement on your part?

Secretary JONES. Yes; but only because the Comptroller General felt that even with our consent he had no authority to audit R. F. C. without additional legislation. He prepared the necessary legislation, we approved it and made it available to the Byrd committee. It is available all the time.

Senator PEPPER. By your consent?

Secretary JONES. To other agencies, so delegated by statute, but let me add, you may make this a matter of statute as to R. F. C. if you want to. I did not write the provisions of the original R. F. C. Act which exempted it from the General Accounting Office. I did not write the law. It is my impression, however, that those provisions, like many others in the R. F. C. Act were taken from the War Finance Corporation Act.

Senator PEPPER. The question is whether or not you resisted the law, Mr. Secretary.

Secretary JONES. I do not think I resisted the law at all. How could I resist the law?

Senator PEPPER. That is a matter that you would know better than we, considering all your vast contacts.

Secretary JONES. I do not make the laws, I did not create the laws, I do not resist them, I do my best to administer the laws that come under my administration. In order that there may be no misunderstanding about the manner in which R. F. C. is audited and the position of the Comptroller General about it, I will submit for the record the exchange of correspondence with the Comptroller General as follows:

MAY 12, 1943.

HON. LINDSAY C. WARREN,

*Comptroller General of the United States,
Washington, D. C.*

DEAR LINDSAY: The Directors of the Reconstruction Finance Corporation have been meticulous about its fiscal policies, including its records, accounting system, and auditing since its organization in February 1932.

In addition to an effective system of internal accounting control in the Corporation's Washington office, its loan agencies, and the Federal Reserve banks which act as its fiscal agents and custodians, the Corporation maintains a competent Audit Division, independent of its financial and accounting operation. The Audit Division is responsible directly to the Board of Directors, and carries on a current internal audit of the Corporation's accounts and records, makes periodic audits of its loan agencies and custodians, and, in addition, makes a comprehensive balance sheet audit at the close of each year.

Further, the Directors of the Corporation, pursuant to its bylaws, obtain annually an independent audit by firms of certified public accountants of national reputation, chosen after competitive bidding and deemed qualified to make an audit of a financial institution of the size and character of the Reconstruction Finance Corporation. Audits in previous years have been made by Haskins & Sells, Arthur Andersen & Co., B. C. Rankin & Co., and Patterson, Teele & Dennis.

The Corporation and its subsidiaries have handled hundreds of thousands of

transactions, involving authorizations in excess of \$30,000,000,000. The Reconstruction Finance Corporation pays its own expenses, including interest on the money it uses, and has operated at a net profit of more than \$300,000,000, after providing a reserve sufficient to cover all losses except those incident to its war activities.

I know of no better auditing procedure than that employed by the Reconstruction Finance Corporation. The chief auditor is a certified public accountant, and has a competent staff of 740 auditors, of whom 110 are certified public accountants.

Notwithstanding that the directors of the Corporation and I are responsible to the Congress for the proper administration of the Corporation's affairs and are satisfied that the accounts and affairs of the Corporation are well and competently audited, if you think it desirable, we would have no objection to the General Accounting Office making an annual postaudit and reporting the same to Congress, provided such audit does not affect the authority or responsibility of the Board of Directors of the Corporation under existing law.

The procedure proposed is as follows:

On or after January 1 of each year, beginning January 1, 1944, a postaudit of the financial transactions of the Corporation for the preceding calendar year may be made by the Comptroller General of the United States, or, at the election of the Comptroller General, by a firm of certified public accountants selected by the Corporation with the approval of the Comptroller General. In either case, the scope and extent of any such audit and the manner in which it is conducted will be governed by generally accepted practices and procedures applied by the public accounting profession in audits of commercial, industrial, and banking institutions. The Corporation shall continue to have sole and final authority to determine the type of books and records which it shall keep and the procedure which it shall follow in the transaction of its corporate business. The board of directors of the Corporation shall be immediately notified in writing of any recommendation developed during the course of any examination. For the purpose of the audit herein provided for, the representatives of the Comptroller General or of the public accounting firm conducting such audit shall have access, during the Corporation's usual business hours, to all books, records, documents, and papers pertinent to such audit, but the Corporation shall retain the custody of all its books, records, documents, and papers. The Comptroller General or the public accounting firm conducting such audit may accept financial reports and other data furnished by fiscal agents or the chief auditor of the Corporation as final verification of all or any part of the Corporation's activities without further audit verification, and may limit the audit to any extent deemed advisable in view of the internal auditing and accounting controls maintained by the Corporation.

The expenses for each such audit, when conducted by the Comptroller General, shall be paid by the Corporation upon receipt of billings approved by the Director of the Bureau of the Budget, and, when conducted by a public accounting firm, shall be paid by the Corporation pursuant to a contract entered into by it with such firm. The expenses for any audit provided for herein shall be considered nonadministrative expenses of the Corporation.

The Comptroller General may make reports to the Congress of any such audit provided for herein together with such comments as he may deem advisable. Copies of any such audit as may be made by a public accounting firm shall be furnished to the Comptroller General for this purpose. Each such report shall cover the regular business year of the Corporation. No such report shall be made to the Congress until the Corporation and the Secretary of Commerce shall have been furnished with copies thereof and shall have had 90 days thereafter, or such part thereof as they may require, to examine such report, to point out errors therein, explain or answer the same, and to file a statement which shall be submitted by the Comptroller General with his report.

As used herein the term "Corporation" shall mean each of the following Corporations: Reconstruction Finance Corporation, the RFC Mortgage Company, Federal National Mortgage Association, Rubber Development Corporation, Defense Plant Corporation, Defense Supplies Corporation, Metals Reserve Company, Rubber Reserve Company, U. S. Commercial Company, War Damage Corporation, and Disaster Loan Corporation, together with any other corporation hereafter created or organized by Reconstruction Finance Corporation pursuant to section 5d of the Reconstruction Finance Corporation Act, as amended.

Nothing herein shall be construed to limit the authority of the board of directors of the Corporation to determine and prescribe the manner in which its

obligations are incurred and its expenses allowed and paid, or to exercise exclusive control over its funds, including, without limitation, their receipt, deposit, and disbursement, and the Corporation shall continue to have exclusive authority to make settlement and adjustment for all claims and demands whatever by the Corporation or against it and all accounts whatever in which the Corporation is concerned, either as debtor or creditor.

If, in your opinion, the added protection afforded by such audits made by you or under your direction is desirable and the foregoing procedure is acceptable, please so indicate.

Very truly yours,

JESSE H. JONES, *Secretary of Commerce.*

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, May 31, 1943.

The Honorable the SECRETARY OF COMMERCE.

MY DEAR MR. JONES: In your letter to me of May 12, you explained rather fully the careful manner in which the Directors of the Reconstruction Finance Corporation have controlled its fiscal policies, including its records, accounting system, and auditing, since its organization in February 1932. I note that, in addition to an effective system of internal accounting control in its Washington office, its loan agencies, and the Federal Reserve banks which act as its fiscal agents and custodians, the Corporation has maintained an Audit Division responsible directly to the Board of Directors, which makes current internal audits and comprehensive annual audits; and, further, that the directors have obtained annually an independent audit by firms of certified public accountants of national reputation. You ask if, in my opinion, the added protection afforded by such audit made by the General Accounting Office, or under its direction, is desirable and if the procedure outlined in your letter would be acceptable.

I am in agreement generally with the view that the type of audit you suggest would be preferable to the normal Government audit for financial transactions of corporations; also, that it would be desirable to have such an audit of the Reconstruction Finance Corporation and its subsidiary corporations made by, or under the general supervision of, the General Accounting Office.

Briefly, the audit which this office is required to make is based upon the submission by accountable officers of their accounts supported by original documents, which are audited, adjusted, and settled by the General Accounting Office, and the personal liability of said accountable officers to the United States determined by applying the legislative restrictions relating to public funds generally. In the few instances where this office has deviated from this regular procedure, such deviation has been provided by statutes. See in this connection section 9 of the act of May 18, 1933 (48 Stat. 63), as amended, for the audit of the accounts of the Tennessee Valley Authority; the act of February 16, 1938 (52 Stat. 76), as amended, for the Crop Loan Insurance Corporation, and section 207 of the Merchant Marine Act of June 29, 1936, as amended.

As you know, I have recently had for consideration a request, similar to yours, from the Secretary of Agriculture, for the audit of the transactions of the Commodity Credit Corporation. Representatives of this office, in cooperation with representatives of the Department of Agriculture, worked out a plan, whereby the operating accounts of the Commodity Credit Corporation are to be audited "in accordance with the principles applicable to commercial corporate transactions." The authority for, and the general scope of, the audit for Commodity Credit Corporation, are set forth in S. 1108, which was introduced in the Senate by Senator Wagner May 14, 1943, and in H. R. 2725, introduced in the House by Congressman Steagall, May 17, 1943.

The general audit plan as set forth in said bill provides a basic pattern for the audit along commercial lines of the financial transactions of all corporations which operate as agencies of the United States. Since the receipt of your suggestion the type of legislation to provide the authority of the General Accounting Office to make an audit of the accounts of the Reconstruction Finance Corporation and its subsidiaries has been agreed upon between our respective staffs. A draft of the proposed legislation is enclosed. Basically, the suggested legislation retains the fundamental features in the bills relating to the Commodity Credit Corporation now pending in Congress with such changes as are appropriate for the operations of the Reconstruction Finance Corporation. One

important change has been made, however, the enclosed draft of the proposed legislation provides for the audit of the accounts of the Reconstruction Finance Corporation either by the General Accounting Office or by a firm of certified public accountants selected by the Comptroller General. In view of the heavy additional burden which would be imposed upon this office by the proposed legislation, it may be advisable to have such authority at least until qualified personnel can be obtained by this office.

Under section 4 of the Reconstruction Finance Corporation Act, the Directors of the Corporation have the full responsibility and final authority for determining the type of books and records which the Corporation shall keep and the accounting methods and procedures it shall follow in the transaction of its corporate business. The amendment we propose would in no wise limit the present authority of the Directors of the Corporation in these regards.

Please permit me to express to you my sincere appreciation for the fine spirit of cooperation which you have shown in this matter. In an undertaking of the magnitude involved in the audit by this office of the accounts of the Reconstruction Finance Corporation and its subsidiary corporations, there are a number of situations which must be worked out and mutually agreed to in order to secure the results desired. This, I am sure, we can do without impeding the operations of the corporations or infringing upon the responsibilities of their officers and directors.

I was chairman of the House Committee on Accounts when the bill creating the Reconstruction Finance Corporation was considered and passed, and I presided over its consideration in the House. I have since watched its course with the greatest possible interest, and take pleasure in commending you and your associates in the Reconstruction Finance Corporation for the enviable record it has made.

Sincerely yours,

LINDSAY C. WARREN,
Comptroller General of the United States.

A BILL To provide for an annual audit of the financial transactions of Reconstruction Finance Corporation and certain subsidiaries and affiliated corporations, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Reconstruction Finance Corporation Act, 47 Stat. 5, as amended, is hereby amended by inserting an "(a)" before the first sentence of section 4 thereof and by adding at the end of such subsection (a) of such section 4 the following new subsections:

"(b) Commencing with the period beginning January 1, 1944, an annual post audit of the financial transactions of the Corporation for the preceding calendar year shall be made by the General Accounting Office or, at the election of the Comptroller General, by a firm of certified public accountants. In either case, the scope and extent of any such audit and the manner in which it shall be conducted shall be governed by generally accepted practices and procedures applied by the public accounting profession in audits of commercial, industrial and banking institutions. For the purpose of the audit herein provided for, the representatives of the General Accounting Office or of the public accounting firm conducting such audit shall have access, during the Corporation's usual business hours, to all books, records, documents and papers pertinent to such audit, but the Corporation shall retain the custody of all its books, records, documents and papers. The General Accounting Office or the public accounting firm conducting such audit may accept financial reports and other data furnished by fiscal agents or the Chief Auditor of the Corporation as final verification of all or any part of the Corporation's activities without further audit verification, and may limit the audit to any extent deemed advisable in view of the internal auditing and accounting controls maintained by the Corporation.

"The expenses for each such audit may be paid by the Corporation upon receipt of billings certified by the Comptroller General and shall be considered non-administrative expenses of the Corporation.

"(c) The Comptroller General shall make a report to the Congress of each such audit but no such report shall be made until the Corporation and the Secretary of Commerce shall have been furnished with copies thereof and shall have had ninety days thereafter, or such part thereof as they may require, to examine such report, to point out errors therein, explain or answer the same, and to file a statement which shall be submitted by the Comptroller General with his report.

"(d) Nothing contained in subsections (b) and (c) hereof shall be construed to limit the authority of the board of directors of the Corporation to determine and prescribe the manner in which its obligations are incurred and its expenses allowed and paid, or to exercise exclusive control over its funds, including, without limitation, their receipt, deposit and disbursement, and the Corporation shall continue to have exclusive authority to make settlement and adjustment for all claims and demands whatever by the Corporation or against it and all accounts whatever in which the Corporation is concerned, either as debtor or creditor.

"(e) As used in subsections (b), (c) and (d) of this section, the term 'Corporation' shall mean each of the following corporations: Reconstruction Finance Corporation, The RFC Mortgage Company, Federal National Mortgage Association, Disaster Loan Corporation, Defense Plant Corporation, Defense Supplies Corporation, Metals Reserve Company, Rubber Reserve Company, Rubber Development Corporation, War Damage Corporation and U. S. Commercial Company, together with any other corporation hereafter created or organized by Reconstruction Finance Corporation pursuant to section 5d of the Reconstruction Finance Corporation Act, as amended."

Senator PEPPER. I understood you to imply, or to state, I mean, that what you had done had been subject to the approval of the President.

Secretary JONES. In war work?

Senator PEPPER. In war work.

Secretary JONES. Yes.

Senator PEPPER. Did you mean each individual loan made had to have the President's approval?

Secretary JONES. No. No.

Senator PEPPER. In what respect did you mean to connect the President's prior approval with your action?

Secretary JONES. Well, we could not buy critical materials without his designating the material and approving the purchase, that is, the purchase of, we will say, lead, or any other critical material. There are probably 150 of them that he has approved.

Senator PEPPER. Does that apply to action taken by the R. F. C., or is that just action taken by the Defense Plant Corporation, or one particular corporation?

Secretary JONES. That is in the law that gave the R. F. C. the right to do these things.

Senator PEPPER. The right to do what things?

Secretary JONES. To buy these materials.

Senator PEPPER. Only the critical materials?

Senator JONES. Building plants as well.

Senator PEPPER. Now, the corporation that builds plants and perhaps aids in war work, that is called the Defense Plant Corporation?

Secretary JONES. Yes.

Senator PEPPER. Is there another corporation that buys critical materials?

Secretary JONES. Yes.

Senator PEPPER. Did the laws creating both of those corporations, if they are created by law independently, did they both provide that you cannot exercise the power provided therein without prior approval of the President?

Secretary JONES. Yes; except at the request of the Federal Loan Administrator and the approval of the President.

Senator PEPPER. Is that in both laws?

Secretary JONES. Yes; the war subsidiaries were all created under the same law.

Senator PEPPER. You mean it relates to all the corporations that are subsidiaries of R. F. C.?

Secretary JONES. That means all of the organizations that were created by the R. F. C. under the authority given in the act signed by the President on June 25, 1940. That law gave the R. F. C. the authority to create corporations, to do these things that we are authorized to do in the act.

Senator PEPPER. Those are wartime corporations?

Secretary JONES. Yes; and those corporations could not be created except with the approval of the President, and they were all created with his approval.

Senator PEPPER. Mr. Secretary—Mr. Jones—

Secretary JONES. Why don't you leave it like you said it?

Senator PEPPER. Beg pardon?

Secretary JONES. Why did you correct yourself?

Senator PEPPER. I did in view of the qualification which you imposed; I thought it was proper to be Secretary; you have to have what I call squatter's sovereignty that you now enjoy.

What I wanted to ask was: As a matter of fact, you are not only strong and able, but a candid man. As a matter of fact, with your knowledge of the duties of the Department of Commerce and the intimate relationship between the performance of those duties and the performance of the duties of Federal Loan Administrator, the real fight, the issue that is really presented here—

Secretary JONES. The what?

Senator PEPPER. I say the issue which is really presented here—and you met it candidly in your original statement, as you meet most everything—the issue here is the question of whether you or Henry Wallace will be Secretary of Commerce and exercise the present duties, powers and prerogatives of that office. One man, whoever he is, if he is competent, can perform the duties of both offices; isn't that right, Mr. Jones?

Secretary JONES. What do you expect me to say to that?

Senator PEPPER. I expect you to give your opinion.

The CHAIRMAN. I suggest you do not give any opinion. That is not pertinent, and I do not think it is fair to Mr. Jones.

Senator PEPPER. That is the whole burden of the testimony that has been given here by Senator George and Mr. Jones. The whole purpose of the bill divides the function of the two on the theory that one man cannot perform both of them, and I am asking a man who has been performing both of them, cannot one man do the job of both.

The CHAIRMAN. You are going beyond that. That is certainly not in contemplation here.

Senator PEPPER. I will reframe the question. Perhaps I can make it more clear, so I shall not deceive the able chairman in the purport of it.

The CHAIRMAN. You are not deceiving me, I will tell you that now.

Senator PEPPER. I hoped I would not. What I meant to ask was: Out of your experience, Mr. Jones, is it not your opinion that these two offices can be administered by one man, assuming the competence of that man, and is it not logical that they should, as closely related as they are, be at least for the time being, operated by one man?

Secretary JONES. If you are trying to ask me if Henry Wallace is qualified for both jobs, I will say "No."

[Applause.]

Senator PEPPER. I knew you would say that.

The CHAIRMAN. Please don't make any demonstration for either side. I assume we are going to adjourn now. I do not want to say anything to be disagreeable, but in order to have order, if there is any further demonstration I will submit the matter to the committee as to what steps to take. Proceed, Mr. Jones.

Secretary JONES. I would like to add: I am not here to testify against Mr. Wallace; I am here to give my opinion and my experience with this organization, with this enormous work. I do not think that the Senator—I think he would make a fine Secretary of Commerce, divorced from the business, but it does not occur to me, Senator, that you would be qualified, from experience, to run all these vast businesses.

I happened to have been—and I am not talking about myself because I am out—I happened to have been in business all of my life, little business too. I have never been in a big corporation. I have had a lumber yard and various and sundry other things, and still have most of them. I am a little businessman, a typical businessman; I know the problems of the little businessman, and I also know the big fellows, and I know how smart they are, and I know the people who come to the R. F. C. to get money are not all entitled to it, and yet they are awfully smart. Men come to us drawing \$100,000 a year salary, maybe, and they talk to our boys who are getting \$6,000 or \$7,000 or \$8,000, and they do not run away with anything. You know, we are the sugar and there is where the flies are. Where the money is, that is where the moochers are, and the moochers have not all been in W. P. A.; they are in business. Men come to us for money who are not entitled to it, and yet they put up a plausible tale, and unless a man is experienced in business he is liable to make a lot of mistakes. I do not mean by that that we have been rigid in our credit. We have not been. We have made 10 times more loans than the Smaller War Plants Corporation. We are making them every day, and have been making them every day, so you cannot accuse us, you cannot accuse the R. F. C., of being rigid in its credit. We have offices all over the country; we have borrowed help. We have a small organization, but where we have an agency we have an advisory committee of local businessmen to help pass on the loans. We get that for nothing. The men are good enough, and have been for 13 years, to sit in with the boys and help the boys and give them their advice, and that is the reason we have been able to operate cheaply.

Senator PEPPER. Mr. Secretary, I want you to observe, and the chairman also, that I reframed my question, and I am asking you whether, out of your experience, one man could properly hold the office of Federal Loan Administrator and Secretary of Commerce, and it was you who diverted from the question in your response.

Secretary JONES. What?

Senator PEPPER. It was you who diverted in your answer from the question. You made a statement as to your opinion about Mr. Wallace, and a comparison between your ability as a businessman to administer the duties of those offices, and at least by innuendo, his

inability to do it. You have met the issue in a candid way, and that is what I want to ask you to do in answering my questions.

Secretary JONES. May I ask to have that repeated? This amplifier here kind of rumbles, it magnifies and rumbles around, and I cannot understand you too well.

(The record was read by the reporter.)

Senator PEPPER. Well, you may divide the question into two parts. The question I asked was whether it was your opinion that a man, assuming his competence, that one man can, in these times, administer the duties of the office of Federal Loan Administrator and the office of Secretary of Commerce?

Secretary JONES. I think that is possible, if you will work long enough, hard enough, and enough hours. I do not believe there is another fellow in the world that will do it except me.

Senator PEPPER. Very well. Now, getting back to the other question, which you touched upon in your answer, do you feel that you have instances and details, or facts at your disposal, which you can disclose to the committee, showing that Mr. Wallace is not, as you said he was not, qualified to perform the duties of that office?

The CHAIRMAN. Mr. Jones, you will not be required to answer that question. That is wholly in your discretion. You were certainly not invited here to come down and express personal opinions about Mr. Wallace.

Senator PEPPER. That is the first thing the witness did when he started his testimony this afternoon, and that is a matter to which the witness returned when I asked him the previous question.

The CHAIRMAN. I submit it to Mr. Jones. If you wish to appeal from it, you can have an appeal. I am telling you I do not want to go into the subject of personal comparisons between Mr. Jones and Mr. Wallace. We have not sent for Mr. Jones for that purpose.

Senator PEPPER. He has made the statement repeatedly throughout the hearing that he did not regard Mr. Wallace as qualified, and we are entitled to know the basis upon which Mr. Jones makes that statement. If he has got any facts to base his opinion on, or possibly a prejudice, we ought to know it.

Secretary JONES. A lack of experience, and there is no prejudice.

Senator PEPPER. That is what we are entitled to know.

Secretary JONES. Well, I have said that.

Senator PEPPER. Well, now, what are the experiences that show his inability to administer the duties of this office, in your opinion?

Secretary JONES. I said the lack of experience.

Senator PEPPER. Very well. Will you tell us what the experiences are, so we can let him have a chance to answer?

Secretary JONES. I do not care to get into an argument with you about it; I am not going to do it, it is not necessary.

Senator PEPPER. Mr. Jones, the easiest thing in the world, to my mind, is to provoke an argument. It is the principle of American jurisprudence when a man is attacked he has an opportunity to answer the attack. You have come here this afternoon and the whole purport of your testimony has been to attack Mr. Wallace as unqualified by lack of experience, as being incompetent, and then being a sort of a dreamer who, to use your language, wants to remake the world. If you think he has got any ideas of dangerous experimentation, as you implied,

I think you used that word, that might endanger the economy of the country, we would profit very much if you would give us the experimentation to which you refer and let the committee have the factual data which you desire to disclose to us.

Secretary JONES. Senator, if you don't say so much I can probably understand you. I cannot understand what you are talking about. I am willing to answer your questions.

Senator PEPPER. You said he was incompetent.

Secretary JONES. I did not say he was incompetent. You are putting words in my mouth here. Stick to the text.

Senator PEPPER. You referred, in your original statement, to the danger to the country of turning over this agency to someone who would conduct dangerous experimentations in that office, or to someone who might want to remake the world, from which statement you drew a response from the audience. Now, I will confine it to those two things. Have you any quotations, have you any official acts on the part of Mr. Wallace, which you disclose to the committee, as a basis for those opinions?

The CHAIRMAN. Mr. Jones, just a minute. The confirmation of Mr. Wallace is not before the committee at the present time, and if we wish to hear from you on his qualifications or he wishes to defend, according to the rules of American jurisprudence, he will come here and defend in the presence of a lawyer of his own selection, so you do not have to answer the question.

Secretary JONES. I did not know the purpose of the question, Senator.

The CHAIRMAN. The witness does not need to answer the question.

Senator PEPPER. I think it is pertinent to the inquiry.

The CHAIRMAN. No; it is not even pertinent to the inquiry.

Senator PEPPER. Upon that statement by the chairman and the witness, there is nothing to do except desist.

Secretary JONES. I will try to answer your questions.

Senator BREWSTER. Mr. Jones—Mr. Secretary, the Senator from Florida inquired about the record of all these other men, but for the purpose of the historical record, and we want to be familiar with all of this, I would like to ask that you put in the record, for future reference, your own record of business experience prior to your taking over those responsibilities. I think that should be in the record.

Secretary JONES. I will be glad to do that. The trouble is it goes too far back, Senator.

The CHAIRMAN. Now, if there is nothing more, it is time to adjourn. We will adjourn until tomorrow morning at 10:30, and I will state that Mr. Wallace need not come down here to testify to his qualifications. I am sure he is going to come down here to testify about this legislation. I have not heard from him, but I expect he will be here, and we will go to work, if he comes down, at 10:30 in the morning.

(The following was submitted for the record:)

COMMERCE DEPARTMENT,
Washington, January 25, 1945.

Hon. JOSIAH W. BAILEY,
Chairman, Commerce Committee,
Senate Office Building, Washington, D. C.

DEAR SENATOR: I am attaching a break-down of our industrial loans and a copy of an article on the aid Reconstruction Finance Corporation has given to small business, which appeared in the Sunday Star.

It would be appreciated if both of these could be made a part of the record.

Sincerely,

JESSE H. JONES.

Size of all loans and commitments authorized to business enterprises by the Reconstruction Finance Corporation through Dec. 31, 1944

[Excludes loans and commitments to subsidiaries of Reconstruction Finance Corporation, defense homes and Great Britain]

	Number	Percent
\$5,000 and under.....	6,952	31.6
\$5,001 to \$10,000.....	3,414	15.5
\$10,001 to \$25,000.....	4,552	20.7
\$25,001 to \$50,000.....	2,761	12.5
\$50,001 to \$100,000.....	1,121	5.0
\$100,001 to \$200,000.....	1,034	4.7
\$200,001 to \$500,000.....	697	3.2
\$500,001 to \$1,000,000.....	218	1.0
Over \$1,000,000.....	250	1.2
Total.....	22,008	100.0

Size of loans and commitments authorized to business enterprises for defense by the Reconstruction Finance Corporation through Dec. 31, 1944

	Number	Percent
A. ON RATIONED COMMODITIES (INCLUDING PURCHASES)		
\$5,000 and under.....	1,411	38.5
\$5,001 to \$10,000.....	922	17.0
\$10,001 to \$25,000.....	796	21.7
\$25,001 to \$50,000.....	449	12.2
\$50,001 to \$100,000.....	271	7.4
\$100,001 to \$200,000.....	99	2.7
\$200,001 to \$500,000.....	16	.4
\$500,001 to \$1,000,000.....	3	.1
Over \$1,000,000.....		
Total.....	3,667	100.0
B. ALL OTHER—FOR DEFENSE		
\$5,000 and under.....	1,594	21.1
\$5,001 to \$10,000.....	1,077	14.3
\$10,001 to \$25,000.....	1,665	22.1
\$25,001 to \$50,000.....	1,059	14.2
\$50,001 to \$100,000.....	974	12.9
\$100,001 to \$200,000.....	472	6.2
\$200,001 to \$500,000.....	358	4.7
\$500,001 to \$1,000,000.....	144	1.9
Over \$1,000,000.....	196	2.6
Total.....	7,549	100.0
C. GRAND TOTAL—DEFENSE		
\$5,000 and under.....	3,005	20.8
\$5,001 to \$10,000.....	1,999	15.2
\$10,001 to \$25,000.....	2,461	21.9
\$25,001 to \$50,000.....	1,518	13.5
\$50,001 to \$100,000.....	1,245	11.1
\$100,001 to \$200,000.....	571	5.1
\$200,001 to \$500,000.....	374	3.3
\$500,001 to \$1,000,000.....	147	1.3
Over \$1,000,000.....	196	1.8
Total.....	11,216	100.0

Size of loans and commitments authorized to business enterprises except for defense by the Reconstruction Finance Corporation through Dec. 31, 1944

	Number	Percent
\$5,000 and under.....	3,947	36.6
\$5,001 to \$10,000.....	1,715	15.9
\$10,001 to \$25,000.....	2,091	19.4
\$25,001 to \$50,000.....	1,243	11.5
\$50,001 to \$100,000.....	876	8.1
\$100,001 to \$200,000.....	463	4.3
\$200,001 to \$500,000.....	323	3.0
\$500,001 to \$1,000,000.....	71	.6
Over \$1,000,000.....	63	.6
Total.....	10,792	100.0

[Released for morning papers for Thursday, January 18, 1945]

COMMERCE DEPARTMENT,
Washington, January 15, 1945.

To the President and the Congress, reporting on the war activities of the Reconstruction Finance Corporation and its subsidiaries:

June 25, 1940, the President signed Public Law 664, Seventy-sixth Congress, which, among other things, authorized the Reconstruction Finance Corporation, acting through certain subsidiary corporations to be created by it, for purpose of national defense, to build and operate plants and facilities for the manufacture of matériel, and to procure supplies, equipment, etc., and to buy materials declared by the President to be strategic and critical. The act provided that activities of the Reconstruction Finance Corporation under this authority should be undertaken at the request of the Federal Loan Administrator and with the approval of the President.

February 24, 1942, by Executive Order No. 9071, the functions, powers, and duties of the Federal Loan Agency and of the Federal Loan Administrator were transferred to the Department of Commerce to be administered under the direction and supervision of the Secretary of Commerce.

June 28, 1940, 3 days after the act was signed, Rubber Reserve Company and Metals Reserve Company were created by the Reconstruction Finance Corporation primarily for the purpose of buying a stock pile of rubber, tin, and other materials. Later, Rubber Reserve Company established and is operating the synthetic rubber program.

August 22, 1940, Defense Plant Corporation was created by the Reconstruction Finance Corporation primarily to build and operate plants and facilities for the production of war matériel, and to do other things, for our national defense.

August 20, 1940, Defense Supplies Corporation was created by the Reconstruction Finance Corporation to purchase and stock pile strategic and critical materials other than rubber, minerals, and metals, and to do other things necessary to the production and procurement of essential materials.

December 13, 1941, 6 days after Pearl Harbor, the Reconstruction Finance Corporation, at my request and with the approval of the President, created War Damage Corporation to provide reasonable protection against loss of or damage to property resulting from enemy attack, including action taken by the military, naval, or air forces of the United States in resisting enemy attack.

March 26, 1942, United States Commercial Company was created by the Reconstruction Finance Corporation primarily to buy in the foreign markets strategic and critical materials that we needed in the war effort, as well as to prevent the Axis Powers from obtaining them. July 15, 1943, the operations of this Company were, by Executive Order No. 8361, transferred to the Office of Economic Warfare, now the Foreign Economic Administration.

June 3, 1943, Petroleum Reserves Corporation was created by the Reconstruction Finance Corporation for the purpose of acquiring reserves of crude petroleum from sources outside the United States. July 15, 1943, the operations of this Corporation were, by Executive Order No. 8361, transferred to the Office of Economic Warfare, now the Foreign Economic Administration.

February 1943, at the request of the Rubber Director, we separated the development and procurement of natural rubber in this hemisphere from Rubber Reserve Company and carried on that operation through Rubber Development Corporation, another subsidiary of the Reconstruction Finance Corporation.

July 15, 1943, this Corporation was, by Executive Order No. 8361, transferred to the Office of Economic Warfare, now the Foreign Economic Administration, and now handles all natural-rubber procurement in foreign countries.

From time to time, by Executive order, the President has placed the responsibility for determining the production or procurement necessary for war purposes in agencies other than the Reconstruction Finance Corporation. Consequently, the construction of the Reconstruction Finance Corporation war plants and projects and the production and procurement of materials have been at the request of other departments charged with the procurement and production of war matériel.

Authorizations by these subsidiary corporations, together with the Reconstruction Finance Corporation direct commitments for war purposes of approximately \$2,600,000,000, have amounted in round numbers to \$32,300,000,000. Disbursements have been in excess of \$18,000,000,000. Repayments of loans and advances, collections of rentals and part payments on plants and equipment, and proceeds of sales of materials, etc., have been approximately \$9,100,000,000. The disbursement figure includes \$1,400,000,000 for direct subsidy payments, under section 2 (e) of the Emergency Price Control Act of 1942, as amended, to increase or maintain production of materials defined by the President to be strategic or critical, but this latter figure does not include losses arising from the purchase and sale of such materials.

We have built plants, shipyards, pipe lines, etc., bought and sold equipment and materials, paid subsidies, etc., at the request of the War, Navy, and State Departments, the Maritime Commission, War Production Board, and its predecessors, Supply Priorities and Allocations Board and Office of Production Management, the Office of the Rubber Director, the Petroleum Administration for War, Solid Fuels Administration for War, the Office of Defense Transportation, Office of Price Administration, War Food Administration, Board of Economic Warfare, Foreign Economic Administration, Office of Economic Stabilization, Office of War Mobilization, and the Office of War Mobilization and Reconversion.

All these vast operations, which have been vital to our national defense and the prosecution of the war, could only have been accomplished by the prompt and unflinching cooperation which the Reconstruction Finance Corporation and its subsidiaries have given other Government agencies responsible for war production and procurement.

A summary of these operations is attached.

JESSE H. JONES, Secretary of Commerce.

RUBBER RESERVE COMPANY

Rubber Reserve Company's production of synthetic rubber has been approximately 1,000,000 long tons, 737,000 tons of which were manufactured in 1944. In addition to Government plants, private industry produced 26,000 long tons in 1944. Our synthetic rubber plants are capable of producing at least 1,000,000 long tons of synthetic rubber a year, if necessary. Forty-seven chemical, petroleum, rubber, and industrial companies are operating the plants for account of Rubber Reserve Company.

Some small plants for the production of synthetic rubber were first authorized early in 1941. Immediately after Pearl Harbor the program was increased to an annual capacity in excess of 400,000 tons, and after the fall of Singapore, was further increased to its present capacity. The Rubber Director made relatively few changes in the program which had been developed and authorized by Rubber Reserve Company prior to the appointment of the Rubber Survey Committee in August 1942.

The development of this vital new industry in the emergency is a credit to the ingenuity and enterprise of American business.

In addition to the production of synthetic rubber, the plants have produced more than 25,000,000 gallons of ethylbenzene and approximately 4,000,000 gallons of cumene used in the manufacture of aviation gasoline.

Including the rubber trade, rubber importations since early 1940 to the present time have been more than 2,280,000 long tons. Rubber Reserve Company's importations of natural rubber, including 83,000 tons bought from Commodity Credit Corporation, have been 930,000 long tons, 116,000 tons of which were received in 1944.

From June 1942 to January 1, 1944, Rubber Reserve Company was the sole buyer and seller of scrap rubber. In that period it purchased a little more than 1,100,000 short tons, 920,000 tons of which have been sold.

We have invested something over \$700,000,000 in plants and facilities for the manufacture of synthetic rubber.

Prior to the war, natural rubber was costing from 18 to 20 cents a pound. Synthetic rubber is being produced in some of our plants at less than these figures, and some in the industry feel that synthetic can be produced in competition with natural rubber. Our cost for 1944, exclusive of plant amortization, was approximately 33 cents a pound, due to the fact that more than 60 percent of the rubber was made from high-priced alcohol instead of petroleum.

METALS RESERVE COMPANY

The Reconstruction Finance Corporation, through Metals Reserve Company has made total commitments for the purchase of strategic and critical minerals and metals aggregating \$5,174,000,000. Of this amount \$2,150,000,000 has been disbursed, and \$2,149,000,000 canceled or assigned to industry or the Foreign Economic Administration.

Sales of these materials have been principally to industries engaged in war production, and have amounted to \$1,313,000,000.

Stock piles on hand cost \$538,000,000, and, in addition, the Company has assets largely in the nature of advances to contractors, other receivables, and mining equipment and supplies in the amount of \$97,800,000.

Losses through sale of materials within Office of Price Administration ceiling prices have been \$26,500,000. A great many of the materials have been bought at more than ceiling prices.

Losses through subsidizing domestic production of copper, lead, and zinc from marginal mines have aggregated \$162,800,000. Premium payments under this subsidy have been made in connection with the production of 3,493 separate mines.

Purchases have covered 50 different critical materials, and have come from 51 foreign countries, 38 States in the United States, Alaska, and the Philippines.

Purchases were begun in 1940, well before Pearl Harbor, and have continued throughout the war.

The objectives of Metals Reserve Company have been the purchase and production of metals and minerals for use in our national defense, and in prosecution of the war.

Figures in the foregoing summary are substantially as of December 31, 1944.

DEFENSE PLANT CORPORATION

The Reconstruction Finance Corporation, through Defense Plant Corporation, has made commitments for war plants, facilities, and machine tools aggregating \$10,704,935,000. Of this total \$757,656,000 has been canceled and \$7,177,700,000 disbursed.

The total figure includes pool order commitments for machine tools aggregating \$1,985,000,000. These orders are issued to insure the machine-tool manufacturer a market for his product and, as the tools are sold by the manufacturer, our obligation ceases.

We have only been required to buy tools under these orders aggregating \$4,912,000, and our outstanding commitments at this time are only \$33,271,000. However, we have an informal request now from War Production Board to issue new pool orders in a substantial amount, to be handled in the same manner.

In addition to the pool orders, machine tools have been supplied to 1,007 contractors in the amount of \$1,087,000,000, the contractors paying a fixed rental.

Total commitments include 920 complete, integrated plants wholly owned by Defense Plant Corporation, in the amount of \$6,055,000,000; and the expansion of 122 existing privately owned plants in the amount of \$740,000,000. These expansions are wholly owned by Defense Plant Corporation and are located on land owned by it or held under long-term lease.

The over-all commitments include—

Five hundred and seventy-four for aircraft facilities in the amount of \$3,100,000,000.

One hundred and eighty-three for steel and pig-iron facilities in the amount of \$1,023,000,000.

One hundred and sixty-one for chemical facilities in the amount of \$119,000,000.

One hundred and fifty-six for machine-tool facilities in the amount of \$80,000,000.

Ninety-seven for aluminum facilities in the amount of \$812,000,000.

Ninety-two for ordnance facilities in the amount of \$358,000,000.

Fifty-seven for synthetic-rubber manufacturing facilities in the amount of \$715,000,000.

Fifty for other rubber-manufacturing facilities necessary in the war effort in the amount of \$115,000,000.

Fifty-two for magnesium facilities in the amount of \$453,000,000.

Thirty-eight for aviation gasoline facilities in the amount of \$245,000,000.

Six for pipe lines in the amount of \$189,000,000.

Two hundred and forty-seven plants aggregating \$3,100,000,000 are leased to operators at an annual rental of \$1 a year. In these plants no charge is made to the Government procurement agency for plants or plant facilities in the supply contracts. In the remaining 1,858 projects, in the amount of \$4,900,000,000, rentals have been collected aggregating \$422,000,000.

The plants and projects are located in 46 States, and each was undertaken at the request of the War or Navy Department, Maritime Commission, War Production Board, or other agency having responsibility for the procurement of war matériel.

Recently a number of facilities that had finished their war work were transferred to new operators for other emergency war production.

The distribution of plants and projects by States follows:

State	Plants and projects	Commitment	State	Plants and projects	Commitment
Alabama.....	16	\$73,733,000	Nevada.....	5	\$159,250,000
Arizona.....	16	98,402,000	New Hampshire.....	3	2,521,000
Arkansas.....	12	88,853,000	New Jersey.....	132	268,337,000
California.....	129	323,296,000	New Mexico.....	4	5,278,000
Colorado.....	5	6,235,000	New York.....	105	577,547,000
Connecticut.....	63	152,800,000	North Carolina.....	9	13,420,000
Delaware.....	7	3,393,000	Ohio.....	232	778,519,000
District of Columbia.....	3	4,850,000	Oklahoma.....	20	46,985,000
Florida.....	14	16,008,000	Oregon.....	26	33,019,000
Georgia.....	11	4,279,000	Pennsylvania.....	172	881,963,000
Idaho.....	1	225,000	Rhode Island.....	11	6,937,000
Illinois.....	132	695,679,000	South Carolina.....	23	47,545,000
Indiana.....	84	367,985,000	Tennessee.....	30	149,968,000
Iowa.....	20	14,399,000	Texas.....	92	647,080,000
Kansas.....	10	44,544,000	Utah.....	18	248,601,000
Kentucky.....	56	161,432,000	Vermont.....	6	4,126,000
Louisiana.....	27	232,816,000	Virginia.....	10	16,353,000
Maine.....	2	352,000	Washington.....	12	149,968,000
Maryland.....	42	72,808,000	West Virginia.....	56	171,963,000
Massachusetts.....	71	94,901,000	Wisconsin.....	4	12,809,000
Michigan.....	209	896,000,000	Wyoming.....		
Minnesota.....	27	29,376,000	Facilities in more than 1 State: Pipe lines, etc.....	60	398,268,000
Mississippi.....	32	161,808,000			
Missouri.....	3	12,478,000			
Montana.....	6	28,125,000			
Nebraska.....			Total.....	2,998	7,439,465,000

Commitments for facilities to produce critical and strategic materials in foreign countries have aggregated \$42,714,850. They include the production of copper in Chile, nickel in Cuba, vanadium concentrates in Peru, peat in Canada, fluorspar in Newfoundland, and balsa wood in Ecuador.

The figures throughout are substantially as of December 31, 1944.

DEFENSE SUPPLIES CORPORATION

The Reconstruction Finance Corporation, through Defense Supplies Corporation, had authorized total expenditures in the war effort aggregating \$10,350,000,000, of which \$800,000,000 has been canceled or assumed by private industry.

The Corporation's operations include the purchase of strategic and critical materials, the payment of extraordinary transportation costs on oil, coal, and sugar, loans and advances to contractors in connection with the purchase of materials, the payment of subsidies and other activities made necessary by the war. Disbursements for such purposes have been \$5,200,000,000. Receipts from the sale of materials, repayments of loans and advances, et cetera, have totaled \$3,600,000,000.

The operation includes, but is not limited to, commitments for the following purchases:

Aviation gasoline	\$2,976,000,000
Alcohol	822,400,000
Sugar and molasses	355,200,000
Burlap	206,500,000
Fibers	20,000,000
Wool	120,700,000
Tires and tubes	83,000,000
Nitrate of soda	40,300,000
Benzol	31,200,000
Silk	27,700,000
Calcium carbide	28,200,000
Cotton fabrics	24,300,000
Shellac	23,000,000

and a great many other items.

Aviation gasoline is resold to the War and Navy Departments. The alcohol is used principally for the manufacture of synthetic rubber, and the molasses is converted into alcohol for this use. Substantially all purchases are resold for use in the manufacture of war material.

The principal subsidies are on meat, butter, flour, crude oil from stripper wells, aluminum rod and bar, wood pulp, and extraordinary transportation costs. Subsidy payments through December 31, 1944, on meat were approximately \$65,900,000; on butter \$117,000,000; and on flour \$86,100,000. Subsidy payments on the production of crude oil from stripper wells only began August 1, 1941, and total payments through December 31, 1944, are approximately \$11,300,000. However, all claims have not been paid.

Payment of extraordinary transportation costs includes the movement of petroleum and petroleum products from the midwestern and the southwestern sections of the United States to the eastern seaboard at a net cost of \$297,400,000; the movement of crude oil from Texas and Louisiana to midwestern refineries at a net cost of \$4,000,000; the transportation of coal by rail to the New York and New England area at an approximate cost of \$39,400,000; and the transportation of sugar from the western section of the United States to the eastern seaboard at an approximate cost of \$25,000,000.

Loans and advances have been made principally in connection with the construction of facilities for the production of 100-octane aviation gasoline. The Corporation has disbursed on loans and advances for this purpose \$190,400,000. Repayments have aggregated \$84,400,000.

In addition, the Corporation in September 1941 agreed to purchase materials from the Soviet Union aggregating \$100,000,000, and advanced \$49,700,000 against the future delivery of such materials. To date the Soviet Union has delivered materials on this contract to the value of \$25,200,000 as payment on the advances.

To enable the Army Exchange Service to establish post exchanges speedily in all locations where troops were sent, the Corporation authorized loans aggregating \$91,000,000 against which disbursements were made in the total amount of \$71,153,000. All of these advances have been repaid from operations of the post exchanges.

Other activities of the Corporation include the elimination of Axis control of Latin-American airlines and bringing citizens of other American republics to the United States for training as aviation pilots and technicians.

An important activity is the operation of the various Government-owned pipe lines for the transportation of petroleum and petroleum products. The Corporation has expended \$438,200,000 for the purchase of petroleum and petroleum products and in operating the lines. Receipts from the sale of the oils and operations of the lines have totaled \$505,700,000.

The pipe lines are being operated for account of Defense Supplies Corporation, and at very substantial profits.

The figures in the foregoing are substantially as of December 31, 1944.

WAR DAMAGE CORPORATION

The War Damage Corporation has issued over 6,500,000 insurance policies and 2,200,000 renewals against loss resulting from enemy attack or action of American forces in resisting enemy attack.

War Damage Corporation has utilized in its operations the facilities of 546 fire-insurance companies and 88 casualty-insurance companies, their branch offices, and their agency forces.

The Corporation's maximum insurance liability has been \$140,000,000,000, including \$3,500,000,000 on money and securities. It has collected \$223,987,000 net premiums.

The Corporation has paid \$323,800 for losses resulting from enemy action occurring prior to July 1, 1942. No premiums were charged prior to July 1, 1942.

March 31, 1944, War Damage Corporation announced that all war-damage insurance policies in force on that date would be automatically extended for an additional term of 12 months beginning with the respective dates of expiration, without the payment of any additional premiums.

The facilities of the Corporation continue to be available for issuance of new policies. Reserves on hand from the collection of premiums should be sufficient to cover all damages except those in the Philippines.

UNITED STATES COMMERCIAL COMPANY

The Executive order which transferred United States Commercial Company to the Foreign Economic Administration provided that Reconstruction Finance Corporation should furnish the funds necessary in its operations.

The Reconstruction Finance Corporation has authorized loans to United States Commercial aggregating \$1,000,000,000 of which \$835,600,000 has been disbursed. Repayments total \$323,700,000.

PETROLEUM RESERVES CORPORATION

The Executive order which transferred Petroleum Reserves Corporation to the Foreign Economic Administration provided that Reconstruction Finance Corporation should furnish the funds necessary in its operations.

The Reconstruction Finance Corporation has authorized loans to Petroleum Reserves Corporation in the amount of \$1,000,000, and made a further conditional commitment of \$30,000,000.

Of the loans authorized, \$100,000 has been disbursed, and the balance of all loan authorizations and commitments to Petroleum Reserves Corporation have been canceled or deferred.

RUBBER DEVELOPMENT CORPORATION

The Executive order which transferred Rubber Development Corporation to the Foreign Economic Administration provided that Reconstruction Finance Corporation should furnish the funds necessary in its operations.

The Reconstruction Finance Corporation has authorized loans to Rubber Development Corporation aggregating \$150,000,000 of which \$130,400,000 has been disbursed. Repayments from the sale of rubber to Rubber Reserve Company have been \$76,800,000.

[From the Sunday Star, January 7, 1945]

THE RECONSTRUCTION FINANCE CORPORATION GIVES AID TO LITTLE BUSINESS SEEKS TO REVERSE MORTALITY TREND RESULTING FROM WAR

(By Jesse H. Jones)

Little business operates on the commercial frontier of the United States. In that field lie the risks and adventure, but also the hopes and profits of individual initiative.

The forces arrayed against little business are not those the early settlers faced as they moved West, but they are no less real. Competition, depressions, and wars create many hurdles for little business, frequently too many for the man or woman imbued with the laudable desire to be his or her own boss.

Because the impact of war imposes the most severe strain little business has had to face, its problems and how little business can best be encouraged and protected in our day of mass production and distribution are of great concern.

EARLY WAR MORTALITY HIGH

When the United States first entered World War II, and for many months thereafter, the mortality rate among little businesses was high. There are many failures in this category during more normal years, but, over a long period of time, new ventures have exceeded those which have found the going too rough. After we became involved in the war, this trend was reversed. The establishment of new businesses failed to equal those which closed their doors, and between 1939 through 1943 the net decline in the number of business establishments—large and small—totaled 536,400, an average of more than 1,100 in each of the 48 States.

At the present time, the decline appears to have been checked and the number of little businesses in operation is remaining fairly constant. The year 1944 may even show a slight increase. We are at the point from which we must go forward if small business enterprises are to survive.

We in the Department of Commerce and the Reconstruction Finance Corporation have not only had actual private experience in little business, but a great deal of experience in the relationship between Government and little business. The personnel of the Reconstruction Finance Corporation, including its directors and other executives, have spent their entire lives in business—small business. Executives and experts in the Department of Commerce are also experienced in small business.

NO EXACT FORMULA

We know little business, its problems and its difficulties. There is no exact formula for defining little business.

The man who operates a shoeshine stand, an independent drug store or corner grocery is certainly a little businessman, but there are little businessmen in the steel industry, in the field of automobile manufacturing, in the production of tobacco products, the operation of hotels, restaurants, radio stations, and many other lines.

Suppose we say that any business which needs financing up to \$100,000 is regarded a small business and for the purpose of this discussion, that figure is probably as accurate a measure as we can arrive at.

The Reconstruction Finance Corporation has made more than 19,500 individual loans in this category, but if \$100,000 strikes you as being a lot of money, the Reconstruction Finance Corporation has made approximately 7,000 loans under \$5,000, 3,400 loans between \$5,000 and \$10,000, and 4,500 loans between \$10,000 and \$25,000.

It has actually disbursed \$1,008,675,948 to business institutions in the 10 years in which it has possessed the authority to make business loans. It has made more than 22,000 such loans—some in every State of the Union. The fact that we have made and offered to make business loans, both directly and in cooperation with banks, has made credit available to thousands of independent businesses on terms that they could hope to meet—and usually do meet—loans on terms that banks have heretofore, for one reason or another, been reluctant to make. This reluctance was due in some cases to banking laws or customs against long-time loans and many times because the loan did not appear to be a risk that the bank could take.

MANY SAVED FROM FAILURE

These figures and facts demonstrate that the Reconstruction Finance Corporation has appreciated the importance of little business to our economy and has been active in making credit available for it. Our experience in making these loans has demonstrated that with proper attention, encouragement, and advice many small businesses that otherwise would have failed have survived.

The Reconstruction Finance Corporation has not competed with private lending institutions, but has cooperated with them. It has made many loans that the banks did not feel justified in making and has taken participations in 5,000 loans made by banks, the Reconstruction Finance Corporation's participation running as high as 90 percent of the loan, the bank making and servicing the loan. The Reconstruction Finance Corporation's experience in making industrial loans has clearly shown that, had the banks been energetic enough and taken the trouble to make the loans and nurse some of them, they could all have been made. This is proven by the fact that the Reconstruction Finance Corporation's losses on such loans have averaged less than 1 percent. This percentage of loss can be taken from a reasonable rate of interest and still leave a proper profit for the

bank. After all, money lending is much like insurance. Rates can be adjusted to fit the approximate risk.

Few, if any, private institutions, which skim the cream off the loan field, have a better record and few have worked as hard as the Reconstruction Finance Corporation to make such loans. This is demonstrated by the fact that in hundreds of cases, after Reconstruction Finance Corporation examiners and officials have reset the financial structure of some small business, local bankers have decided that the loan which they had turned down, because of the risk, was really a loan that the bank should make.

DOOM FOR SMALL PLANT

There has always been romance in American business, and there has been plenty of it in the record of Reconstruction Finance Corporation loans to business. Consider the small machine shop in Miami with a book value of \$32,280, which, before the war, made fishing tackle. Its biggest year, 1940, resulted in sales of \$40,000.

With the outbreak of the war, the proprietors conceived the idea of using their equipment for the manufacture of aircraft parts.

On August 8, 1941, the Reconstruction Finance Corporation made a loan of \$20,000 to provide working capital for the first contract. An additional \$25,000 was authorized in November of that year and, by April of 1942, contracts which the company had obtained justified a loan of \$600,000.

To date, the loans which have been authorized to this little company aggregate \$8,463,000 and only \$568,000 is outstanding as unpaid.

Or consider, if you will, the \$7,500 loan made in 1938 to a man and his wife who were in the grocery business in Washington. At the time the money was advanced, their profits were not sufficient to meet the payments on their store fixtures.

Today, they owe the Reconstruction Finance Corporation only a few dollars. Their life savings have been protected and they, themselves, with several helpers, have been kept at work.

Out in Spokane, Wash., a loan, amounting to only \$2,800, assisted a woman in establishing a small drug store in 1939. She has been kept in business and her loan has been substantially repaid.

AID FOR TELEPHONE COMPANY

The residents of Whiteville, N. C., are dependent upon a small independent telephone company for service. The financial picture of this company in June, 1938, was discouraging. The Reconstruction Finance Corporation authorized a loan of \$12,500, which made possible expansion of service. The company has shown a very much improved earnings record and the loan has been almost entirely repaid.

A woman in Demopolis, Ala., needed assistance in 1939 for the installation of a cold storage locker plant. The Reconstruction Finance Corporation advanced her \$7,000. The plant has been successfully operated and the proprietor has had no difficulty in meeting her payments.

Out in Helena, Mont., a small oil and gas company needed funds to save its business. The Reconstruction Finance Corporation made \$25,000 available to it in 1943 and its business was saved.

At Newborn, Ga., a man was making wooden slat blinds in 1938 when he was faced with disaster for lack of working capital. The Reconstruction Finance Corporation made a \$1,000 loan, which had not been entirely repaid when the war forced a discontinuance of the business.

The borrower did not give up. He is making his repayments from wages as a machinist in a war plant and expects to reopen his shade business after the war. Pittstown, Okla., is supplied with electric power by a small local company.

FISH COMPANY SAVED

In December 1941 the Reconstruction Finance Corporation made a loan of \$15,000 to it to pay a mortgage, install new facilities, and provide working capital.

The loan put the company in good shape and enabled it to provide additional badly needed facilities. The company is succeeding.

In Nanticoke, Md., there is a small fishing company that has been in business since 1917.

It found the going rough in 1942 and obtained a \$1,900 loan from the Reconstruction Finance Corporation.

It needed \$275 more in May 1943, which it got.

The company has been able to stay in business, thereby providing employment and badly needed food products.

We are inclined to think of shipbuilding in terms of such companies as those operated by Henry Kaiser, Todd Shipbuilding Co., Newport News Ship, Bethlehem, Cramps, and New York Shipbuilding—all of which are tremendous operations.

But we in the Reconstruction Finance Corporation have knowledge of others.

Take, as an example, the small shipbuilding and repair yard in Seattle, which needed to install additional facilities to participate in the war effort.

The Reconstruction Finance Corporation, in August 1941, took a 70 percent participation in a loan of \$150,000 made by a local bank, the bank taking the other 30 percent and servicing the loan.

TERMS TO BANDOZEERS

This was only the beginning. Since that time, the Reconstruction Finance Corporation has cooperated with a local bank in loans aggregating \$23,594,000, and the company has assisted materially in the construction program of the Navy Department.

The present outstanding balance is only \$775,000.

A small fern-packing firm in Florida faced difficulties, because it could no longer obtain boxes to ship its products.

It decided it could make bandozeers if it could obtain the necessary financing.

The Reconstruction Finance Corporation provided it, and a small plant employing 40 to 50 persons was kept in operation.

These few typical loans are only examples of thousands of others like them, which the Reconstruction Finance Corporation has made.

The record of the past is, however, mainly useful as a signpost for the future—a future which for the present can be devoted only to an all-out war effort, but which on a day we cannot now foretell will bring peace to the world and provide opportunities for thousands of little businesses.

With the coming of peace, there will be many opportunities in the field of small business and many men and women anxious to challenge the opportunity. A great many men now in the service will want to go back to their former jobs or businesses, but many will want to try their own wings. They have been risking their lives to preserve freedom and our way of life and may want a business of their own, however small. They must have that chance, and it will be small business. Estimates made by experts in the Department of Commerce indicate that the war has created a deficiency of 270,000 small businesses in the field of retail distribution alone.

STORES SUFFERED MOST

The net change in the number of firms in retailing is particularly important since the number of businesses in retailing account for nearly half of all enterprises.

War-time casualties, particularly including grocery stores, eating and drinking places, and filling stations, but many small manufacturers were put out of business in the early years of the war. Some of these were later given orders which enabled them to start up again. Relative to the total number of various types of retail stores in existence at the end of 1941, household appliance and radio stores, meat and seafood markets, automobile dealers, filling stations, and shoe stores suffered most severely. In each of these lines, there was a net decline during 1942-43 of a fourth or more of the number of stores operating at the end of 1941.

In retailing, as in all other industry groups, roughly nine-tenths of all business discontinuances occur among firms employing fewer than 4 workers. This proportion has remained relatively constant throughout the 4-year period, 1940-43. About nine-tenths of all new enterprises also hire less than 4 workers, but the proportion has tended to decline during the war years. The net decline in the number of businesses has, therefore, been greater among small (i. e., those with less than 4 employees than among large firms.

There will be plenty of released veterans and discharged war workers to fill this gap and more. We must, in fact, if we are to achieve the President's goal of 60,000,000 jobs, find a place in our economy for 750,000 to 1,000,000 new small merchants.

Much emphasis in post-war discussions has been placed on our increased productive power and it is certainly the keystone of future prosperity, but if the products of our mills and factories lack free and full outlets to the consumer, we will have created a dangerous bottleneck. Little business will have to supply the channels through which goods and services move.

What can Government do, in addition to seeing that credit is available to little business to aid in this situation?

It can and should provide operating and management counsel and advice. The high mortality rate in the field of little business over the years proves that this is true. Too many men and women attempt to set themselves up in business with no experience and scant knowledge.

Too many people, unfortunately, have believed that possession of a little capital, some energy, and a great deal of ambition provided sufficient equipment for entry into the small-business field.

GREATER AID IS URGED

They have found to their sorrow that there is more to commerce and trade, whether it be big or small, than these attributes.

Many have succeeded with no better initial equipment but they have learned as they went along. There will, of course, always be failures.

Certainly, it is the responsibility of Government to make available fundamental information which can be used by anyone who wishes to set himself up in business and thereby give him as good a chance as it is possible to do.

The Department of Commerce has, for some time, asked Congress to take a step in this direction through the expansion of its field offices—already in existence—so that there may be provided for business a service similar to that which Government has for years placed at the disposal of agriculture through county agents.

This does not mean that we think there should be a representative of the Department of Commerce in every county in the United States, but even a limited number of men—able to give sound advice and pass along to the newcomer in business the experience of thousands of others—would be of great value and avoid many needless failures.

MUCH ADVICE AVAILABLE

As an illustration of what can be done, I cite the program which is already under way through cooperation between the War Department and the Department of Commerce.

Specialists in the Department of Commerce have prepared or are preparing 17 textbooks dealing with the establishment and operation of the most populous small business lines. They have been written in complete cooperation with industry, so that they contain not only the advice and counsel of Government experts, but the practical suggestions of men who have already established themselves firmly in business.

These books deal with the establishment and operation of automobile repair shops, retail bakeries, electric appliance and radio shops, grocery stores, metal working shops, painting and decorating businesses, real estate and insurance brokerage businesses, small sawmills, shoe repair shops, apparel stores, beauty shops, building contracting, hardware stores, service stations, general merchandise stores, dry cleaning establishments, laundries, and restaurants.

The War Department will only distribute these textbooks among soldiers whose desire it will be to go into business for themselves upon demobilization.

They spell out the financial and physical needs in each class of business and try to show the things that will be helpful and how to avoid the things that will spoil the chances of success.

EXPERTS ARE NEEDED

They should be generally available and there should be on hand experts who could discuss with men and women the situations which the books set forth.

Moreover, the time will come, after a small business has been established, when the operators will need help and guidance which Government should be in a position to provide, and there will always be new developments which it is the Government's duty to pass along to its citizens.

We will need the aid of every citizen to keep our economy functioning in peace just as we have needed the cooperation of everyone for war production.

Banks should occupy the leading role in this field. It is their responsibility to meet the credit needs of the country, and if it takes a little extra trouble to look after a small businessman, the banker should welcome the opportunity. He should know that if he does not meet it, the Government will, and his natural field will get narrower and narrower.

The future of small business does not, however, lie entirely in the hands of those who may enter it after the war.

There are, at the present time, 2,500,000 establishments which may be classed as small business. They, for the most part, have weathered the stresses and strains of operation in wartime and their problems are concerned not so much with the present, which, because of consumer demand, is relatively bright—but with what will happen after the war.

Representatives of the Department of Commerce, in the past 6 months, have met with many groups—geographically well distributed—in order to find out what was worrying these businessmen.

The distributors, mostly retailers, were primarily concerned with the sale of surpluses to speculators rather than through regular channels, with upgrading of merchandise by manufacturers, making it impossible to maintain low- and medium-priced goods in stock; and with post-war competition from large manufacturers with their own outlets and chain stores, which could buy up new merchandise as fast as it came on the market.

Some retailers were disturbed by growing competition from consumer cooperatives, manpower shortages, job freezing, and inequitable freight rates.

The manufacturers, almost all of whom employed 100 or less people at the time, were almost uniformly concerned over the distribution of surplus goods; their inability under present tax laws to build up a cash reserve essential for quick reconversion to civilian production; need for equitable freight rates.

TAX CHANGES VITAL

In both categories, credit needs were most frequently advanced under the discussion of taxation. The solution to the problem of post-war risk capital was uniformly taken up as a tax question, not in terms of borrowing more funds.

I do not take this cross section of small business opinion to mean that there will be need only for tax relief in the reconversion period, but income tax rates, regulations and schedules will need to be revised if the smaller units in businesses of all kinds can pay their debts from earnings over a reasonable time, and there is no other way for them to pay their debts other than from earnings.

We cannot expect business, little or big, to put risk or venture capital to work under a tax system which does not enable the investor of the money to get either a profit on his capital or the opportunity of amortizing his obligations in an orderly way.

We cannot abridge the right of honest and ambitious men to enter the business field because our financial institutions are unwilling to take a chance on the future of the United States.

As a matter of fact, there is little or no risk involved for the banker. The Reconstruction Finance Corporation has for a good many years and is still willing to participate with banks in making industrial loans in any degree up to 90 percent. No system of guaranteed loans could reasonably go any further than this and certainly any banker should be willing to take at least a 10 percent share with his Government in the advancement of his own community.

SMALL LOANS NOT HURTFUL

To put it another way, a loan application made by a fellow citizen in which a local bank is not willing to take some of the risk is either a very poor loan, or a great reflection upon the fitness for his job of the banker who turns it down.

I do not believe, however, that the bankers of the United States are going to make the mistake of denying credit to reputable men and women of character in amounts appropriate to the circumstances. And as for little business and little loans, I would remind the banker that no bank ever got seriously hurt from small loans.

In many communities banks have either already established credit pools to finance small business or are in the act of doing so. Some of these pools will contain as much as \$100,000,000. They should be operated on a constructive basis. The Reconstruction Finance Corporation stands ready to participate with these pools so that there may be no lack of credit for legitimate enterprise, regardless of size, that will provide employment and opportunity.

This proposal, which we will be glad to consider in any part of the country—if the banks want Reconstruction Finance Corporation's cooperation—will not only provide a greater amount of available credit but will be, in effect, a participation by the Reconstruction Finance Corporation in any loans which are made.

The banks of the country ought to go to work post-war just as everyone else to assure a high level of production and employment. Too-stringent policies in the operation of the credit pools will make them ineffective. Liberal policies may mean some losses, but there again, there will be profit enough in the interest rate to cover them.

Our experience has convinced us that an organization operated along constructive business lines—as the Reconstruction Finance Corporation has been—can provide sound and helpful assistance to all business with no net loss. And no loan is too small or too large to be given serious and prompt consideration.

I repeat, and wish to emphasize, that there is profit enough from reasonable interest rates to cover any net loss on small business loans.

Estimated number of all operating business firms (small and large) in 1939 and 1943

	1939	1943	Net change, 1941-43 ¹	
			Number	Percent decrease or increase since 1941
All industries.....	3,316,700	2,861,600	-556,400	-15.8
Mining and quarrying.....	31,400	26,200	-5,200	-16.2
Contract construction.....	202,100	158,100	-44,000	-21.8
Manufacturing.....	214,200	228,600	+14,400	+6.7
Transportation, communication, and public utilities.....	207,700	188,000	-19,700	-9.5
Finance, insurance, real estate.....	286,400	291,200	+4,800	+1.7
Wholesale trade.....	144,800	114,800	-30,000	-20.8
Retail trade.....	1,601,400	1,330,400	-271,000	-16.9
General merchandise.....	35,800	34,500	-1,300	-3.6
General stores with food.....	37,700	29,700	-8,000	-21.2
Grocery, with, without meats.....	341,500	284,300	-57,200	-16.7
Meat and sea food.....	39,900	28,500	-11,400	-28.6
Other food stores.....	120,000	93,500	-26,500	-22.1
Liquor stores.....	15,300	13,800	-1,500	-9.8
Auto dealers (new, used).....	38,400	30,500	-7,900	-20.6
Other automotive.....	73,000	65,700	-7,300	-10.0
Apparel and accessories.....	13,100	10,400	-2,700	-20.6
Shoes.....	29,500	28,100	-1,400	-4.7
Home furnishings and equipment.....	15,000	10,300	-4,700	-31.3
Appliances and radio.....	52,200	47,200	-5,000	-9.6
Drugs.....	37,900	34,900	-3,000	-7.9
Hardware and farm implements.....	31,300	27,200	-4,100	-13.1
Lumber, building materials.....	295,400	250,800	-44,600	-15.1
Eating and drinking places.....	226,700	170,900	-55,800	-24.6
Filling stations.....	182,700	155,100	-27,600	-15.1
Other retail.....	638,700	554,300	-84,400	-13.2
Service industries.....	27,500	24,400	-3,100	-11.3
Hotels, boarding houses, etc.....	86,700	92,900	+6,200	+7.1
Laundries, dry cleaning, etc.....	203,400	185,400	-18,000	-8.9
Barber and beauty shops.....	93,000	73,100	-19,900	-21.4
Other personal services.....	77,500	59,100	-18,400	-23.8
Automobile repair.....	44,200	38,000	-6,200	-14.0
Amusements.....	106,400	83,400	-23,000	-21.6
Business services.....				

¹ 1941 was the peak year for the total number of operating businesses.

AMENDMENT TO S. 375

JOINT RESOLUTION To provide for the continuance of the Federal Loan Agency as an independent establishment of the Federal Government

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That the Federal Loan Agency, created by section 402 of the President's Reorganization Plan Numbered I under authority of the Reorganization Act of 1939, shall continue as an independent establishment of the Federal Government and shall continue to be administered under the di-

rection and supervision of the Federal Loan Administrator in the same manner and to the same extent as if Executive Order 9071, dated February 21, 1942, transferring the functions of the Federal Loan Agency to the Department of Commerce, had not been issued.

SEC. 2 All powers, functions, and duties of the Department of Commerce and of the Secretary of Commerce which relate to the Federal Loan Agency are hereby transferred to the Federal Loan Agency to be administered under the direction and supervision of the Federal Loan Administrator.

SEC. 3 The unexpended balance of the funds made available to the Secretary of Commerce by Public Law 365, Seventy-eighth Congress, approved June 28, 1944, for administrative expenses of supervising loan agencies, shall be transferred to the Federal Loan Agency to be used for the administrative expenses of that Agency.

SEC. 4 No functions, powers, or duties shall be transferred from the Federal Loan Agency under the provisions of title I of the First War Powers Act, 1941, or any other law unless the Congress shall otherwise by law provide.

(Whereupon, at 5:30 p. m., the committee recessed to 10:30 a. m. of the following day, Thursday, January 25, 1945.)

FROM: MR. O'CONNELL

TO:

Testimony of Mr. Wallace

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ADMINISTRATION OF CERTAIN LENDING AGENCIES
OF THE FEDERAL GOVERNMENT

THURSDAY, JANUARY 25, 1945

UNITED STATES SENATE,
COMMITTEE ON COMMERCE,
Washington, D. C.

The committee met, pursuant to adjournment, at 10:30 a. m., in room 318, Senate Office Building, Senator Josiah W. Bailey (chairman) presiding.

Present: Senators Bailey (chairman), Overton, Bilbo, Radcliffe, Pepper, O'Daniel, McCarran, Chandler, McClellan, Johnson (of California), Vandenberg, Brewster, Burton, Wiley, Robertson, and Cordon.

The CHAIRMAN (after the arrival of Mr. Wallace). There will be no further demonstration. The demonstration you gave is entirely satisfactory; there is no complaint, but the committee is now in session. It is very important that we should proceed in the most orderly way possible.

We are welcoming our former Secretary of Agriculture and former Vice President, and we are all glad to have him here. I think the photographers will take a few pictures, and after that Mr. Wallace will be at liberty to proceed.

**STATEMENT OF HENRY A. WALLACE, FORMER SECRETARY OF
AGRICULTURE AND FORMER VICE PRESIDENT OF THE UNITED
STATES**

The CHAIRMAN. Mr. Wallace, we have before the committee Senate bill 375, known as the George bill, and the substitute which he proposed on yesterday. You may proceed.

Mr. WALLACE. Mr. Chairman and members of the committee, I wish to assure you that I appreciate the opportunity which you have extended to me to appear before this committee for the purpose of discussing Senate bill 375, the so-called George bill. Obviously I am deeply concerned with any proposal that has for its purpose the stripping of the Department of Commerce of its present lending functions. I would be less than frank if I were to give you the impression that my concern springs solely from the fact that important functions are being carved out from under the jurisdiction of the Department of Commerce. You know, and I know, that of even greater significance is the fact that my nomination as Secretary of Commerce was the occasion for this particular proposal.

There are some who have suggested—perhaps in an effort to save my feelings or face—that this separation of the lending functions from the Commerce Department is desirable because of my alleged “lack of experience” in such field. Let me say that this talk does not fool either me or the American public. You know and I know that it is not a question of my “lack of experience.” Rather, it is a case of not liking the experience I have.

Let me be specific: For 8 years I was Secretary of Agriculture. During that period the Commodity Credit Corporation, the Farm Security Administration, the Farm Credit Administration, and the Rural Electrification Administration were under my supervision. During that period these agencies loaned over \$6,000,000,000. We made 11,500,000 separate commodity-credit loans and 1,208,000 rural-rehabilitation loans. We arranged the financing to permit 20,184 tenant farmers to buy their own farms.

Collateral for these loans included farm real estate, agricultural producing, processing, and marketing facilities and a wide range of farm commodities. These loans were not only made on a sound business basis but they were also in the public interest. Farmers benefited, consumers benefited, and the interests of the Nation itself were advanced as a result of these loans. I am proud of our financial record on this difficult financing. If there are any present who are interested in the details respecting this record, I will be glad to answer their questions at the end of my prepared statement. But since I do not believe that the real issue relates to my alleged lack of financial experience I would like to proceed to what I conceive to be the real issue.

The real motive underlying these suggestions for stripping the Department of Commerce of its vast financial powers has, of course, nothing to do with my competence to administer these powers. The real issue is whether or not the powers of the Reconstruction Finance Corporation and its giant subsidiaries are to be used only to help big business or whether these powers are also to be used to help little business and to help carry out the President's commitment of 60,000,000 jobs. In other words the question is really one of whether this committee, the Congress, and the American public want these enormous financial powers utilized and invested in a free America—in a prosperous America.

This is not any petty question of personalities. This is a question of fundamental policy. It is the question of the path which America will follow in the future. So that there can be no doubt in anyone's mind where I stand on these fundamental issues, I would like to take this opportunity to discuss with you the future which I feel is in store for America.

In discussing with you the path which I feel the American people should pursue in the years immediately following this war, I am under no illusions that as Secretary of Commerce I will be able to carry out all of the measures which I will discuss. However, I do want to make it clear now that, to the extent that powers are vested in me by Congress, I will use those powers to the fullest possible extent to further the objectives which I will outline to you.

For the second time in 25 years America has proved her capacity to meet the challenge of total war. Twice in 25 years we have amazed

the whole world—and ourselves—with our daring conception of what America could do when forced to war. We have astonished a grateful world by the stupendous number of planes, tanks, and guns rolling off our assembly lines; with the bridge of ships we have erected across the oceans; by the overwhelming force with which America has turned the scales of battle.

Thus has America met the challenge of war—with boldness, courage, and determination. Thus has America become the symbol—the world over—for the dynamic force of a free people fighting for a free world.

But what of the peacetime problems here at home which will follow the successful conclusion of this war?

Is America prepared to meet the challenge of these peacetime problems as it has twice met the challenge of war?

Will we approach the problems of peace with the same boldness of conception, the same courage and determination, as we have approached the problems of war?

In the answer to these questions lies the future of America. To anyone who has faith in America the answer is clear. The American people are prepared to meet the problems of peace in the same inspiring way that they have met the problems of war. The American people are resolved that we shall insure that the youth of this Nation will never again be called upon to fight in another war. And the American people are equally resolved that when our boys return home from this war, they shall come back to the brightest possible, the freest possible, the finest possible, place on the face of this earth; to a place where all persons, regardless of race, color, creed, or place of birth, shall live in peace, honor, and dignity, free from want and free from fear. To do otherwise would betray the faith of every soldier, every worker, every businessman, every farmer in this country who is giving his best for America.

In determining the course of action we should pursue after the war, it is well for America to pause and take stock of her capacities. For America's capacities should be the measure of America's future.

America's known capacities are not difficult to calculate. We are now producing goods and services to the gigantic total of \$200,000,000,000 a year with 52,000,000 workers and 12,000,000 soldiers. In simple language, that means that today America is producing nearly twice as much as she had ever produced before the war. But an enormous part of the goods and services we are producing today does not find its way into the American home. No; it represents the ships, the guns, the planes, and tanks we are using to fight this war.

But I know, and you know, that, if we can produce a huge flow of ships and guns and planes and tanks, we can also produce an abundance of houses and cars and clothing and provide education and recreation and the other good things of life for all Americans.

And we all know that when our boys return home from the war and are again able to put their power into the stream of peacetime production, America's capacity to produce will be even greater than it is today. Yes, much greater than today, even when we remember that some of our returning soldiers will prefer to resume their education; that some older people will begin a retirement delayed to participate in war work; and that many women will give up their jobs in favor of homemaking. Making full allowance for these groups, the fact re-

mains that America will have the capacity after the war for producing houses, cars, clothing, education, recreation, and all of the other good things of life on a scale that staggers the imagination. That is what America can and will do if we have the courage and vision to give her the chance.

But to accomplish this task of utilizing our full productive capacity year after year, it is childish to think that this can be accomplished by a small segment of business and finance even though that small segment consists of the giants of industry and the tycoons of American finance.

Nor can this be accomplished by throwing crumbs to a reported 20,000 business enterprises out of a total of over 3,000,000 struggling small businesses in the United States. Why, an America geared to that limited conception of our capacity will find itself faced with millions of unemployed. The same people who set their sights too low for war are now asking the American people to set their sights too low for prosperity. They do not grasp the strength and the spirit of America.

Now, do any of us think for a minute that there is any quack remedy or cure-all that can be automatically applied. The sober facts are that genuine progress will be achieved only through concrete plans and a real effort.

In the President's message to Congress last year and this year he set forth eight self-evident economic truths as representing a second Bill of Rights under which a new basis of security and prosperity can be established for all—regardless of station, race, or creed.

America led the world in establishing political democracy. It must lead the world once more in strengthening and extending political democracy by firmly establishing economic democracy. Let us not forget the painful lessons of the rise of fascism. Let us remember that political democracy is at best insecure and unstable without economic democracy. Fascism thrives on domestic economic insecurity, as well as on lack of or divided resistance to external aggression. Fascism is not only an enemy from without, it is also potentially an enemy from within.

We now must establish an economic bill of rights not only out of common decency, but also to insure the preservation of our political freedoms. We must accord to this economic bill of rights the same dignity—the same stature—in our American tradition as that we have accorded to the original Bill of Rights.

Let us therefore affirm this economic bill of rights—and keep affirming it—until it is as familiar and real to us as our political Bill of Rights.

The economic bill of rights as embodied in the President's message to Congress last January is—

The right to a useful and remunerative job in the industries, or shops or farms or mines of the Nation. I might say that this was reiterated again in the last message to Congress.

The right to earn enough to provide adequate food and clothing and recreation.

The right of every farmer to raise and sell his products at a return which will give him and his family a decent living.

The right of every businessman, large and small, to trade in an atmosphere of freedom from unfair competition and domination by monopolies at home or abroad.

The right of every family to a decent home.

The right to adequate medical care and the opportunity to achieve and enjoy good health.

The right to adequate protection from the economic fears of old age, sickness, accident, and unemployment.

The right to a good education.

But the achievement of this American economic bill of rights will not come of itself. These rights will not come to those who merely sit and wait. Nor will they come through merely pious repetition. Our forefathers had to struggle for our political Bill of Rights; we will have to struggle for our economic bill of rights. If we are going to make those rights a living reality we must map out a vigorous and concerted course. We must set as our goal the implementation and fulfillment of the eight self-evident truths which together constitute our economic bill of rights.

The key to making this economic bill of rights a part of the American way of life is as self-evident as are the rights themselves. The key is the wholehearted recognition by all our people of the simple fact that in America the future of the American worker lies in the well-being of American private enterprise; and the future of American private enterprise lies in the well-being of the American worker. The greatest single thing that this war has demonstrated on the home front is that when the American worker and the American businessman and the American farmer work together as one team, there are no limits on what America can accomplish.

But to work together as a team, however, there must be a common goal. In this war that goal has been the defeat of our enemies in the shortest possible period of time. In the peace to come the goal must be the well-being of America.

I am now going to outline to you the type of program which I think would make each of these economic rights a part of our way of life. In your consideration of this program you will note this striking fact, namely, that to the extent that private enterprise grows in strength the economic bill of rights grows in reality, and to the extent that the economic bill of rights grows in reality American private enterprise grows in strength.

Thus, all the measures which are suggested in this program for the implementation of the economic bill of rights are at the same time designed to make American capitalism and private enterprise work in the same great manner in peace as it has worked in war.

And I also want to emphasize what the implementation of these rights will mean to our service men and women. They have given America the opportunity to work out its destiny as a free Nation in a free world. The America to which they return must be a land of economic opportunity in which they will find not only jobs but a chance for economic advancement and independent enterprise in industry, commerce, agriculture, and the professions. A grateful Nation can do no less for her returning service men and women. The G. I. bill of rights, which became law in June of last year, following a series of

recommendations which the President made to the Congress, is only designed to fulfill the special needs of our men and women in the service. The economic bill of rights is designed to fulfill the needs which they value most—yes; the needs which they value more than life itself—the needs of America.

I

The first economic right is "the right to a useful and remunerative job in the industries or shops or farms or mines of the Nation."

To assure the full realization of this right to a useful and remunerative job, an adequate program must provide America with 60,000,000 productive jobs. We must have more jobs than workers; not more workers than jobs. Only with more jobs than workers can every man be guaranteed a job with good wages and decent working conditions. This requires private enterprise working at expanded capacity.

This necessary expansion of our peacetime productive capacity will require new facilities, new plants, and new equipment.

It will require large outlays of money which should be raised through normal investment channels. But while private capital should finance this expansion program, the Government should recognize its responsibility for sharing part of any special or abnormal risk of loss attached to such financing.

Therefore I propose that the Government guarantee the lender against the special and abnormal risks which may be involved in achieving our objective. This will provide new and expanding industry with plenty of private credit at reasonable interest rates. Through this program we will merely be extending to the financing of old and new business the principles which have proved so successful in our experience with the V-loans, T-loans, and Federal Housing Administration loans.

A comprehensive investment program dedicated to expanding the peacetime productive capacity of America is the very essence of the American way of raising our standard of living. We build the plants for greater production so that all of us may share in their greater output. But greater output is not our only benefit from this plant expansion. In fact, our benefits also include the wages paid to the labor employed in building these plants, in constructing the machinery to be used in the plants and in operating the plants after they are erected. These payments as wages all contribute to the Nation's buying power so that as a nation we will have more money with which to buy the goods produced by these expanded plants.

As a matter of fact a comprehensive investment program of this character could make possible \$20,000,000,000 of new private investment each year. Why, just the job of building these plants and the machinery for them would give America 5,000,000 more jobs a year than we had in this work before the war. And this does not include the workers who would be needed to operate these plants after they are built.

In a nutshell, then, if we are going to have remunerative jobs for all, we must have an expanded private industry capable of hiring millions more men. I propose that the Government do its part in helping private enterprise finance this expansion of our industrial plant. It will be privately owned, privately operated, and privately

financed but the Government will share with the private investor the unusual and abnormal financial risks which may be involved in getting started.

But, in providing jobs for everyone, we shall not only have to increase demand for our industrial and agricultural production here at home; but also abroad. Some parts of our industrial and agricultural production demand a high level of foreign trade to be efficient and prosperous. This is particularly true in our heavy equipment industries where our war demand will fall sharply but whose output will be needed by other countries for reconstruction and development. The foreign demand for such farm commodities as cotton, tobacco, and wheat will also be great if other countries have the opportunity to buy. We therefore must take steps, in cooperation with other countries to see that international trade and investment is resumed promptly on a sound basis.

This administration has pioneered in the direction of international economic collaboration with its reciprocal trade agreement program—on behalf of which I have appeared before committees of Congress at least a half dozen different times—and the establishment of the Export-Import Bank. It has again taken the lead in suggesting international monetary stabilization and sound international investment measures—measures that are a fundamental prerequisite to healthy foreign trade and commerce. It was for the purpose of working out concrete measures of this character that the President convened the United Nations Monetary and Financial Conference at Bretton Woods last summer. At the Bretton Woods Conference, 44 countries agreed upon plans for an international monetary fund and an international bank for reconstruction and development.

The international monetary fund, when approved by Congress, will aid the nations of the world in establishing sound currencies. It will clear the channels of foreign trade of discriminatory restrictions and controls so that there can be a genuine expansion of world trade.

With the help of the International Bank, American capital can play a great constructive role—and a profitable role—in the development of the economies of other countries. It will provide us with enormous post-war foreign markets for our greatest markets are in prosperous industrialized countries.

But America will not be merely a seller of goods abroad. A truly prosperous America—an America with jobs for all—will be a tremendous buyer of raw materials and products from abroad. It will be an America constantly enlarging the scope of our reciprocal trade agreements. It will be an America with the time and money to spend on tourist travel abroad as well as at home. It will be an America from which other countries can afford to buy more because they are selling more.

With congressional approval of this program and with our program of jobs for all in this country—the foreign trade of the United States can be trebled after the war. This increase in our foreign trade should mean 3,000,000 more jobs in this field after the war than we had before the war.

Nor are the benefits of increased foreign trade and investment confined to increasing our prosperity. I want to emphasize that such cooperative measures for expanding international trade and invest-

ment are at the same time the economic foundation for a lasting peace. A prosperous world will be a world free of both economic and political aggression.

There is one further phase of this program of providing jobs for all which must be made an integral part of any long-range program. That is the task of seeing to it that there are not just jobs for all next year—or for the year after that. No; we are talking about jobs for all as a permanent part of our American way of life.

It is inevitable, however, that an economy of free enterprise like ours will have some fluctuation in the number of jobs it can provide. Adjustments in employment are an essential part of an expanding free economy. And for these minor fluctuations, we provide unemployment insurance. But we must not allow such fluctuations ever to deteriorate into panic or depression. We cannot again be caught in that vicious downward spiral of unemployment, wage cuts, and stagnated business.

Whenever the number of gainfully employed in this country falls below 57,000,000, our Government should take prompt steps to see that new jobs are made available to keep the total from falling significantly below that figure. This is the floor below which we must not allow employment to fall.

The basic function of your Government in taking care of any such slack in jobs is to see to it that private enterprise is assisted until it can absorb this slack. This is entirely possible. During the war the Federal, State, and local governments have found it necessary to put aside the construction of roads, buildings, and public facilities to the value of many billions of dollars. We have a need, too, for vast programs of the type exemplified by T. V. A.

Some of this construction will have to be undertaken immediately after the war. A good deal of it, however, can be postponed so that its construction could be timed with periods when the volume of employment that industry, commerce, and agriculture can offer begins to fall. We must have a reservoir of planned and approved Federal, State, and local projects ready to be tapped. And when employment falls below this floor of 57,000,000 jobs, this reservoir of planned and approved public works should be opened up to provide more jobs and take up the slack.

Such useful and essential public works should not produce Government relief jobs, however. No; they should produce private jobs. This is possible if we insist that this construction be done by private firms under contract with the Government; private firms employing labor at the prevailing rate of wages and under standard labor conditions.

This assurance of a reserve of private jobs, through constructive public works when needed to take up the slack, will have a profound effect on the whole direction of our economy. In fact, the knowledge that Government accepts this responsibility of maintaining a floor under jobs will act as an immense stabilizing force on the whole economy, not only of this country, but of the whole world.

II

The second economic right is "the right to earn enough to provide food and clothing and recreation."

America must remain preeminently the land of high wages and efficient production. Every job in America must provide enough for a decent living.

During the war we have been compelled to hold down wage increases that might have provoked runaway inflation. With all the arms and war materials we were producing, there was only a limited amount of consumption goods available. Increasing wages without increasing the amount of goods available to the consumer would have been an open invitation to inflation.

However, the end of the war, even the end of the war in Europe, will change this picture. Then there will be more goods available for America to buy and it is only good common sense to see that the workman is paid enough to buy these goods.

The gains made by labor during the war must be retained in full. After the last war, as part of the process of returning to "normalcy," the slogan "labor must be deflated" was adopted. This must not happen again. This time we must make sure that wage rates are not reduced when the wartime demand for labor is diverted into peacetime channels. We must make sure that the labor market is not broken by unemployment and wage slashes.

American labor should be assured that there are not going to be any wage cuts after this war. What is even more important—when the worker's hours are cut back to peacetime levels a real attempt must be made to adjust wage rates upward.

And wage rates should be constantly increased as the productivity of industry is increased. An expanding American economy can continue to expand only if the increased productivity is divided equitably between business and the worker. In fact we all know that unless the worker does get his share of America's increased production in the form of increased wages and unless business get its share in the form of increased profits neither will prosper and all—businessman, wage earner, and farmer—will lose.

But an increase in wages is not the only benefit the American worker should secure from increased productivity. He should also benefit in the form of shorter hours of work, in the form of increased leisure and opportunities for healthful recreation. Thus increased wages and shorter hours go hand in hand in solving the problem of prosperity the American way.

There is one further aspect of the wage-earner's problem that I would like to comment on. That is his aspiration for an annual wage or guaranteed annual income from his job. It is a terribly important part of any real attempt to implement America's economic bill of rights. The size of the wage earner's pay envelope is important—vitally important to American prosperity. But we all know that it is equally important to know how many pay envelopes he gets during a year. I would like to see him get a guaranteed minimum annual wage and I think the time has come for America to begin tackling this most difficult problem.

Now this goal cannot be attained overnight. It cannot be achieved in a manner to harm business. Nor can it be achieved with the same speed in every business.

But we can start on the job of giving labor an annual wage. We can do a lot if we all will only agree that it is a problem business and labor must solve and if we all approach the problem with a genuine

desire to succeed. The Government must do its part also. It must aid business in stabilizing its labor needs so that the burden of an annual wage will be solved in a sound manner. This in my opinion is the American way to bring about the annual wage and I have confidence in the American way of doing things.

III

The third economic right is "the right of every farmer to raise and sell his products at a rate which will give him and his family a decent living."

American farmers now have by far the largest farm income in history. This is their due reward for the greatest agricultural production in history. We must assure the farmers that there will always be a market for all their output at good prices. Concretely we should maintain an adequate floor on farm prices and thereby assure the farmer against the dangers of falling prices for his products. Our farm program must be one of expansion rather than curtailment. With jobs for all at good wages and with foreign markets greatly expanded, the farmer will be able to sell at good prices all that he can raise.

But this is not all. The farmer's income must have stability. To that end, there should be established a comprehensive Federal crop-insurance program which will secure the farmer against the hazards of crop failure. To this must be added concrete steps to raise the standard of living on the farm and in the rural areas. We need a complete program of new and modernized homes and farm buildings. We must press forward with rural electrification and improvement. Only in this way can we bring to the rural communities modern facilities for decent and healthful living.

IV

The fourth economic right is "the right of every businessman, large and small, to trade in an atmosphere of freedom from unfair competition and domination by monopolies at home and abroad."

Our economic bill of rights, like our political Bill of Rights, is based on freedom of enterprise—freedom of enterprise not merely and exclusively for the few but broadly and inclusively for the many. The political Bill of Rights insured the destruction of special prerogatives and privileges. The economic bill of rights will insure the destruction of special economic prerogatives and privileges.

No special class of business deserved to be the spoiled darling of Government. The American people have no interest in preserving the vested interests and monopolistic privileges of greedy big business. The interest of the American people lies in using the resources of the country to achieve a prosperous America, prosperous for all business, large and small, and for all the people.

We must break through the barriers of monopoly and international cartels that stand in the way of a healthy expansion of free enterprise.

We must overcome the monopolistic frame of mind which thinks of business in terms of restricted output at high prices per unit. We must pass on to workers and consumers the benefits of technological progress and large-scale production. Free enterprise in the American

tradition can flourish only by doing a large volume of business at a small profit per unit.

We must protect free enterprise against monopolies and cartels through continued vigorous enforcement of the antitrust laws. Private enterprise yields its full advantage to the consuming public and to other business only when it is genuinely free and competitive. He is a sinister enemy of free enterprise who pays lip service to competition but also labels every antitrust prosecution a "persecution."

Our economy has important new expanding sectors in air transport, frequency modulation, television, and fibers, plastics, and many other fields. These new expanding business areas in particular must be kept free of the constricting hand of monopoly, and also, and in particular those industries which will be based on inventions made in connection with the war effort, of which there are many in the War and Navy Departments.

There must be a place in these new business areas—as everywhere in our economy—for enterprising small firms. It is from these new and small firms that the great industries of the future will grow. We need new industries and new firms to have industrial progress. We must not permit them to be stifled by monopoly.

V

The fifth economic right is "the right of every family to a decent home." Concretely, we should adopt a housing program looking toward the construction through private enterprise of 2,000,000 housing units a year and ridding this country of its urban and rural slums. We need to build at least 15,000,000 new housing units if we are to eliminate all our slums and substandard dwellings. The right to a home is meaningless when that home is a hovel. We cannot afford slums.

A well-housed America must have modern homes—homes with all the latest electrical and mechanical equipment which will eliminate the drudgery of household work. To the fullest extent possible we must be a land of home owners, and to that end we must assure every family an opportunity for home ownership by making certain that there is available private credit on terms which will reduce the down payment and cut by one-third the monthly cost of buying homes.

New residential construction and the modernization of America's homes alone can provide jobs for 4,000,000 people a year. This is 2,000,000 more than the maximum amount engaged in such work prior to the war.

VI

The sixth economic right is "the right to adequate medical care and the opportunity to achieve and enjoy good health."

As Selective Service has revealed, too large a proportion of our younger men now fall below reasonable health standards. This is a warning signal to America with respect to the state of health of all segments of our population. This condition calls for immediate and drastic action.

We cannot permit the health of our people to be impaired by poverty or lack of medical and hospital facilities. I say to you that your Federal and State Governments have just as much responsibility

for the health of their people as they have for providing them with education and police and fire protection. Health and adequate medical and hospital care are not luxuries. They are basic necessities to which all are entitled.

We must see that medical attention is available to all the people. But this health program must be achieved in the American way. Every person should have the right to go to the doctor and hospital of their own choosing. The Federal and State governments should work hand in hand in making health insurance an integral part of our social-security program just as old-age and unemployment benefits are today.

We need more hospitals and doctors. We should make sure that such facilities are available and that we build hospitals in every community, rural and urban, that does not now have such facilities for all of its people.

Never again can we afford the waste of poor health in America because of poverty or inadequate facilities. And I say to you now that this program will prove in the long run to be a saving to America.

We must not be content to provide medical attention for people after they become sick. We must implement and extend our knowledge of maximum health as well as prevention of sickness. The Government should appropriate needed funds to finance a greatly expanded program of medical research in private and public institutions.

VII

The seventh economic right is "the right to adequate protection from the economic fears of old age, sickness, accident, and unemployment."

We must assure people who are disabled and temporarily unemployed that they will be taken care of adequately. We must assure them that they will not be in want because of loss of income during this period of compulsory unemployment. We cannot neglect these groups without incurring serious dangers to the stability of our whole economy.

A broader social-security program will be needed after the war. Old-age insurance should be adequate to provide all of our older men and women with the means for decent living. Our present old-age benefits are definitely inadequate. A decent, self-respecting old-age, social-security program deemed to be a right, not a charity, a right springing from the years of service each person delivers to the sum total of a better America.

An adequate social-security program will, of itself, by adding to the spendable purchasing power available to the people and by placing a floor on consumption, add more than 2,000,000 jobs a year.

VIII

The eighth economic right is, "the right to a good education." We must have an educated and informed America. Even now most of our rural areas and some of our urban areas are poorly provided with schools. Our teachers are underpaid. Our schools are badly understaffed. We need more schools and at least one-half million more teachers. Through Federal aid to poorer com-

munities for the development of locally controlled educational programs, we should equalize and extend educational opportunities throughout the land. We should provide facilities for technical and higher education for all qualified young men and women without regard to their financial means. In this America, the pioneer of free education, the right to technical and higher education should be as universal as the right to a secondary school education.

This is the kind of program that can provide jobs, economic security, and rising standards of living for all Americans—regardless of race, color, or creed. Our democracy can be a living force only if it means the good life for all the people.

The millions of more productive jobs that this program will bring are jobs in private enterprise. They are jobs based on the expanded demand for the output of our economy for consumption and investment. And this program need place no real burden on the Federal Budget, notwithstanding the reduction in taxes which must come after the war. On the contrary, a program of this character can provide America with a national income of such size that it will be possible to reduce the tax rates still further on personal incomes, on business profits, and on consumption, and still collect enough tax revenue to meet the needs of the Government, including orderly retirement of the national debt.

These should be our immediate goals, once final victory over our enemies has been achieved. Now there are those who say that these goals are the dream of a "man willing to jeopardize the country's future with untried ideas and idealistic schemes."

Senator BREWSTER. Is that a quotation?

Mr. WALLACE. It appears as a quotation in the written text.

These people think they are the realists. Actually, they are the persons of limited vision and stunted imagination. These people are of the same breed as those "sound businessmen" who haggled over pennies in the purchase of strategic stockpiles before the war, only to leave the materials for the Japs to use against us. These are people who will fight against enemies waging total war by pinching pennies. These people think the same as those who said the President was dreaming when he declared in 1940 that the American people would produce 50,000 planes in 1 year. Do these Monday morning quarterbacks have the great faith in the American people, and in their way of life, which is required in order to understand the meaning of America?

I am confident, however, that the great majority of the American people share the same great faith in America and in the American way of doing things which I have expressed here. We know our way, and the road ahead is straight and broad, although there are many hills which we must climb. The program which I have set forth is only the first milestone, for the capacity of the American way of life in the years to come is beyond the vision of man. The American system of free enterprise is the best the world has ever known, and through it we can obtain, God willing, the best that this world has to offer.

It is in this perspective that I appeal to you to consider S. 375—the so-called George bill. I suggest that the Congress appoint a committee to investigate the past activities of the Reconstruction

Finance Corporation in order to determine whether or not the Congress feels that the powers of the R. F. C. have been administered in such a way as to do the most good for the American people. If the Congress does not feel that the powers of the R. F. C. should be exercised in such a way as to further the objectives which I have set forth here, then I respectfully urge the Congress to take the R. F. C. out from under the control of the Commerce Department. For I can tell you here and now that if the R. F. C. is left in the Commerce Department, I will use its powers in the interests of all the American people.

The greater part of my presentation has had to do with the problem of applying the eight principles of the economic bill of rights when peace comes and we are struggling with the inevitable readjustments that follow a war of this tremendous magnitude. Great as that problem is, and important as it is to plan for it, we must all recognize that at the moment when our boys are relentlessly destroying the Japanese and German might overseas we have a sacred obligation to do the most effective job possible on the home front. It is my hope that we all cooperate to the utmost in doing that job, while at the same time we press ahead with the utmost vigor to prepare for that first and most important plank in the economic bill of rights—full employment.

We must now devote all our efforts—and when I say “all,” I mean all—our efforts to winning of the war. I propose to leave no stone unturned, if confirmed as Secretary of Commerce, to see that every branch, every activity of the Department of Commerce and of the agencies under its control, is directed toward the sole purpose of helping to bring the war to a successful and speedy close and of returning our boys back home as soon as possible.

If the R. F. C. and its subsidiaries will remain with the Department of Commerce, I pledge myself to utilize all its powers and resources directly toward speeding up the war effort. But there is one thing that I would like to say in closing: If we are to win this war speedily, we on the home front must all coordinate our efforts to that goal. We must all stick together, and work together, as the boys are doing over there. We must bury whatever personal differences stand in the way of attaining that No. 1 goal before us. This is no time for personal and petty controversy.

Whether the R. F. C. and its subsidiaries are included in the Department of Commerce or not, I will concentrate all of my efforts and the efforts of the Department under me to the winning of the war. I want to make it clear that if it is decided that the R. F. C. should not remain with the Commerce Department, I will carry on the job of Secretary of Commerce until the war ends.

No soldier on the battlefield can do less than carry out his assignment. Certainly we on the home front cannot hesitate to do anything less. Both must give their all to the common cause.

The CHAIRMAN. Have you finished?

Mr. WALLACE. Yes, sir. [Applause.]

The CHAIRMAN. Now, friends, let us have quiet. The committee wants to resume the hearing. All of you have cooperated wonderfully, and we thank you. I think your applause was forgivable, it was all right, but just do not do it any more. We have to go over to the Senate

very shortly, as we are in session today. It is now a quarter to 12. I would like very much to finish this hearing today, and if you will just desist from demonstration you will expedite the hearing. At any rate, I am glad that you gave expression to your feelings. I hope you won't repeat it. Let us have quiet for the remainder of the time.

Are there any questions from the members of the committee?

Senator VANDENBURG. Mr. Chairman, I would like to ask the Secretary this one question, with special reference to S. 375:

If the functions of the R. F. C., specifically the Federal loan administration, are separated from the Department of Commerce, the choice of a loan administrator will still rest with the President of the United States, and, therefore, I assume that the separation would not threaten your bill of rights or your objectives, or the President's; is that correct?

Mr. WALLACE. I would say that the testimony as given here yesterday afternoon might have a bearing on that point.

Senator VANDENBURG. Well, the fact is that the President would still have the selection, would he not, of the Loan Administrator, and, therefore, any objective to which the President subscribes, and your own very able presentation of your program, would still be in good hands?

Mr. WALLACE. I am not certain about that—I am not certain about the legal status, in view of what was reported to me with respect to the testimony as given yesterday afternoon.

The CHAIRMAN. Are there further questions?

Senator PEPPER. I would like to ask just one or two questions, if I may, Mr. Chairman.

The CHAIRMAN. Let me make this remark first: There are other Senators here, not members of the committee. I think the committee would be glad to permit them to ask any questions.

Now, go ahead, Senator.

Senator PEPPER. Mr. Wallace, there are two or three things on which I would like to give you an opportunity to comment if you wish.

It has been bandied about the country for a good many months, as part of the fantasy which you have pursued, that you made a speech one time in which you said, according to the report, that you favored taking the money from the American taxpayer to buy milk—it was either a pint or quart; I don't know what the exact quantity was—to be given to the Hottentots, and that you proposed to take the money of the American taxpayers to build a dam, a T. V. A. for somebody on the Danube.

I would like for you to state whether you ever made such a statement or not and to make any comment you want to make on the report.

Mr. WALLACE. The fantasy to which you refer was spoken not by me but by the President of the National Association of Manufacturers, Senator.

What I precisely said can be found in this book, but I will not take the time to look it up now. It was to this general effect—that at dinner the other night I was sitting beside Madam Litvinov and, half in fun, half seriously, I said what this war was all about was whether or not everyone could have the privilege of having a quart of milk a day. That was what I actually said. But as a result of a speech by the

president of the National Association of Manufacturers everybody believed that I said that the purpose of the war was to see that every Hottentot had a quart of milk. Even the President of the United States believed that I said that.

That shows how effective propaganda is. Of course, anyone who read the speech knows that what I meant was that the causes of the war were economic, that people were desirous of getting enough to live decently, and that the way to prevent war was to make sure that the people did get enough to live decently. Anyone with any imagination whatever could read the purpose of my semifacetious remark on that occasion. But you can't tell what propagandists, who have a definite purpose in mind, will do. I have observed this around Washington, I may say—that so-called New Dealers will again and again be deceived by the propaganda of the enemy just because of what they read or what they hear through the press. It is amazing. Even the elect can be deceived.

Senator PEPPER. I have only one other question, Mr. Wallace.

I understand that there was a report made to the Temporary National Economics Committee which was prepared by a representative of the Department of Commerce, to wit, Mr. William B. Saunders, economic analyst of the Department of Commerce, assisted by Mr. H. H. Wein, which appears on page 312 of the report of the Temporary National Economics Committee of 1941, headed "The Concentration of Economic Power," wherein this short paragraph appears [reading]:

No information has been published by the R. F. C. as to the size of borrowing firms, but the size of the loans authorized indicates that small business has received little aid. Of \$450,000,000 in loans authorized by R. F. C. between 1932 and 1939, less than 4 percent were for loans under \$10,000 and only about 30 percent were for loans under \$100,000. At the other extreme, loans for a million dollars or more represented almost 30 percent of the total amount authorized. Actual disbursements in the 7-year period totaled only \$180,000,000. If the distribution of disbursements is assumed to be identical with the authorization, the total credit extended in loans of \$100,000 or less was about \$55,000,000 during the period.

Then I skip about five lines, where he distinguishes between authorizations and loans, and this sentence concludes the quotation:

Suffice it is to point out that in actual fact the volume of loans made to small business by the R. F. C. has been small.

If I understand you, in your statement of policy, you believe that small business should receive larger consideration from the R. F. C. and the agencies under its jurisdiction?

Mr. WALLACE. I would hesitate to take up the time of the committee sufficiently to answer that question, because it is a matter to which I have given a great deal of thought and consideration.

I might say briefly, though, that the small businessman increasingly since 1913 has found it difficult to get equity financing. There is what might be called an "institutional gap," which is recognized by investment bankers. The cost of equity financing has been almost prohibitively high.

Let me put it this way, to sum it up in a nutshell—that if during the first 10 years of this century the present type of financing and the present taxation had been in effect, it would have been impossible to have anything like the present automobile, the present electrical indus-

try, the present chemical industry; and if we want in 1970 to have the Henry Fords and Edisons of 1945 to 1950 coming into flower, it will be necessary to make possible a type of financing for small business which does not exist today.

As I said, my ideas on this are quite comprehensive, and I do not believe it would be fair to the committee at this time to go into my ideas in detail, so I will not elaborate further, because I think many people may want to ask questions.

The CHAIRMAN. If you wish to prepare a written statement and submit it to us in time we will put it in the record.

Mr. WALLACE. I would like to get a good night's sleep first.

The CHAIRMAN. Very well.

Senator BREWSTER. That is rather a severe indictment of 12 years of this administration, isn't it, wouldn't you say?

Mr. WALLACE. I feel it is a severe indictment of the past 30 years.

Senator BREWSTER. We will take it all in.

Mr. WALLACE. I think the tendency began when the Federal Reserve System took over in 1913 and bank examiners became very meticulous. The result was to eliminate character banking—increasingly to eliminate character banking—which earlier had served both the farmer and the small businessman.

Senator PEPPER. One further question, with your indulgence, Mr. Chairman.

Along the line of the statement that I referred to a moment ago, which I think you clarified by your comment, a great many people in the country have not had an opportunity to know you personally as the people here in Washington and those who are presently associated with you do know you, and I think since you have been candid enough this morning to make a statement of your philosophy and your views about the Government and the public interest, and to allay some misapprehensions, you have the opportunity now, if you care to avail yourself of it, to state as to whether or not you have been able to manage your own private affairs in a frugal way, so that you have been able to stay off of the W. P. A., or to live other than upon the public salary which you have received.

Do you care to make any comment? I would like to extend to you the opportunity.

Mr. WALLACE. I am not one really to talk about private affairs. What have they been saying about me?

Senator PEPPER. I suspect that a lot of people would be surprised, if they believed some of the circulated reports about you, to find that you were able to make any money privately or to have any private interests. If you do or have been able to do so I think it would help the American people in getting a true picture of the man you are.

Mr. WALLACE. You think the feeling of the American public is that only a millionaire should be Secretary of Commerce? Is that the idea? [Applause.]

If it is any reassurance to the committee, the only institution with which I have had any business responsibility is a seed corn company. I never owned a share of stock in any publishing business at any time. I had a possible, eventual one-twelfth interest but I never owned any stock in any publishing company at any time, was never responsible for the business conduct of any publishing company at any time.

When the publishing company, to which I assume the public has been referring, consolidated with another company it was done, the decision was made while I was in Europe attending an international economic conference and studying certain scientific matters in the Balkan States and I did not know about it until after it was done. It was in 1929 and we all know what happened to the farm folks between 1929 and 1932. So it was no surprise. It would be no surprise to anyone as to what might have happened out there.

But, as I said, I had no business responsibility with that concern. I was editor of the paper. And I do not reflect in any way on the business management. My uncle was responsible for the business management. I don't reflect on his capacity as a businessman for a moment because he is a good businessman.

I just want to point out that the propaganda that is put out is without foundation. I have never undertaken to say anything against it because it is my observation that when you pay attention to propaganda, why, you confirm the folks in the first idea.

But with regard to the only concern with which I have had business responsibility, this corn company, the thing was my idea, it was based on my own corn breeding work. I had started experiments in 1906, experiments in in-breeding in 1913, had greatly expanded them in 1919, incorporated the business in 1926. I had very little money myself at that time due to the farm depression. I raised the money myself. In cooperation with a lawyer I wrote out the articles of incorporation myself. I selected all the key people in the company myself. The farm manager, all the folks that are key people in the company today are people that I picked at that time. I determined every step of the organization of the concern as it went on. It was genuinely a small business in its initiative.

I know the problems of the small businessman because I have lived with them. My name has been on the note at the bank for more money than I could possibly pay unless the seedcorn were sold. I know what that experience is. I have been up against that more than many men who claim that they are hard-headed realistic businessmen and I am not. I know what that is because I have been up against it.

Last year this company sold more than \$4,000,000 worth of seed corn. I resigned as president of the concern when I came to Washington, and shortly thereafter I got my brother into the business. Last night he called me up to wish me luck at the hearing this morning and I asked just out of curiosity how much money the concern owed the banks at the present time and was told it was \$800,000. Of course, if the sales of corn go well between now and next May all of that money will be paid off. Last year, I believe, they borrowed something like \$1,000,000. They have always paid off the money they borrowed at the banks.

I won't go into any more details on that. If any of you have any questions about any aspects of my business, either in private life or in Government, I will be pleased to answer them. I have always felt this kind of talk more or less was beside the point and dignified propaganda too much.

The CHAIRMAN. You spoke just now of equity financing. What do you understand that to be?

Mr. WALLACE. Common stocks are equity financing, for example. It means that long-time capital is, in effect, a share in the business.

The CHAIRMAN. Founded on the equity after the obligations of the bonds and the obligations of the preferred stock—

Mr. WALLACE. That is the customary interpretation. It involves a risk.

Senator VANDENBERG. A risk; yes.

The CHAIRMAN. I have just been told to talk into this microphone. Can you hear me?

Mr. WALLACE. I hear you fine.

The CHAIRMAN. Would you have the Government, by way of aiding business, big and little, go into the policy of equity financing?

Mr. WALLACE. I prefer to answer that by the expression of an expert in the business, Mr. Eberstadt. This is an address which he gave on December 12, 1944, before the National Association of Securities Commissioners. Mr. Eberstadt has been gravely concerned with the problems which I have described and suggests a very interesting approach. I may not have the precise point, but if you will bear with me I will read some of it.

May I say very definitely that I do not think the solution lies in Wall Street or even in the efforts of Wall Street. From a social point of view, this would be undesirable; from a political point of view, suspect; and from a financial point of view, I think impossible. Local people do not know the personalities or ramifications of Wall Street—

He is talking about equity financing for little business—

Nor can Wall Street people have that intimate acquaintance with local conditions, individuals, and businesses which is necessary to furnishing of investment capital on a sound basis. Thus disappointment or worse on both sides would probably follow an effort by Wall Street to solve this problem.

I may say parenthetically that those small businesses who have gone to Wall Street in an effort to get capital and have succeeded in getting it because of Wall Street's lack of acquaintance with local conditions, have had to pay such a high rate, and have had to give domination of their business oftentimes, that the experience has been rather undesirable.

Could I continue this quotation?

The CHAIRMAN. Yes.

Mr. WALLACE (reading):

Nor do I think it can be solved from Washington or even at all by Government alone. If, for example, the Government sets up a large pool of money, it is probable that not being familiar with the local conditions and individuals, the funds will either be handled too conservatively and thus not made adequately available, or too recklessly and thus lost.

Indications of a possible solution may be obtained from consideration of certain characteristics of the problem. In the first place, though it has very important national, social, political, and economic repercussions, it is primarily and essentially local. It is the home folks who have the most immediate and perceptible gain to look for by solving it in the form of additional employment, larger pay rolls, more production, and more business. Furthermore, they are the only people who know intimately the several businesses, the financial and character risks involved. They can best appraise the potentialities and capabilities of the management. And so any plan looking to the revival of the local capital and credit markets must, it seems to me, recognize at the outset aspects of the problems and seek its solution through local initiative, responsibility, and control. In this way not only are community pride and benefits involved, but there is also the important stimulation of the watchful eye of one's neighbors constantly alert with approval or disapproval.

Some place in here he indicates that the Government can do what I said in my prepared statement; that is, take care of the unusual risks

involved and, in effect, handle the problem some way like the F. H. A. has handled it, so that you have a government serving as a pool agent, so that the occasional losses are balanced out against the majority gains.

The CHAIRMAN. I don't think that reaches the question. My question was whether you would advocate the financing of small business on the equity basis. That, of course, is by way of taking stock.

Mr. WALLACE. I would hope that it would be possible to get it done by the Government, in effect, furnishing insurance to the local folks. That is, I think you can get the most employment by having it done that way.

The CHAIRMAN. You have the idea of the Government guaranteeing dividends on the stock and repayment as part of the investment?

Mr. WALLACE. Senator, I would like to present full details to the committee later. I might say that while I might make suggestions along that line, because I have been concerned with the problem, I would like any presentation that I might present to the committee to be looked on quite tentatively and probably subject to continuous later modifications.

The CHAIRMAN. That will be satisfactory. However, it is extremely important.

Mr. WALLACE. I think it is one of the most important points if we are going to get full employment in this country, and especially in the Middle West, the South, and the far West.

The CHAIRMAN. You will bear in mind in preparing that that the common stock, as a rule is the exclusive voting stock and if the Government takes over the common stock or any great portion of it, it is taking over the control, I will leave it right there for you to answer.

Senator PEPPER. Mr. Wallace—

The CHAIRMAN (interposing). I want to finish my examination.

Senator PEPPER. There is one point on that subject that I would like to bring out before the hearing is terminated. I apologize if you haven't finished.

The CHAIRMAN. I haven't finished by a long shot.

Senator PEPPER. I am sorry.

The CHAIRMAN. You spoke of small business getting money from Wall Street. Small business gets its money from the local banks.

Mr. WALLACE. I was quoting Mr. Eberstadt.

The CHAIRMAN. Mr. Eberstadt makes the picture there of small businesses all over this country going up to Wall Street and being turned down. Now, the small business goes to its local bank and the local bank is in position to understand the nature of the business and the prospects. Is the complaint against the small bank?

Mr. WALLACE. No; it would not be against the local bank except on this basis, that increasingly since 1913, and especially since the depression of 1930, the small banks have been operating under bank examining rules which make it impossible for that small bank to engage in this field.

The CHAIRMAN. They were Federal rules.

Mr. WALLACE. That is correct. Well, there were State bank examiners, but at the present time they are nearly all Federal bank examiners.

The CHAIRMAN. That brings me to another matter. You refer to the fact that there was a period in which we were not building up our

stock piles and as a consequence we let the material go to Fascist nations. That was the implication of your statement.

Mr. WALLACE. Yes, sir.

The CHAIRMAN. It happens that I have a good deal of correspondence on that subject which I will be glad to show you. I filed with the Secretary of State in the year 1938 and again in the year 1939 complaints from good people in this country who were in great sympathy with China. Most of them had lived over there as missionaries and they said that we were sending oil and scrap iron to Japan while the Japanese were fighting China. Mr. Hull wrote me two letters and in each instance said we would have to do that, that we were under a treaty, an economic treaty, and if we undertook to withhold oil and scrap iron from Japan at that time we would make bad matters worse; we would induce Japan to move, as she has since moved, to the oil countries with a view of taking over a lot of territory.

So, wasn't that the Government policy of which you are complaining?

Mr. WALLACE. No; I wasn't referring to that at all. I was referring to the failure to buy certain strategic materials.

The CHAIRMAN. We failed to buy aluminum, and other nations got it. I have a statement that aluminum could be had in 1939, 300,000,000 pounds, but there was no market here, and under the treaty and with the encouragement of the State Department it was sold where there was a market for it. I think that was characteristic of this country. We sold our scrap iron, as you know. I will add another thing about that. Mr. Hull stated to me in his letter that the scrap iron that was going to Japan was near the coast and too far from the steel plants, and, therefore, everything we sold we were just saving. That was a mistake of Government policy, was it not?

Mr. WALLACE. I think it was a mistake, very definitely.

The CHAIRMAN. You wouldn't blame it on Mr. Jones especially, or the R. F. C.?

Mr. WALLACE. Well, as a matter of fact, in July 1943 I did.

Senator BREWSTER. The sale of scrap iron?

Mr. WALLACE. Not the scrap. The Senator was using his scrap illustration to indicate the whole unawareness of the public. The Senator can repeat what he said.

The CHAIRMAN. My inquiry related to the scrap.

Mr. WALLACE. I said nothing about scrap myself.

The CHAIRMAN. I know you didn't. I am talking about the general policy. You will agree with me that the general policy in 1938 and 1939 was to go on selling to the people in Japan, or to the Kingdom of Japan, anything that they would buy over here?

Mr. WALLACE. Unfortunately it was. I don't quite get the point you are making relative to my statement.

The CHAIRMAN. Your suggestion was that we had let other nations have these goods.

Mr. WALLACE. I didn't mean to refer to that. Let's say specifically there was failure to buy in the Dutch East Indies adequate quantities of the materials available in the Dutch East Indies, materials that were very vital to our economy in case we got into war.

Senator BREWSTER. Rubber?

Mr. WALLACE. Yes, sir; rubber, tin, and quinine.

The CHAIRMAN. There was no suggestion that we buy in the Dutch East Indies until we had gotten into the war period.

Mr. WALLACE. Frankly, I think it indicates a lack of foresight and vision that we didn't do it.

The CHAIRMAN. That was not the fault of the R. F. C. especially. That was the fault of the administration, as conducted by the President and Secretary of State.

Mr. WALLACE. Frankly, I say it was the fault of certain advisers who should have informed the President. I say very specifically it was the fault of certain advisers who should have advised the President more adequately on what the world picture was, really was.

I will say, for my own part, as long as you are pressing this in this way, that I felt there was a very great danger. Let me give you a specific illustration, Senator. On April 13, 1939, I believe, I came up to the Capitol and sought out Senator Byrnes. There was a particular hearing on. This whole thing is in the Congressional Record, if you care to verify it. At that time I felt there was a great danger of war with Japan. At that time I told Senator Byrnes that I thought it would be a mighty smart thing if we took cotton which we had stored up and traded it to England for rubber. The Senator agreed with me. I went down immediately to the State Department. I knew in the State Department there were folks who had been tremendously concerned all the time about this danger of war with Japan, and I am sure Secretary Hull was tremendously concerned.

I went to see Herbert Feis, because I knew Herbert Feis had always been interested in rubber, as I had been. Herbert Feis was convinced of the trouble that was ahead and was convinced that trouble would reach us via rubber. I backed rubber when I was Secretary of Agriculture. I backed rubber when Congress tried to take the appropriations away entirely. If the Congress will go over its record it will see that it is not absolutely perfect, I must say.

Mr. Byrnes agreed and Herbert Feis agreed. Herbert Feis made it possible for me to get clearance. The State Department did not like the idea of commodity interchanges, felt that it was not quite the best way of doing business, but the State Department agreed. Joe Kennedy cooperated beautifully.

We made the exchange of 600,000 bales of cotton. The cotton was on the basis of the price in the first 6 months of 1939 at New Orleans, and the rubber in the same period. We got 90,500 long tons of rubber out of it, enough, as I remember it, to make 20,000,000 tires.

I think that is the kind of imagination that really was required to meet the stock-piling situation.

The CHAIRMAN. Maybe so; but let me call your attention to a vital fact. This country passed a Neutrality Act in 1939 in the month of October. Being chairman of this committee, it was my duty to look after the shipping aspects of that act, and the shipping aspects were big aspects. You will remember that we created zones, that is, places where ships could not go. They were called combat zones. We didn't create those zones around Japan. The act didn't contemplate that, nor did the President, nor his office. That was the order in which we might ship to Japan. That was the national policy. That came directly from the head of the administration.

So, I think the policy at that time was one of accommodation and perhaps—to use a bad word—one of appeasement. I don't think it is a bad word, although it did get a black eye at Munich.

Mr. WALLACE. Frankly, I think it would have been good policy during that period when we knew what Japan, Mussolini, and Hitler were up to, to have more than the usual quantities on hand. We had stockpiles in agriculture. In the case of corn we had about 5 times the normal carry-over in the fall of 1940 than we normally had. We had 100,000,000 extra bushels of wheat. That kind of thing came in mighty handy.

The CHAIRMAN. That is all right. I was bringing out the point of the national policy. I don't think the United States accumulated a surplus of corn with a view of war. We have had frequently a surplus of agricultural commodities. Our biggest complaint in the past has been that we have had too much surplus.

Mr. WALLACE. Nevertheless, Senator, it was a good thing to have had a stock pile on hand. I will say to the Senator that it definitely was not out of my mind.

The CHAIRMAN. We had a great surplus of cotton, and it was a great burden, but we didn't accumulate it with the expectation of war.

Mr. WALLACE. I never used it as an argument on the Hill because I knew it would be an unfortunate argument to use.

The CHAIRMAN. I will move to another subject. You made an analogy between our present condition of prosperity, based altogether on the war spending and the war borrowing, and the post-war prosperity. It wouldn't be prosperous if it were based on taxation. We spent on war last year \$90,000,000,000 and expect to spend this year about seventy-five or eighty billion. Now, that makes a certain sort of prosperity. That is prosperity based on borrowing, just like if I borrow a million dollars a year and present a certain kind of prosperity.

You say we can produce the same conditions in the post-war world. How much do you contemplate we borrow or how much would you raise by taxation to do that?

Mr. WALLACE. Well, Senator, I think you have to realize a very large part of this very large governmental expenditure has gone into the hands of the consuming public in the form of savings.

Senator BAILEY. Always does.

Mr. WALLACE. Well, in this case the excess savings are rather extraordinary. As I remember it, the estimate was that they would amount to \$100,000,000,000 at the end of 1944. That was an estimate made in 1943. I haven't seen a current estimate, but \$100,000,000,000 is more than 10 times what we have had of that type of savings.

Now, that money hasn't gone into expenditure because of war-time restrictions. So, I feel that you can't draw any conclusions from the war situation that are altogether applicable to peace.

I may say to the Senator, with regard to debts of all kinds, both private and public, there is a very interesting table in the July 1944 issue of the Current Business, a Department of Commerce publication, and in that the Senator will find, with regard to all debts, both public and private, a most interesting phenomenon. You will find that from 1921 to 1929 there was an increase in all kinds of

debts of \$50,000,000,000, \$5,000,000,000 a year. From 1929 to 1939 there was a decline in total debt, just before the war came on, of \$9,000,000,000, or an average decline during the period of about a billion dollars a year. I know it is customarily thought that in the decade of the twenties we were exceedingly frugal in paying off debts and that in the decade of the thirties we were riotously going into debt, but on the total debt account, public and private, the contrary is exactly true. In one case we went into debt to the extent of 50,000,000,000, in the twenties, and in the thirties we reduced the total debt by about 9,000,000,000.

So, I think it is important to probe very deeply into this debt question, and I am sure it would tire everyone here completely out if we went into the full aspects of it now.

The CHAIRMAN. I don't intend to. The difference there lies in the simple fact that the Government began to borrow and created a certain amount of prosperity on the borrowing and that enabled the people to get along, accelerated the number of transactions in business.

Mr. WALLACE. If I may interpolate, in the decade of the twenties when we were going into debt we had full employment. I think we must give the administration of that day credit.

The CHAIRMAN. Would you give the administration credit or would you give the people credit?

Mr. WALLACE. You have asked a question that would take quite a long time to answer. Your questions, Senator, always have the deepest philosophical implications.

The CHAIRMAN. When the elder Pitt was leading England as Prime Minister—and this was during the time of a war also—the merchants passed a resolution praising him by way of saying that even in wartime he had made England prosperous. That was because it was the first time that the Government had borrowed heavily to carry on war. Up to that time the Government taxed. They soon learned better when it came time to pay their debt. You are proposing a theory here that we should provide prosperity in post-war by greater extensions of the borrowing power of this Government, and in view of the fact that when the war is over in all probability the national debt will be around \$300,000,000,000, and perhaps more.

Mr. WALLACE. Senator, in that connection I think it perhaps desirable to have a little historic perspective.

The CHAIRMAN. I just gave you a little about Mr. Pitt.

Mr. WALLACE. That is what gave me the idea. If I might quote from Lord Macaulay on this subject [reading]:

At every stage in the growth of that debt the nation has set up the same cry of anguish and despair. At every stage in the growth of that debt it has been seriously asserted by wise men that bankruptcy and ruin were at hand. Yet still the debt went on growing; and still bankruptcy and ruin were as remote as ever. When the great contest with Louis XIV was finally terminated by the peace of Utrecht the nation owed about fifty millions; and that debt was considered . . . by acute and profound thinkers as an incumbrance which would permanently cripple the body politic. Nevertheless trade flourished; wealth increased; the nation became richer and richer. Then came the War of the Austrian Succession; and the debt rose to eighty millions.

These are pounds, and, of course, in that day a pound of sterling was worth more in purchasing power than it is today.

Pamphleteers, historians, and orators pronounced that now, at all events, our case was desperate. . . . Soon war again broke forth; and under the energetic and prodigal administration of the first William Pitt, the debt rapidly swelled to a hundred and forty millions; . . . men of theory and men of business almost unanimously pronounced that the fatal day had now really arrived. . . . Not less gloomy was the view which George Grenville, a minister whose help had been represented as indispensable. . . . Soon, however, the wars which sprang from the French Revolution . . . tasked the powers of public credit to the utmost. When the world was again at rest the funded debt of England amounted to eight hundred millions. . . . It was in truth a gigantic, a fabulous, debt; and we can hardly wonder that the cry of despair should have been louder than ever. But again that cry was found to have been as unreasonable as ever. After a few years of exhaustion, England recovered herself. Yet like Addison's valedictorian, who continued to whimper that he was dying of consumption till he became so fat that he was shamed into silence, she went on complaining that she was sunk in poverty till her wealth showed itself by tokens which made her complaints ridiculous. The beggard, the bankrupt society not only proved able to meet all its obligations, but while meeting those obligations, grew richer and richer so fast that the growth could almost be discerned by the eye. . . .

The prophets of evil were under a double delusion. They erroneously imagined that there was an exact analogy between the case of an individual who is in debt to another individual and the case of a society which is in debt to a part of itself. . . . They made no allowance for the effect produced by the incessant progress of every experimental science, and by the incessant efforts of every man to get on in life. They saw that the debt grew; and they forgot that other things grew as well as the debt.

Senator Danaher, of Connecticut, had a very interesting view on this particular question. He said:

If you are satisfied that you get your money's worth, the Federal Budget can be said to be balanced.

Sometimes the boys would like to scare us about the debt. They used to have pictures of little babies without any clothes on them saying: "Poor fellow, he owes \$1,500 the day he is born." Of course, you could just as well put another picture over here and say, "Lucky little fellow, isn't it grand he has got \$1,500 coming to him the very day he is born?"

And one would be as true and one would be just as false as the other.

When you think the thing through the fundamental point is whether or not the payments of interest on the debt have altered the distribution in income as between the different segments of the population. That is the fundamental point, if you are trying to look at the problem from the standpoint of the economy as a whole.

Senator O'MAHONEY. You were good enough to say that Senators that were not members would be permitted questions. My presence on the floor is required and I would like to ask one or two questions.

The CHAIRMAN. All right.

Senator O'MAHONEY. The issue, as presented to this committee and the Senate arises, as you have said in your opening statement, from

the fact that you have been nominated as Secretary of Commerce and from the fact that a bill has been introduced to divest the Secretary of Commerce of the supervision he now exercises over the Federal loaning agencies.

The question, therefore, in my mind, and the only question that I think is really involved here is the extent to which the powers of the Federal loaning agencies should be used by the Secretary of Commerce to effectuate any particular program, social and economic. In laying down your program for economic democracy in the post-war world, upon several occasions in your opening statement you said, as I recall it, "With the approval of Congress."

Are we to understand from that statement of yours that it would not be your purpose if these lending powers were not divorced from the Department of Commerce not to try to effectuate those policies without the approval of Congress?

Mr. WALLACE. Obviously, Senator, it would be absolutely essential and vital for Congress to set up the program. I always proceeded that way as Secretary of Agriculture. How can anyone proceed in any other way?

I am aware of the fact that under the R. F. C. as now set up it is not bound—I mean it hasn't had to observe some of the requirements which Congress has seen fit to exact of other agencies. If the Congress sees fit to wish me to administer these agencies, I should think that it would want to protect me and itself and the President by seeing that these safeguards are set up which all other departments have to observe.

Senator O'MAHONEY. I am aware of the fact that as Secretary of Agriculture that was your policy. But there is possibility of confusion in the public mind owing to the fact that you have come here this morning with a broad program for stimulating employment, and therefore stimulating business. You have talked of promoting free enterprise.

Now, the question naturally would occur whether or not it was your purpose to use these tremendously broad and unlimited powers which have gathered under the Federal loan agencies to carry out this program you have envisaged and laid before this committee without previous authorization from the Congress. Now, before you answer, may I say again that the powers, which were granted to the first place to the R. F. C., were granted in a period of grave economic emergency. From that emergency we moved into the emergency of preparation for the war and of the war, and during all this period new broad powers were granted, with great discretion to the loan agencies.

Now, do you believe that those undefined and unlimited powers of such great magnitude should be used by Executive action to achieve these ends?

Mr. WALLACE. I would think, Senator, that it would be highly desirable for Congress, as it has done repeatedly in the past, to amend the R. F. C. Act to define very clearly just what the Congress desires with regard to carrying out any or all of the program which I have set forth this morning.

Senator O'MAHONEY. You have spoken about free enterprise being—

Mr. WALLACE. I know, for my own part, I would feel it a very great safeguard in administration if Congress would take that action.

Senator O'MAHONEY. You have spoken about enterprise being free from monopolies and from private control. Do you also consider that private enterprise should be free from Government regimentation?

Mr. WALLACE. Senator, as much as private enterprise can be free from Government regimentation and yet have the maximum welfare served, I am strong for it; as a matter of fact, somewhat less than the maximum welfare served. At times I have been almost as much annoyed by Government bureaucrats as any infuriated businessman. Sometimes I have been wrong in my feeling and other times I feel that I may have been right.

I agree that as society gets more complex there can be many differences of opinion as to just where the green and red lights ought to be. There do have to be an increasing number of traffic signals as the civilization progresses, and the Government does have to place those traffic signals.

Senator O'MAHONEY. There can be no doubt but that public regulation is of great importance. Are we to infer from your statement that it is your belief that the powers of the executive agency should not be used to change policy without the prior approval of Congress?

Mr. WALLACE. Certainly; it is obvious.

Senator O'MAHONEY. Thank you very much. I am very grateful to the chairman.

Mr. WALLACE. I would appreciate it, if I may say, Senator, if I should be given by the Congress this broad supervisory power, if any question like that comes up, or if any Senator thought this policy was not being observed, that he would let me know.

The CHAIRMAN. I take it, Mr. Wallace, your answer to my question was in the affirmative.

Mr. WALLACE. I have forgotten what your question was.

The CHAIRMAN. I asked you if you were of the opinion that in the post-war period we should undertake to accomplish these objectives which you have outlined here by continuing to borrow money on top of the prospective national debt of \$300,000,000,000. You quoted from Macaulay by way of showing that the English people were weeping and wailing at \$50,000,000 and finally at \$800,000,000, which is not at all to be compared to \$300,000,000,000. You answered in the affirmative.

Mr. WALLACE. Not necessarily.

The CHAIRMAN. I read that statement from Macaulay years ago. That didn't trouble me at all. I thought about Mr. H. K. Carroll (Superintendent of the Census of 1890) who said in 1890 that the American economy had finished and need not go any further. I would like to get your answer as definitely as you feel you can make it.

Mr. WALLACE. There is one way of getting full employment without increasing the debt, and that is by getting the maximum of equity finance; that is, common stock investment.

The CHAIRMAN. You are not ready to say the Government should buy the common stock?

Mr. WALLACE. No. You can get full employment by increasing private equity financing by a combination—well, under some modification of the F. H. A. plan.

The CHAIRMAN. F. H. A. is not equity financing.

Mr. WALLACE. You don't think so, Senator? It is not in industry, I will grant.

The CHAIRMAN. It is not equity financing. It is a lending agency. Mr. WALLACE. It is a long-time loan and it is a debt.

The CHAIRMAN. A loan is never equity financing, because a loan is against the whole property.

Mr. WALLACE. I was thinking about the method whereby the Government participated when I made the statement.

The CHAIRMAN. Now, I have another question for you.

Senator WILEY. Mr. Chairman, we can't hear you.

Mr. WALLACE. I want to make this one point further, Senator. We can carry the interest on the \$250,000,000,000 or \$300,000,000,000 at low interest rates. We can carry the total interest burden of the country, both public and private, provided we do have people fully employed and do have full production. One of the very strong arguments for doing this is that it is the only way we can carry our tremendous debt load easily.

The CHAIRMAN. You have got a further proviso, and that is provided the people continue to absorb and hold the bonds at the moment, but the moment the American public begins to sell the bonds you are going to have very great difficulty carrying your debt.

Mr. WALLACE. That is why, it seems to me, the Treasury, in particular, has a tremendous stake in seeing that we don't start on any tailspin of unemployment. It has a tremendous stake in reassuring businessmen that that is not coming to pass. The stake is so great that the Government is well warranted in working out some device that will give necessary assurance to people who want to engage in equity financing.

The CHAIRMAN. The difference is that we are now buying bonds as a matter of duty, but once we get prosperity, we will buy investments as a matter of self-interest. People don't carry Government bonds in time of peace for the sake of the Government; they carry them for the sake of themselves; but right now they are carried for the sake of the Government.

Mr. WALLACE. I have known in our home locality where the local businessmen have invested on the basis of local patriotism in a hotel or something of that sort.

The CHAIRMAN. And always lost?

Mr. WALLACE. That has been my experience, sir. But it shows that they are not immune to investing from the standpoint of the general welfare of the community.

The CHAIRMAN. I will not argue that. I want to get further with your analogy. It was under the national defense powers, which are practically unlimited in my view, that we proceeded with this tremendous expenditure of borrowing and lending money, doing whatever was necessary, to fight the war. But when the war is over the defense powers will be out. Now, do you intend to invoke from the Congress, with a view for this program you have outlined, the exercise of other powers, welfare powers, or commerce-clause powers, as at present interpreted, and as I think they are likely to be interpreted for a long time to come?

Mr. WALLACE. Do I intend to—

The CHAIRMAN. You will have to find the power somewhere; you will have to have power equal with the defense powers of the Government. Now, I was asking you where you would look for those powers.

Mr. WALLACE. The Congress is the only institution.

The CHAIRMAN. You would invoke the full welfare- and commerce-clause powers?

Mr. WALLACE. You are talking about the writing of legislation?

The CHAIRMAN. I am talking about the source of the power to do what you have in mind.

Mr. WALLACE. Under the Constitution, yes.

The CHAIRMAN. You wouldn't go beyond the Constitution, but as I understand now the Constitution is so interpreted the Congress can appropriate any amount of money for any purpose it finds to be in the general welfare. It has been extended now to the small merchant, because his activity, as interpreted now, affects the general commerce of the country. Now, you go a step further and regulate the operation of a farm in Ohio or North Carolina. Do you intend to employ those full powers to bring about this situation that you speak of? They would be in substitution, of course, for the present limited powers.

Mr. WALLACE. I don't think we did quite the thing to the farmer that you indicated.

The CHAIRMAN. What I had in mind is very simple. We tell the farmer he can cultivate so many acres in wheat and so many acres in cotton and if he produces more, he cannot sell without a heavy penalty.

Mr. WALLACE. I remember how eager the Senator was to have restrictions put on the potato crop some years ago. At that time the Senator may remember that I referred to the Bible story, when the children of Israel came to Samuel and said they were tired of judges and wanted a king, and Samuel said, "it is up to you—a king will do many bad things to you but if you want a king go ahead and have one." I think that is exactly what I said to the Senator.

The CHAIRMAN. We are getting off a little ways from the track, but I will meet that. The blood had already been spilt and we had gone into the regulation of everything else, and I did think if you were going to regulate cotton, tobacco, wheat, and corn that the potato farmer might be protected against those people who were driven out of cotton and corn and were anticipating going into potatoes and breaking the potato farmers' market.

I will say now that I didn't think that was good legislation.

Senator BREWSTER. I think the potato legislation is the most unfortunate precedent which you could bring up here, since that is the only instance I know in your record, or in that of any Cabinet officer, when he has publicly announced that he would defy an act of Congress, and you will remember that caused a good deal of concern.

Mr. WALLACE. If you will look into the full record, you will find that I did not do that.

The CHAIRMAN. I think the bill was prepared in the Department of Agriculture and was brought to me. But we had a little controversy about the enforcement, but I have never complained about that, as you know.

Mr. WALLACE. Yes, sir.

The CHAIRMAN. Let's get a little further on. I think you gave us a statement that was very desirable and—I hope I don't offend you when I say—idealistic. I am trying to get down to the concrete part of it. You speak of the implementation of the economic bill of

rights. What action do you contemplate from Congress in the form of statutes to implement this bill of rights?

Mr. WALLACE. Obviously, there would be required bills under every one of these eight points. I think there has been introduced in Congress a bill covering the full employment matter. I think Senator Murray, Senator O'Mahoney, Senator Wagner, and Senator Thomas—

The CHAIRMAN (interposing). That was a bill mainly to create a committee to prepare plans. There was very little affirmative action, certainly no concrete action, proposed in that bill.

Mr. WALLACE. Yes, there was some very substantial concrete action in the bill. As the President pointed out in his message to Congress this year, he looked on that first plank in the economic bill of rights as the most important one, and the action taken under this bill, it seems to me, would result in bringing forward other proposals that would carry out, at least, some of the other planks in the economic bill of rights.

The CHAIRMAN. Later on in your statement you spoke about stabilizing the economies, and particularly the currencies in other countries. You think we can do that over here?

Mr. WALLACE. I think you should have someone from the State Department and Treasury to discuss the Bretton Woods proposals.

The CHAIRMAN. Let me put a concrete question to you. There has been no stabilization of currency in France since the First World War. The franc has gone down from 25 cents to 1 or 2. How would the United States stabilize the currency of France?

Mr. WALLACE. At the present time it is obviously impossible.

The CHAIRMAN. Do you think we could have done it at any time within the past 25 years?

Mr. WALLACE. I think you can get stability of currency only when there is assurance of permanent peace, or as much assurance as can be hoped for. If you have reasonable assurance of permanent peace and of permanent employment in this country and England—and these two countries are the balance wheel for the whole world for all the raw material producing countries of the world—then you will have the keystone to creating that degree of market for the other countries of the world that will make it possible for them to have full employment and fair prices for the products which enter into world trade, because it is in the world trade where the currency relationships are determined.

The CHAIRMAN. What is the concrete proposition to stabilize the currency in any foreign country, or in several, assuming that we had the prospect of permanent peace?

Mr. WALLACE. I think you would have to get someone from the Treasury to discuss that point.

The CHAIRMAN. But you have that in mind. That is what you said in your paper.

Mr. WALLACE. No. The point I made in the paper was that in this matter of getting full employment it is highly desirable that there should be the maximum of world trade and in getting the maximum of world trade the restrictions to world trade should be, as far as possible, removed, and that one of the restrictions on world trade is the uncertainty with regard to currency, and that I felt

a step forward had been made when these 44 nations had met at Brettonwoods and agreed on a plan. What the details of the plan will be when finally worked out, I cannot tell the Senator. I certainly would not attempt to speak for the 44 nations.

The CHAIRMAN. You said you had a plan.

Mr. WALLACE. No; I didn't say that.

The CHAIRMAN. Now, you said the foreign trade would provide additional employment over here, our shipments abroad, of course, for 3,000,000 workers. Foreign trade will be based either on our lending money or exporting to us. So, that will provide also for three to five million more men abroad engaged in selling to us, wouldn't it?

Mr. WALLACE. Well, it will depend on how efficient they are. If they are very inefficient, it might take 10,000,000.

The CHAIRMAN. Then, you contemplate increasing our employment by 3,000,000 on foreign-trade account and the foreign by five to ten million?

Mr. WALLACE. It depends on how efficient they are.

The CHAIRMAN. I will put in your qualifications, "depending on how efficient they are." They wouldn't be on equal wages, would they?

Mr. WALLACE. No country has such a high standard of wages as we have.

The CHAIRMAN. Have you got a definite plan about these 3,000,000 additional men?

Mr. WALLACE. Senator, what we import from abroad doesn't necessarily mean less employment here. It depends on what we are important from abroad.

The CHAIRMAN. It means you have got to buy it abroad to get it over here.

Mr. WALLACE. That is right.

The CHAIRMAN. What do the people abroad have to sell us?

Mr. WALLACE. They have tourist service—

The CHAIRMAN (interposing). What would justify the employment of 3,000,000 more people, or the equivalent of 3,000,000 more men, here?

Mr. WALLACE. They have tourist service, Senator, which they are very eager to sell us—

The CHAIRMAN (interposing). But we had those before and we are not likely to have more.

Mr. WALLACE. Yes; I think we are, Senator. With the airplane in the picture, I think definitely we will have more tourists traveling abroad.

The CHAIRMAN. We may have some more. I am talking about the objectives now.

Mr. WALLACE. Would the Senator like me to submit some other additional information?

The CHAIRMAN. What?

Mr. WALLACE. I don't care to bore the Senator.

The CHAIRMAN. You are not going to bore me. I am trying to find out what you have got on foot.

Mr. WALLACE. The Senator is putting it quite wrong. At the present time it is not what I have got on foot.

The CHAIRMAN. Well, what have you in your mind?

Mr. WALLACE. As a matter of fact, this is just a little intellectual exercise, as far as I am concerned.

The CHAIRMAN. I hope you are enjoying it very much.

Mr. WALLACE. I am, very much. [Laughter.]

The CHAIRMAN. I am trying to get at the ways and means—

Mr. WALLACE. This whole question of balance of payments is one which has been of most vital interest to me ever since 1919 and I have gone into the various ramifications in very great detail. I may say to the Republican Senators that it is on the basis of that that I left the Republican Party; that is, the Republican Party was not willing to see this Nation adopt a policy in conformity with our credit or position. I must say that the problem was not quite as simple as I thought it was when I left the Republican Party. [Laughter.]

This doesn't have much to do with my being Secretary of Commerce, but if you would like to have my full opinion, I would be most happy to give it to you.

The CHAIRMAN. I am not going to object. I asked the question and you have the right to answer it.

Mr. WALLACE. After World War I when we emerged as a creditor nation, and a very great foreign trade drive was put on through the Department of Commerce, I felt very critical because simultaneously with that very powerful foreign trade—and I think it was very skillfully done—we raised our tariff, and I used to go around the country saying to the farm folks, "There is going to be a great deal of trouble coming to the farmer, because here is the United States, a creditor nation, saying to the outside world with regard to the debt the outside world owes to the United States, 'Come here and pay up' and saying it in a very mean and very dirty tone of voice through all the newspapers, and congressional speeches."

Then we put a pitchfork against the bellies of these foreign nations, saying, "No you don't, you so-and-so, stay away from here, we won't let you pay up." I said that kind of thing was found to produce irritation, bound to create the most serious kind of trouble in those foreign nations.

I really think it was the fundamental cause of the rise of Hitler, the fundamental cause for a great deal of disturbances we have had all over the world. I have felt that most deeply.

Now, it was most important to our full employment in the decade of the twenties that we finance exports abroad. It was important to the farmer that those loans also serve to create a market abroad for farm products. Simultaneously we strongly expanded our drive for exports under Secretary of Commerce Hoover. As a result of loans the prices were higher than they would have otherwise been on the wheat and corn products, and tobacco and cotton. The fact that we were exporting industrial products abroad helped the manufacturers people in New England, Ohio, Michigan, and many other States. But when we exported so much more than we imported, and refused to accept goods, a day of reckoning was inevitable. When we raised the tariff a second time that day of reckoning came.

I was attending an international economic conference in southern England in 1929 at the time that bill had been introduced in the House, but it had not reached the Senate. I know the effect it had on the economists on the Continent; the effect it had on the British and

the other representatives there. I know that they felt that as a result they would be pushed into taking countervailing measures, which later on they did. That is when the world tailspin really began with a vengeance.

Now, here we come after this war. Again, we are again a creditor nation. I want to say that I have considerable sympathy with Herbert Hoover's problem as Secretary of Commerce right now, because I can say I am going to go all-out to get the maximum of use out of whatever powers may reside in the Bureau of Foreign and Domestic Commerce to foster and develop trade here and abroad. I am going to use those powers to the maximum to get an increase in foreign trade and, undoubtedly, for a period of 5 or possibly 10 years after the war there will be a great excess of exports over imports. As Secretary of Commerce I would be contributing perhaps as much as any single individual to producing a situation like that for which I criticized the Republican Party back in the decade of the twenties.

I say, from the standpoint of the United States and the whole world, that there should for a time be an excess of exports over imports but we should embark on this policy with our eyes open, with the idea that eventually we will receive more goods than we export. Those men who are in Congress who are going to be here for a period of years; and that means, of course, the southern Senators should keep this in mind.

The CHAIRMAN. Not all of them. They change.

Mr. WALLACE. The two imports this country, during the past 10 years, has been willing to receive most willingly have been gold and silver. These gold and silver imports have enabled foreign countries to finance a large volume of purchases from us. Certain foreign nations have benefitted greatly as a result of our purchase of gold and silver. I wouldn't go anything to minimize gold, because we have so much of it, but at the same time, if we are interested in the maximum human welfare in the long run, eventually we must build up such prosperity in the United States that we will be willing and happy to accept more goods than we export. I don't think that can be done for a period of a good many years.

The CHAIRMAN. You could do that by lending money to the foreign nations, or we could do it by opening our doors further for their trade here.

Mr. WALLACE. I suspect, Senator, that a great deal of money will have to be loaned, and we hope on private account, and we hope also with the complete knowledge of the Government, as I am sure it will be. A great deal of money will be loaned if a large volume of export is to be financed.

I think it is very important for us to furnish machinery and machine tools to these foreign nations that are not industrialized. This will enable them to industrialize themselves as fast as possible. Then they will enlarge their purchases from us of other things.

We have reached a stage somewhat analogous to that which England reached, say, 70 years ago. If we don't step forward in some decisive way and assume our responsibility we will again create a situation similar to that which existed after World War I.

The CHAIRMAN. Now, one more question. You stated that whenever our number of gainfully employed people, on wages as good as those existing now, should fall below 57,000,000, the Government

should take steps. But you didn't say what steps. I would like to know what steps.

Mr. WALLACE. Governmental building and construction, roads, airports, and so forth—should be blue-printed so they could serve as a prompt basis for construction activity when needed.

The CHAIRMAN. You contemplate a very vast system of public works?

Mr. WALLACE. I think we ought to have a very large volume of public works blueprinted in case the need should arise. I would hope it would be possible so to stimulate private activity that we wouldn't have to construct the less desirable type of public works.

The CHAIRMAN. How would that be provided for?

Mr. WALLACE. That would depend upon what the state of finances would be at the time.

The CHAIRMAN. In the present state or any time in the near future. You say in your statement that you propose a reduction of taxation.

Mr. WALLACE. I think you can get more taxes from what I proposed in this testimony than under any other approach because, after all, in the final analysis an unbalanced budget is men out of work, and if you have a large quantity of men out of work and allow the national income to be cut in half, as happened between 1929 and 1932—a reduction from 83 billion down to 40 billion—the effect is so great that there is a net loss to the Treasury by penny pinching. I mean economy at that time may prove to be a loss.

"PENNY-WISE—POUND FOOLISH"

The CHAIRMAN. Then I gather that your plans contemplate continually increasing the national debt instead of reducing the national debt?

Mr. WALLACE. Senator, I think that would require a very careful presentation that cannot be made in full at this time.

The CHAIRMAN. I am making my own deduction from what you said.

Mr. WALLACE. I am glad the Senator is making his own deduction, but I would not want the Senator to draw wrong deductions. I hope you will not draw wrong deductions.

The CHAIRMAN. You submitted no provision looking to any reduction of the debt.

Mr. WALLACE. Yes; I said I thought it was possible to get around to reducing the debt. That is what I said in my prepared statement.

The CHAIRMAN. As I got it, when you get around to it, you expect we could pay the interest, by issuing a lot of stock to finance it.

Mr. WALLACE. Senator, to some extent you are putting words in my mouth.

The CHAIRMAN. I would not do that.

Mr. WALLACE. Some of the words came out of my mouth undoubtedly, but if I might summarize it for myself, I would like also to indicate to the Senator that if we can have full employment and a total product of goods and services in excess of \$170,000,000,000, the national debt will fare better than it will under any plan which will result in reduced employment, or a total product of goods and services of much less than \$170,000,000,000.

The CHAIRMAN. But we get our present income—

Mr. WALLACE (interposing). May I also state this, Senator, that with that kind of income the burden of interest on all debt, public and private, will not be substantially more on a percentage basis than it was during the decade of the twenties.

The CHAIRMAN. But we get our present income of \$150,000,000,000 to \$160,000,000,000, national income.

Mr. WALLACE. A total product in excess of \$200,000,000,000, Senator.

The CHAIRMAN. The total product, yes. You were talking about the income and that would be \$200,000,000,000 on the total product. We get that very largely on production of munitions and borrowed money.

Mr. WALLACE. That is right.

The CHAIRMAN. Do you contemplate that we can get anything like the national income of \$150,000,000,000 or the total products of \$200,000,000,000 without really exhausting the credit of this country?

Mr. WALLACE. Senator, when the munitions production is finished it will be necessary to find other places for the activity of our men, materials, and technologies, and that is why I put forward this program here today. It is only by having a very far-visions program, Senator—

The CHAIRMAN. A very far vision?

Mr. WALLACE. A very far-visions program, that you can have such a total output of goods and services. Our people have never consumed the amount necessary in time of peace.

In 1943 the Senate printed a document, Senate Document No. 40, submitted by Senator Chavez, on markets after the war. In that document the Senator will find listed the consumption by the people of the United States of the various goods and services in 1940. You will find also the consumption that would be needed in 1946 to prevent unemployment. Mr. Livingston, of the Department of Commerce, is the author of that publication. If I had known the Senator was interested along this line, I would have brought the publication with me, because it is a fascinating publication, not because it is very precise but because it is very stimulating. It indicates that the people of the United States, in order to prevent unemployment, would have to consume of most consumer goods about 50 percent more than they consumed in 1940. People in our station of life might not want to consider consuming 50 percent more of certain things.

But when you go over the whole population and see the need in the way of bathtubs, in the way of housing—I have been observing housing in different States. When I directed the Farm Security program I visited homes where there were no windows in the window openings, no doors in the door frames, where there were 7 or 8 children and only one bed. There are myriads of things connected with housing of which we could consume twice as much as in 1940.

The CHAIRMAN. I have finished my questions.

Does any other Senator have any questions?

Senator BURTON. I have one question.

The CHAIRMAN. Go ahead, Senator.

Senator BURTON. There is just one question that I wish to get clearly stated in the record.

We have been discussing this issue today on the broad plane of major national policies, not on personalities, nor on the question of short-term policies. It was brought out yesterday in Senator George's testimony that, of course, this bill is not a bill to abolish the Federal Loan Agency. The Federal Loan Agency will continue, and if the bill is not passed, 6 months after the war it would be separated from the Department of Commerce.

Mr. WALLACE. That is true, sir.

Senator BURTON. Your program, as you outlined it this morning, dealt with a much longer view than that. You were contemplating, I think, that even though it was separated from the Department of Commerce your program could go along just the same.

Mr. WALLACE. Senator, subject to the approval of Congress of specific policies. I want to indicate that if it were under my supervision I would be coming to the Congress and asking for approval, if it were in my bailiwick. If it were health, it might be in Tom Parran's bailiwick; but if it were in my sphere of competence I would be coming to the Congress and asking for certain types of legislation looking in this direction, because I do believe that in the post-war period the problems will be so great that inevitably the Congress will renew the charter of R. F. C. when that charter expires in 1947. But in so doing it will no doubt modify the legislation to take care of the problems that would seem to be emerging at that time.

I want the Congress to know how if it were put in the Department of Commerce I would, subject to the Congress, try to administer it, after the war period is over. I made it clear that the war is the only thing that counts now, but after the war period is over I think it is only fair that you know the direction in which I would be exerting myself with the Congress.

Senator BURTON. It would be clear that if the George bill were not passed and within 6 months after the war the Federal Loan Agency would be continued, but continued apart from the Department of Commerce, that your program would still be what you contemplate it to be. Therefore, your program does not turn on the passage or defeat of the George bill, does it?

Mr. WALLACE. Senator, in the Department of Agriculture I had rather extensive experience with credit agencies and farm programs. Both the farm programs and credit agencies were in the same department. The Commodity Credit Corporation, which is the agency of the ever-normal-granary program, for a time was in the R. F. C. It was transferred, I might say, in 1939, to the Department of Agriculture. The Farm Credit Administration was put into the Department of Agriculture. It had been outside. The Farm Security Administration was set up outside the Department of Agriculture and it was put in the Department of Agriculture.

All of these agencies have loaned vast sums of money, and have made many individual loans. I can give you quite an extended statement on that, if you wish, but it is late. Credit is not merely banking. Credit also, if it is to be good credit, to serve the country the way it should, has to be extended on the basis of knowledge of the local situation. All the scientific bureaus of the Department of

Agriculture were helpful in administering the various farm credit agencies.

Senator BURTON. There you did not have a relation to agriculture, but here you say the Department of Commerce relates to everything in the world. We have greater difficulty in saying loaning agencies of all kinds should be really brought within the Department of Commerce.

Mr. WALLACE. If you will read section 5 (d)—I wonder if I have a copy of it—

Senator BURTON. Of the Reconstruction Finance Act?

Mr. WALLACE. Of the Reconstruction Finance Act.

Senator BURTON. That was read to us yesterday in full, and it covers the world.

Mr. WALLACE. You will find that credit is given to the R. F. C. for the purpose of maintaining and promoting the economy and stability of the country, or encouraging employment. You will find, if you read the statutory functions of the Department of Commerce that its functions cover very much the same field, to promote and foster manufacturing, shipping, commerce, foreign and domestic, trade, and so on.

Insofar as I have observed—I have sat in on a number of governmental reorganizations, and I have been greatly concerned about the problem involved in managing such far-flung machinery as we have now; I have talked with the reorganization experts. The President had been up against a tremendous problem, with about 47 different agencies reporting to him directly. The recent tendency has been, in order to get efficient organization, to get as many of these separate agencies as possible into a Cabinet department.

Senator BURTON. One point in my mind was this: In your concluding statement this morning, you did recognize, as I understood it, that the scope of your vision ahead extended so far and that the value which might be contributed by the loan agency was so great that you would be satisfied to go ahead either with or without the George bill separating the loan agency from the Department of Commerce.

Mr. WALLACE. Oh, I am just like everybody else, I am just a soldier.

The CHAIRMAN. I think we have reached a place where we can make a decision.

Are there any further questions?

If there are, I suppose we can recess until a later hour in the day, so we can get our lunch. If there are no further questions, then we will have completed the hearing.

Senator VANDENBERG. Mr. Chairman, Senator Brewster left. I understood he wished an opportunity to indulge in this intellectual exercise with the Vice President.

The CHAIRMAN. He said he had some questions, but I thought he had finished. I do not want to exclude any Senators from asking questions.

Senator O'DANIEL. Mr. Chairman, I have some questions that I would like to ask.

The CHAIRMAN. If you have some questions, and I presume other Senators have, we will take a recess until 3 o'clock.

(Whereupon, at 1:35 p. m. a recess was taken until 3 p. m. of the same day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will come to order.

STATEMENT OF HENRY A. WALLACE—Resumed

The CHAIRMAN. Senator Robertson.

Senator ROBERTSON. Mr. Chairman, I do not feel the record would be complete without the text of the President's letter to Mr. Jones and Mr. Jones' reply. With your permission I will read them into the record. The transcript that I have is taken from the Times-Herald of January 22. [Reading:]

The WHITE HOUSE.

DEAR JESSE: This is a very difficult letter to write—first, because of our long friendship and splendid relations during all these years, and also because of your splendid services to the Government, and the excellent way in which you have carried out the many difficult tasks during these years.

Henry Wallace deserves almost any service which he believes he can satisfactorily perform. I told him this at the end of the campaign, in which he displayed the utmost devotion to our cause, traveling almost incessantly and working for the success of the ticket in a great many parts of the country. Though not on the ticket himself, he gave of his utmost toward the victory which ensued.

He has told me that he thought he could do the greatest amount of good in the Department of Commerce, for which he is fully suited, and I feel, therefore, that the Vice President should have this post in the administration.

It is for this reason only that I am asking you to relinquish this present post for Henry, and I want to tell you that it is in now way a lack of appreciation for all that you have done, and I hope you will continue to be a part of the Government.

During the next few days I hope you will think about a new post—there are several ambassadorships which are vacant—or about to be vacated. I make this suggestion among many other posts, and I hope you will have a chance, if you think well of it, to speak to Ed Stettinius.

Finally, let me tell you that you have my full confidence and that I'm very proud of all you have done during these past years. With my warm regards, always sincerely,

FRANKLIN D. ROOSEVELT.

Now, the text of Mr. Jones' letter [reading]:

JANUARY 20, 1945.

DEAR MR. PRESIDENT: I have your letter of today, asking that I relinquish my post as Secretary of Commerce, which carries with it the vast financial and war production agencies within the Reconstruction Finance Corporation and its subsidiaries so that you can give it to Henry Wallace as a reward for his support of you in the campaign.

You state that Henry thinks he could do the greatest amount of good in the Department of Commerce, and that you consider him fully suited for the post. With all due respect, Mr. President, while I must accede to your decision, I cannot agree with either of you.

You refer very kindly to our long friendship and our splendid relations during all the years, and state that you appreciate my splendid services to the Government and the excellent way I have carried out the many difficult tasks during these years. You are also good enough to say that I have your full confidence, and that you are very proud of all I have done during these past years, and that you hope I will continue to be a part of the Government probably in a diplomatic post. It is difficult to reconcile these encomiums with your avowed purpose to replace me. While I want to be of any further service that I can, I would not want a diplomatic assignment.

I feel and have felt a great sense of responsibility to the Congress and to you for the proper administration of the laws with respect to the R. F. C. that have been passed in the expectation that they would be administered by me or someone experienced in business and finance.

I have had satisfaction in my Government service because I have had the confidence of the Congress, as well as you own. I have had that confidence because I have been faithful to the responsibilities that have been intrusted to me. For you to turn over all these assets and responsibilities to a man inexperienced in business and finance will, I believe, be hard for the business and financial world to understand.

I appreciate the opportunity you have given me to serve my country through the depression and in time of war. My 13 years of Government service are ample evidence of my desire to be of any assistance to the Government. I can best be helpful in the line of my life's work—business and finance—but I seek no job.

With best wishes, faithfully yours,

JESSE H. JONES.

The CHAIRMAN. Mr. Wallace, the letters were read while you were on the stand, and you may feel at liberty to make any comment you choose or to make none if you choose.

Mr. WALLACE. I have no comment to make, sir.

The CHAIRMAN. Very well.

Senator ROBERTSON, have you any questions?

Senator ROBERTSON. No, sir.

The CHAIRMAN. Senator Brewster, we recognize you. We understand you did have some questions.

Senator BREWSTER. I very much appreciate the courtesy of my colleagues; it was a little more than I asked or expected when I was called away, because I didn't want to attach any undue importance to my questions, but I am glad of the opportunity.

Mr. Wallace, you spoke this morning about the lack of danger in the public debt. There has been written a book, I will ask whether you are familiar with it, written by one who has been under your administration, the Chief Economist of the Foreign Economic Administration, indicating that a national debt of four thousand billion would be nothing to be alarmed about. Are you familiar with that book?

Mr. WALLACE. No; I am not familiar with the book, sir.

Senator BREWSTER. Would that disturb you?

Mr. WALLACE. Four thousand billion?

Senator BREWSTER. Yes. That is what he said. And he has been the Chief Economist of the Foreign Economic Administration.

Mr. WALLACE. What is his name, do you remember?

Senator BREWSTER. I can't give it to you. I know that was the post he held.

Mr. WALLACE. I am not familiar with the book.

Senator BREWSTER. I would like your notion about the idea.

Mr. WALLACE. Well, the value of money varies so much that it is impossible—it is just fantastic to comment upon it, it seems to me totally unrealistic and irrelevant.

Senator BREWSTER. To envision in anything like our present economy would disturb you?

Mr. WALLACE. Of course. Absolutely. I mean the interest on that would be quite staggering.

Mr. BREWSTER. It staggered me when I read it.

Mr. WALLACE. I mean, it would seem to me that that would tend to redistribute, to put into the hands of unproductive members of the community, an unduly large share of the national income.

Senator BREWSTER. Yes.

Mr. WALLACE. And that would be unfortunate.

Senator BREWSTER. That would violate your principles?

Mr. WALLACE. My fear of Federal debt comes when the interest on the Federal debt is so large that it radically shifts the proportion of the income to different segments of the community.

Senator BREWSTER. It is just as bad to have that as it is to have capitalists in Wall Street.

Mr. WALLACE. It is what you might call the weight of the "mortmain" or "dead hand" upon the living.

Senator BREWSTER. Yes.

Mr. WALLACE. Frankly, maybe it is because I still feel pretty young, I like, insofar as there is favoritism, to favor—

Senator BREWSTER. The enterprise?

Mr. WALLACE. Productive enterprise.

Senator BREWSTER. Now, in the picture which you presented of the post-war world, I think you would agree that it was a very comprehensive picture of how you felt the world could be rebuilt in a better order?

Mr. WALLACE. I think the eight points in the President's—in the American economic bill of rights are very comprehensive.

Senator BREWSTER. Yes. You would agree that while the Secretary of Commerce has perhaps in the peacetime economy the primary responsibility for promoting commerce and business enterprise, that what you pictured to us would take in the functions of many of the other Cabinet positions, in that in the foreign trade into which we entered we would be concerned with the State Department, in the cartels we would be concerned with Justice, in the production of farm products we would encroach on agriculture, in giving 60,000,000 jobs we get into labor—we would even get into Mr. Ickes' Department of Interior, and if you got into breaking up international cartels, as you suggested, we might even have to think about the War and the Navy Departments.

So you would agree, would you not, that while Commerce would have the primary responsibility here, you wouldn't at all envision the possibility of your administering the whole job which you picture, except if you should succeed to another job?

Mr. WALLACE. Certainly not. Of course, every department in the Federal Government at one point or another touches on every other department.

Senator BREWSTER. Yes. So if the Federal loan responsibility should be administered in an independent department as was originally contemplated, and, so far as the Congress is concerned, with a single exception, it has continued the policy, that wouldn't necessarily indicate any disruption of the administrative mechanism?

Mr. WALLACE. Methods can always be worked out, Senator.

Senator BREWSTER. The loan powers are really no more an essential part of the Commerce Department than many of the other activities to which reference has been made.

Mr. WALLACE. After you left this morning, Senator, I went into that in some detail, I think, with Senator Burton.

Senator BREWSTER. I do not desire to have you repeat.

Mr. WALLACE. I indicated to Mr. Burton my experience in the Department of Agriculture with a number of loan agencies that were related to agriculture and indicated the service which Agriculture could furnish to these loan agencies.

Senator BREWSTER. Now, this other question is of a more personal character but I think it is really essential for the record.

I think you would agree that in the letter which Senator Robertson has put in the record the primary and the chief emphasis is on rewarding you with this job for your political activities; is that correct?

Mr. WALLACE. The letter speaks for itself, Senator.

Senator BREWSTER. Why I feel that is of importance—

Mr. WALLACE. Let me say, I have never felt I was primarily a political figure, but I am glad to be recognized as having some competence in the political field, which hasn't always been recognized hitherto. [Applause.]

Senator BREWSTER. I think you will agree that the President is a pretty good judge of politics and politicians.

Mr. WALLACE. It looks like I have passed the first grade.

Senator BREWSTER. Why I asked that is because I think we must have your reaction on this question: Assuming these loan powers remain and there were five or ten or fifteen or twenty billion, some talk about forty billion of loan powers here, to promote this sort of a world in which you believe and which you believe is feasible, I would like to know whether you would consider that the political morality indicated in that letter were going to govern your functions in making loans to Democrats, or other people, or where we get off in the State of Maine.

Mr. WALLACE. Senator, as I look at the vote in Montgomery County, in Maryland, and then at Fairfax County across the river in Virginia in the last election I can't help hoping that maybe the Democrats will get the same percentage of the jobs as they got of the national vote in the last election, namely, 53.6 percent. If 53.6 percent of the people of the United States are Democrats, it seems to me they have the right to 53.6 percent of jobs.

Of course, I also feel, Senator, that it is only good administration that in the policy positions that there be men administering policy who are in sympathy with the policy of the administration, otherwise how can we have good administration. I feel that definitely and clearly, from the standpoint of appointments. I would hope that the Democratic National Committee, under its present management, would show the same high sense of morality as Jim Farley used to show.

Jim never forced a man on me at any time. Jim thought if there were a Democrat with equally high qualifications, he should be given a "break." I haven't been in the strictly executive branch of the Government for the last 4 years. I don't know just what policy has been followed in recent years. But if the same high standards were followed as were followed by Jim Farley in his relation to the Department of Agriculture, I am sure that the Government would be well served.

Senator BREWSTER. Well, I think the record was not in the direction of thinking primarily in terms of political rewards in your former

service as Secretary of Agriculture, I was interested in your "potato phase" as you pointed out, but I didn't know whether you had been corrupted by the experience of recent years in associating with the Senators or not. [Laughter.]

I would like to have a reaffirmation, at any rate, of your conviction that whatever responsibility came to you to administer, if any, in an executive way, you would not use your responsibility primarily or chiefly for political rewards, which is certainly the very embarrassing implication of the President's letter in appointing you.

Mr. WALLACE. I can give you that affirmation, Senator.

Senator BREWSTER. I thought so.

Mr. WALLACE. I can assure you that I will perform as Secretary of Commerce as I performed as Secretary of Agriculture in that respect.

Senator BREWSTER. I shan't even ask you whether you welcome getting the job on this basis or not. I shall form my own opinion about that.

Mr. WALLACE. I think the Senator knows me.

The CHAIRMAN. Any further questions?

Senator BREWSTER. No, sir.

The CHAIRMAN. Senator O'Daniel.

Senator O'DANIEL. Mr. Wallace, in a previous session there was something said about business inexperience and your lack of experience in business and finance prior to your Government experience. That was touched on this morning slightly by you in your explanation of some business transactions you had had. But a former witness was invited, I might say, by a member of this committee, to insert into the record a complete record of his experience in business and finance prior to the Government experience. I want to extend that invitation to you. If you care to accept it, you may insert in the record your business and financial experience.

(The matter referred to is as follows:)

ADDITIONAL STATEMENT OF MR. WALLACE

Senator O'Daniel, of Texas, had asked that I submit for the record, my business experience.

PRIVATE BUSINESS EXPERIENCE

In private life, my chief business experience was in the formation of the Pioneer Hi-Bred Corn Co. After many years of corn breeding experimentation, I decided to form a corporation to produce and market the seed. I personally worked with Mr. Fred W. Lehmann, Jr., an attorney, and the present president of the company, in drawing up the articles of incorporation in 1926. I myself was the president and general manager of the company until I came to Washington in 1933. I personally raised all the money to start the company. I personally chose the key personnel which is still functioning. I personally, with Simon Casady, Jr., designed the first modern seed corn drying and processing plant in the world. I personally went to a heating company in Des Moines and got their engineers started on the problems of producing suitable heaters and blowers for drying seed corn. As a result of my visit this company was stimulated to produce a type of equipment which is now used very extensively by the seed corn companies of the United States. I personally worked out with Nelson Urban, the present sales manager of the company, a method of marketing through thousands of local farmers, which has proved very successful. I personally got in touch with a certain bag company and arranged to market our product in cotton

osnaburg bays instead of burlap. I personally worked out the trade-mark of the company. The company grew rapidly and has continually built more plants, until at the present time there are Pioneer plants in Iowa, Illinois, Indiana, and Ohio. The company has always had to borrow money in the fall. It has always paid the money back in the spring. It has always taken the greater part of its profits, after taxes, to build new plants, or modernize the old ones. Last year the sales were over \$4,000,000.

I was a director, for some years, of the Polk County Building & Loan Association, of Des Moines, Iowa.

I was assistant editor of Wallaces' Farmer until my father went to Washington in 1921, and from that date until 1933 I was editor. The Wallace Publishing Co. (which published Wallaces' Farmer) was owned and managed by my father and uncle. After my father went to Washington, I became editor. My uncle became president and as such in charge of the business management. It is a common arrangement in periodicals to have the editorial department and the business management separated. As editor, and to make my editorial policies sound, I constantly studied farm conditions, farm statistics, business conditions as they affected farming, and that means all business conditions.

I was early familiar with the damage the European corn borer was doing in Europe. I anticipated that it would probably spread to this country and realized how it would cause great damage here. In 1929 I visited the Balkan States to get advance information on the corn borer and how to fight it. I also was delegate to an international economic conference in England.

While I was on this trip the Wallace Publishing Co. decided to buy the Iowa Homestead, a competitive State farm paper. Like all too many of the expansions of that era, this purchase wrecked the purchaser. Anyone who is familiar with the course of corn prices from 1929 to 1932 knows what would happen to a Corn Belt farm paper merger involving heavy 1929 financing.

The net result was that the Iowa Homestead acquired the Wallace Publishing Co., and Dante Pierce, the publisher of the Iowa Homestead, came in charge of the business. I continued to be editor and in charge of editorial policies until I left Des Moines to become Secretary of Agriculture in 1933. In fact, I believe Dante Pierce still considers me editor—on leave of absence. I have no better friend than Dante Pierce.

I have also been connected with and a stockholder of the Capital City Printing Plate Co., located in Des Moines, Iowa. Prior to coming to Washington I was vice president and on the board of directors. This company started small and is today one of the leading companies in its field. It has been active in developing improved electrotyping processes, efficient in serving its customers. It has an up-to-date modern plant and a growing business. Robert R. Myers, the manager, has been the ringleader of the industry in stimulating iron plating, thereby reducing the quantity of copper required. Mr. Myers has also pioneered the use of plastic in making electrotype molds. This research is revolutionizing the electroplating business.

I do not claim credit for this success. I give all credit to the efficient, loyal management Bob Myers has given the business. I only claim my connection with it rather obviously failed to poison it.

I have operated various farms owned by Mrs. Wallace and these farms served as the physical basis on which the Pioneer Hi-Bred Corn Co. was started.

PUBLIC EXPERIENCE

Financial.—In my prepared statement I summarized very briefly the magnitude of the financial operations which were under my direction as Secretary of Agriculture. That condensed summary gave little indication of the complexity or magnitude of these activities or of the enormous benefit they have been to farmers and businessmen in all parts of the country. Accordingly, I am submitting here some of the more significant details. The facts of these agricultural loan operations have been regularly reported to the public in official documents. These figures are taken from the yearbooks of Agricultural Statistics for 1940 and 1941, covering my last year as Secretary of Agriculture.

The total amount of agricultural credit outstanding under Department of Agriculture programs on January 1, 1941, just after I left office, was over

\$4,000,000,000, as shown in table 1. About two and one-half billions of this represented mortgage credit; over one hundred millions loans to farmers cooperative marketing associations; six hundred billion Commodity Credit Corporation commodity operations. There was half a billion in production credit loans to farmers, 170,000,000 through production credit associates, and 312,000,000 through Farm Security Administration rural rehabilitation loans. Rural Electrification Administration, with loans to 755 separate community projects, represented a quarter of a billion. The number of individual loans is not shown for all these operations; the numbers that were shown totaled 1,789,618 of individual loans outstanding at that time. (In comparison, Mr. Jones listed only 17,084 small-business loans in his testimony, in addition to the loans made to the handful of big corporations and banks with which Reconstruction Finance Corporation has done the bulk of its business.)

TABLE 1.—Amounts and number of loans outstanding in major agricultural credit programs, Jan. 1, 1941

	Number of loans (where available)	Total amount
Mortgage credit:		
Federal land-bank loans.....	613,098	\$1,851,218,349
Land-bank commission loans.....	432,567	645,060,000
Farm Security Administration tenant-purchase loans.....	12,964	75,354,518
Intermediate credit:		
Federal intermediate credit banks:		
Production Credit Association.....		169,565,000
Banks for cooperatives.....		15,554,000
Direct loans to cooperatives.....		1,495,000
Others.....		33,116
Farm Security Administration rural rehabilitation loans.....	737,204	312,785,000
Emergency crop and seed loans.....		167,985,000
Commodity credit:		
Commodity Credit Corporation:		
Loans held by Commodity Credit Corporation.....		280,218,000
Held by banks and lending agencies.....		370,880,000
Other loans:		
To cooperatives, from Agricultural Marketing Act revolving fund.....		16,461,000
Farm Security to cooperative associations.....		14,941,000
Rural Electrification Administration loans.....	755	253,336,000
Banks for cooperatives.....		74,408,000
Subtotal (where number of loans is available).....	1,796,618	3,139,354,867
Total.....		4,289,817,867

Source: Agricultural Statistics, 1941, pp. 506-532.

The magnitude of these agricultural loan operations is shown even better by the business done during a single year. Table 2 shows the agricultural loan advances and receipts for my last year as Secretary of Agriculture. Advances that year totaled 1½ billions; receipts, almost 1¼ billions. Excluding the additional 220 millions advanced to farmers on commodities under Commodity Credit Corporation operations, advances and repayments were almost equal in amount for the year. Individual loans made that year, as reported, totaled 285,507, or more than 15 times as many as all the small business loan transactions reported by Mr. Jones for the entire history of Reconstruction Finance Corporation.

These data of actual operations give some idea of the extent of the credit operations which I supervised for the United States as a whole. The extent of these loans is shown further by the numbers and values outstanding in some representative States when I left office, ranging from 31,000 loans for \$18,000,000 in Florida up to 210,000 loans for \$231,000,000 in Texas. These thousands of loans involving hundreds of millions of dollars were placed and collected in every State of the Union, and for over one-quarter of the farmers, without a single charge of graft or personal privilege, so far as I am aware.

TABLE 2.—Loans made and repayments received during calendar year 1940

Kind and program	Loans made		Repayments received on current and past loans
	Number	Amount	
Mortgage credit:			
Federal land-bank loans.....	17,027	\$64,275,307	\$117,712,000
Land-bank-commissioner loans.....	21,662	36,391,000	70,068,000
Farm Security Administration tenant-purchase loans.....	6,396	38,522,134
Intermediate credit:			
Production credit associations.....		384,617,000	390,775,000
Banks for cooperatives.....		31,061,000	33,067,000
Intermediate credit cooperative loans.....		4,593,000	4,938,000
Other intermediate credit.....		87,314,000	80,514,000
Other:			
Farm Security Administration rural-rehabilitation loans.....	82,255	94,860,000	57,023,000
Emergency crop and feed loans.....	158,036	18,993,000	18,821,000
Commodity Credit Corporation commodity operations.....		600,445,000	380,282,000
Agricultural Marketing Act cooperative loans.....		3,094,000	7,180,000
Farm Security Administration cooperative loans.....		3,540,000	149,000
Commodity Credit Corporation cooperative loans.....		14,609,000	13,400,000
Rural electrification loans.....	101	69,237,000
Banks for cooperatives.....		100,455,000	101,859,000
Subtotal (where number of loans is available).....	285,507	321,965,441	273,595,000
Total.....	285,507	1,551,093,441	1,261,882,000

¹ Includes loans, commitments, and commodity purchases.

Source: Agricultural Statistics, 1941, pp. 506-532; 1940, pp. 503-641.

(Table 3 is available if desired.)

Comparative size of the administrative job in Agriculture and Reconstruction Finance Corporation.—In judging administrative capacity, it may be of interest to compare the size of the Reconstruction Finance Corporation and agricultural financial operations at the time I left the Department in 1940. Table 4, based on official publications, makes this comparison:

In 1940 the Reconstruction Finance Corporation authorized a total of 1,303 loans, less than one-half of 1 percent of the number of loans Agriculture made the same year.

The Reconstruction Finance Corporation loaned out 453 millions; Agriculture, 1½ billions. The Reconstruction Finance Corporation received back 345 millions; Agriculture, 1.2 billions. On both items the Reconstruction Finance Corporation operations were less than one-third of Agriculture's.

In 1940 the Reconstruction Finance Corporation collected 76 percent as much as it loaned out that year; Agriculture, 81 percent. Again the agricultural record is as good as Reconstruction Finance Corporation's.

At the end of the year the Reconstruction Finance Corporation had 1.7 billions of loans outstanding, Agriculture, 4.3 billions. Reconstruction Finance Corporation's outstanding total was only 39 percent of Agriculture's.

By every measure, the administrative task of operating the agricultural program was vastly greater than the Reconstruction Finance Corporation's; yet the current collection record was equally good.

Since the war began defense and war financing has greatly increased the work both of the Reconstruction Finance Corporation and the Department of Agriculture. The Reconstruction Finance Corporation has become a central financing agent for many of the war agencies, advancing funds for war construction against promises of war agencies to absorb the losses, if any, from their appropriations for war. Even with this vast increase in its refinancing operations the last published report of the Reconstruction Finance Corporation (for the first quarter of 1944) shows a grand total of only 33,361 borrowers since the organization of the corporation in 1932. Of these loans, only 12,113 were made to business enterprises, including both peace and defense purposes. It would appear from these figures (1) that the burden of administering these business loans would not involve insuperable problems; and (2) that not much aid can have been advanced

by the Reconstruction Finance Corporation, in war or peace, to the hundreds of thousands of small business concerns throughout the country.

The extent to which the Reconstruction Finance Corporation may have helped small business is also indicated by the average size of loans. Excluding the \$7,000,000 advanced to defense plant and other subsidiary corporations in 1940 (no details of the number of loans or other activities of these subsidiaries have ever been published so far as I can determine), the remaining 446 millions of dollars lent by the Reconstruction Finance Corporation in 1940 went to 1,303 borrowers, or \$342,470 per borrower. In comparison, table 2 shows agricultural loans of 332 millions made in 285,507 separate loans in 1940 (including only those programs for which the number of loans is shown), an average of \$1,128 per loan. It is clear from the number of loans and the average size of loans that the Reconstruction Finance Corporation was of very little aid to small businessmen in 1940. Through the whole period from 1932 to the end of 1944 it has loaned to only about 12,000 individual business enterprises or about one-half of 1 percent of all business enterprises in the United States (excluding farming). This may be compared with financial aid given to about a third of all farms by the agricultural lending agencies.

TABLE 4.—Comparative size of financial operations of Reconstruction Finance Corporation and Agriculture Department, calendar year of 1940

	Agriculture ¹	Reconstruction Finance Corporation ²	Reconstruction Finance Corporation as percentage of Agriculture
Amounts advanced.....	1,551,060,000	\$453,239,000	29.2
Repayments received.....	1,261,882,000	345,087,000	27.3
Repayments as percentage of advances.....	81.4	76.1	
Number of loans made.....	285,507	1,303	0.5
Amount outstanding at end of year.....	4,344,015,000	1,712,639,000	39.4

¹ From tables 2 and 3.

² From quarterly reports of Reconstruction Finance Corporation for 1940, tables 3 and 6.

³ Partial total.

In this connection it might be noted that prior to the war the maximum disbursements by the Reconstruction Finance Corporation in any year were 1,828 millions. That peak disbursement at the height of the effort to check the depression in 1934 was not much more than the usual volume of business in agricultural loans, as shown in table 2. After 1934 the Reconstruction Finance Corporation advances never reached \$1,000,000,000 in any year until after the war began, and in many years were less than one-half billion. This indicates the relatively small place that the Reconstruction Finance Corporation was taking in the financial peacetime activities of the country. During the war, loans under defense financing of the Reconstruction Finance Corporation (backed by public appropriations for war) totaled 13 billions to March 15, 1944; disbursements under all other Reconstruction Finance Corporation activities totaled 12 billions more for the 12 years of the Corporation's life. This average annual volume of business is not much larger than that in the Department of Agriculture before the war, while the number of loan commitments to be examined or served in the Reconstruction Finance Corporation is far smaller.

During the war, the Reconstruction Finance Corporation has undoubtedly been a great factor in enabling the war agencies to anticipate congressional appropriations and in enabling war contractors to secure plant, equipment, and funds at Federal expense and risk to carry out their war contracts. Except for this emergency wartime service, however, the Reconstruction Finance Corporation has been much less important in the business sphere than the Department of Agriculture has been in the agricultural. Its administrative task to date, in peacetime operations, has never been anything like so great as the task was in Agriculture.

Experience as an administrator of public funds and organizations.

Administrative.—In 1933 President Roosevelt asked me to develop a farm program, and the farm leaders and I jointly proposed the Agricultural Adjustment

Act, providing a cooperative farmer-Government planning of basic agricultural commodities. There were many prophets of doom then who said the administrative job could not be done, that 6,000,000 American farmers could never work together with Government. Representatives of great food-processing industries testified that the plans were administratively unworkable, that the bill would never do what it aimed at doing, that the markets for farm products would disappear. Acting on the direction of Congress, and under my supervision, the Department of Agriculture did what these gentlemen said was impossible to do. With the help of the administrators I selected and supervised—George Peck, Chester Davis, M. L. Wilson, A. G. Black, Howard Tolley, Cully Cobb, R. M. Evans, and many others, and of the existing staffs of the Department of Agriculture, the Extension Service, and the State colleges of agriculture—millions of contracts were signed with farmers, millions of checks for benefit payments were issued, and order was brought into the agricultural picture. This operation involved a great expansion in the staff of the Department of Agriculture both in Washington and in the field. This staff was built up swiftly and effectively; its decentralized field operations were closely directed by locally appointed or elected committees of farmers without graft or private favoritism and with an operating efficiency that continued the high standards characteristic of the Department.

Without going into the other myriad administrative problems of agriculture developments which Congress authorized during the 8 years I was Secretary of Agriculture, I will merely mention that those included the creation or development of such landmarks in the Nation's agricultural programs as the present Farm Credit Administration; the Farm Security Administration, with its tenant-purchase and rural rehabilitation programs; the soil conservation program; the rural electrification program; the ever-normal granary program, with its operating arm, the Commodity Credit Corporation; crop insurance and regional research laboratories; and a great expansion in Forest Service activities. These new and expanding activities were built up by administrators I selected and led—men with imagination, leadership, and the initiative to make use of the wide authority I delegated to them while keeping control of basic policy. By 1940, when I left it, the Department of Agriculture was carrying on, in the service of farmers and of the general public, a variety of activities far greater than that of most American corporations, with an efficiency and a competence of staff that compares well with that of any other American institution of similar size and responsibility, public or private.

During this period I was responsible for a wide variety of activities that involved direct contacts and arrangements with many phases of American business, such food-processing industries as the millers, packers, and dairy industry, all the textile and clothing industries, tobacco processors, importers and exporters in many different lines, lumber industry, canning industry, warehousing, and many others. Operating programs such as marketing agreements, tax impositions and refunds, imports and exports quotas and subsidies, regulation of packers and stockyards, control of future markets, aid in negotiation of trade agreements, and many others, gave a wide and intimate contact with and knowledge of many phases of American business and its operating and financial problems, and helped me to appreciate the problems that businessmen as well as farmers must grapple with.

In my last report as Secretary of Agriculture, in 1940, I stated:

"The Congress and the President were never able to agree on a comprehensive attack on the farm problem until the depression of the early 1930's produced such an impossible situation on the farms that something had to be done. It was my opportunity to be Secretary of Agriculture at this time of great stress. For the first time the Department was given the responsibility of administering nationwide action programs. The rapid results that were obtained are in my opinion a great tribute to the morale and personnel that had been built up in the Department over a long period of years.

"Farm income was increased. Farm foreclosures were reduced. Acreages were adjusted to the fact of greatly reduced European demand. Domestic demand was increased. Farm security was brought to hundreds of thousands of poverty-stricken farmers by means of supervised loans. The number of farms served by electricity was more than doubled. The problem of soil conservation was given comprehensive attention for the first time. * * *

"As I look back over the past 8 years I am proud that I have not allowed the scientific work of the Department to decline in importance. * * * Using the Bankhead-Jones research funds we have set up regional laboratories to

start work on special problems such as poultry disease, truck crops for the South, grass breeding for the Northeast, sheep breeding in the West, soybean research in the Corn Belt, etc. Four great regional laboratories were opened at New Orleans; Philadelphia, Pa.; Peoria, Ill.; and Albany, Calif., this fall. These, fully staffed with chemists and other scientists, can in case of need be of great use in national defense.

"Looking toward the future I am happy that agriculture is in such splendid shape to serve the general welfare. We have large supplies in the ever-normal granary, while at the same time we have protected the farm income with commodity loans. We have increased soil fertility. If national defense requires it, we are in position to expand agricultural production without plowing up the hillsides or the Great Plains. If foreign markets are still further reduced after the war we are in position to make the necessary adjustments by suitable acreage control and by the stimulation of domestic consumption. * * *

"The personnel of the Department has increased from 27,350 in 1932 to 79,035 in 1940. This number includes 2,817 Farm Credit employees. When we take into account the far-flung action programs this increase in personnel is not at all disproportionate.

"Those who urge that the Department is too big and that some of its functions should be transferred to other Departments so as to relieve the overburdened Secretary of Agriculture simply do not understand the problem. As long as problems relate to farmers and the land which they operate, the job belongs to Agriculture. When problems of this sort are put in another Department, the job of being Secretary of Agriculture is made more complicated and difficult. Mere size does not make administration difficult, so long as there is proper staff organization and sufficient harmony of function to tie everything together in a sense of purposeful service."

FINANCING FOR SMALL BUSINESS

In my testimony before your committee on January 25, 1945, I promised an expanded statement of my views on helping small businessmen to obtain needed financing.

Now I want to make it perfectly clear to begin with that assistance to the small businessman is a prerequisite to healthy free enterprise. I believe that free enterprise means more than the right of established business organizations to produce and sell goods under competitive conditions. I believe that free enterprise must also mean the opportunity to move up the economic scale from worker to owner. It must mean the opportunity for the efficient and successful small businessman to expand in proportion to his ability. We must make sure that lack of adequate capital to finance new and expanding business does not become a bar to healthy economic advancement.

Private enterprise in the United States can survive only if it expands and grows, and it can expand and grow only if new enterprises are born and permitted to develop. The lifeblood of private enterprise in America is the new business and the small business. Without more and prosperous small businesses it will be impossible to maintain a healthy economy and high level of employment. Ninety-six percent of the business enterprises in this country have less than 20 workers. More than one-third of the workers in manufacturing and business firms in the country are employed in enterprises with less than 20 workers. We must not forget that these small businesses are the foundation on which the large businesses of the future will be built.

Contrary to what you may have seen in the press, I am not against big business. I want more business and more business enterprises for this country, large and small. We can have efficient progressive business in the future only if we make sure that the seeds for large-scale enterprises are sown far in advance.

It is only when large businesses are constantly exposed to the keen competition of newly formed and expanding businesses that our economy can remain healthy. The day we make it difficult to establish new business and for efficient small business to grow and expand in competition with large business, that day we sound the death knell of private enterprise and give a vested interest to monopoly. The great danger that lies before us, the threat against which we must protect ourselves, is the growing tendency to make it impossible for small businessmen to get enough capital to start and to expand.

There are tremendous new frontiers that await American enterprise. They provide unparalleled opportunity for the millions of the young men and women in the armed forces who will return home and the millions of men and women now engaged in war work who will have to turn to peacetime pursuits. Many of them have acquired specialized knowledge and talent as a result of their wartime experience. America will greatly profit by providing them with an opportunity to use their new knowledge—to use it in the American way. Unless new industrial fields are opened up and old fields are kept open to ambitious and competent young men and women who show reasonable promise for business success, American industry will stagnate. That can mean only unemployment and low wages.

I do not believe the monopolistic businesses of today have any God-given right to keep for themselves the business of this country. Big business must earn the right to remain big by producing at lower cost or by giving the consumer better goods at the same cost while maintaining and improving working conditions for their employees in harmony with the American standard of life.

The cancer of free enterprise is monopoly. Free enterprise thrives on new businesses and the expansion of the smaller ones that have proved successful. America has stood for unlimited opportunity for the man of energy, imagination, and resourcefulness to rise to industrial leadership; and we must insure the continuance of this tradition. The worker must have an opportunity to move from his bench to a small business of his own and through energy and vision build his business into a great enterprise. It was that opportunity which made possible the economic progress of the United States, and it is only by safeguarding this same opportunity that it will be possible for the United States to fulfill its destiny.

There was a time—and not so long ago—when an ambitious young man could start a business of his own with a few thousand dollars. Because of the increased mechanization of industry and the modernization of marketing techniques even a small-size business, if it is to operate efficiently, needs far more capital. But facilities for assuring opportunities to raise such capital by small business have not expanded with the growing need. While it is easy enough for a large corporation to float new equity securities of \$10,000,000 or more at a cost of 5 percent of the issue and to sell these securities on a 5 or 6 percent yield basis, it is practically impossible for a small business to secure \$25,000 or \$50,000 for equity capital, except at a cost of 20 to 25 percent of the issue and the securities must then be sold at a yield of 10 or 12 percent, or even more.

Some small business enterprises do manage to raise capital under these onerous terms. Many more prospective enterprises die stillborn because they cannot even begin to pay such high charges. These figures make it clear that even where a man is fortunate enough to be able to secure financing, he does so at a cost which handicaps him in his efforts to compete with the larger concern that has ready access to capital. No one cognizant of the facts can doubt that inadequate arrangements for financing are important deterrents to the development of new business and the expansion of small business in the United States.

This is not a question of idealism. It is a stubborn fact that small business in this country does not have an opportunity to secure the capital it needs for its development and growth. In my testimony on January 25 I called attention to the fact that some investment bankers fully recognize the great need for new lending devices to assure adequate financing for small business. One of these, Mr. Ferdinand Eberstadt, an investment banker with whom I served on the War Production Board, has developed a proposal for forming local investment companies or pools of capital to be obtained from local businesses, banks, and public-spirited citizens and, where necessary, additional funds could be secured from governments. Now I call your attention to the fact that Senator Taft has introduced a bill designed to aid in the financing of small business enterprise by providing governmental insurance of long-term loans made by banks and insurance companies and of stock when held in the portfolio of investment companies.

The Reconstruction Finance Corporation during the past decade could have been the agency which would have filled this great need. It could have used some of its tremendous resources to help secure financing for small business. It could have struck a tremendous blow for new enterprise and the growth of

small enterprise. But it is clear that it has not made use of that opportunity to any significant extent. According to a recent report issued by the Reconstruction Finance Corporation covering its operations for the period from the organization of the Corporation on February 2, 1932, to September 30, 1944, except for loans for national defense, the Reconstruction Finance Corporation has made less than 9,000 loans to business enterprises over the last 12 years. This is a small number in a country where we have over 3,000,000 small businesses.

I think it is not of overwhelming importance which of several methods we use to help provide financing for small business. It is important only that the Government assist small business in securing from private investors some of its risk capital. It is important to do so without fostering ill-conceived, ill-advised, and highly speculative ventures and without putting the Government in business. The essence of free enterprise is to give well-conceived new business a chance to prove its worth. The capital needed by free enterprise must come from private investors. The role of the Government must be limited to that of an insurer of the extraordinary risks that private investors cannot assume in full. We must make sure that financing such enterprises is possible if we are to have free enterprise providing productive employment to American labor and good markets for American agriculture.

The program which I suggested was that the Government should play its part in helping stimulate the growth and expansion of business enterprises in this country in a manner comparable to the way in which this Government stimulated small home building and home modernization under the Federal Housing Administration program. Just as under the Federal Housing Administration program private homes were built and modernized by private contractors, and financed by private institutions, so under the program I have suggested the business enterprises would be privately owned, privately operated, and privately financed. Just as under the Federal Housing Administration program the Government shared with private lenders certain risks involved in financing the building and modernizing of small homes, so under the program I have suggested the Government would be sharing with the private investors certain risks involved in financing the growth of new business and the expansion of existing business. The Government would merely facilitate financing, without in any way acquiring ownership or assuming responsibility for management.

The real enemies of the American way of doing things are those who oppose constructive measures to insure the development and growth of private business in this country. If we make the American system of free enterprise work in time of peace with the same outstanding success that it has achieved in time of war, we need have no reason to fear the spread of any "ism" in this country. If we do not make an American system of free enterprise work, then there is real danger that our American way of life will be threatened. The total answer to any threat of the spread of "isms" in this country is production to capacity in peace as we have produced to capacity in war, thus providing full employment and a better life for all.

Senator O'DANIEL. And another question which I would like to go into, I would like to call your attention to a book supposed to be authored by you entitled "Whose Constitution?"

Do you recognize or admit the authorship of that book?

Mr. WALLACE. I do, sir.

Senator O'DANIEL. You have not changed your mind as to the ideas expressed in that book?

Mr. WALLACE. Probably not, Senator. I have of course changed my mind on certain matters in the course of the years like all—

Senator VANDENBERG. Authors?

Mr. WALLACE. Like all others.

Senator O'DANIEL. That being the case, I would like to have inserted in the record the concluding six paragraphs of that book. You have no objection to that?

Mr. WALLACE. No. It is your privilege, Senator.

Senator O'DANIEL. Thank you.

The CHAIRMAN. Is that all?

Senator O'DANIEL. That is all.

The CHAIRMAN. Senator McClellan.

Senator McCLELLAN. Mr. Wallace, for the record and for my own information I would like to have you state just what changes in the policies of administration of the R. F. C. and the other loaning agencies you have in mind to make, if any, if the George bill is not enacted and this responsibility rests upon you as Secretary of Commerce.

Mr. WALLACE. Well, I think that is what the President might call a very "iffy" question.

Senator McCLELLAN. No. If you have any changes in mind.

Mr. WALLACE. I have indicated a general policy that might be followed subject to the will of Congress and the President in the post-war period.

Senator McCLELLAN. Yes.

Mr. WALLACE. In the immediate war period—well, I would say the first things that I would want would be to have some competent agency discover exactly what is the status, the financial status of R. F. C. Frankly I wouldn't want to take it over until there had been a pretty careful examination and I wouldn't care to express much further opinion until that examination had been made. That is, I wouldn't want to become responsible for it until that examination had been made. I would want some cut-off date definitely established. As you are well aware, the agency has never been subjected to the ordinary Budget Bureau or General Accounting Office procedure.

Frankly, I think you have to know just exactly what the R. F. C. consists of before you can state what should be done. I have tried to get certain figures with respect to the R. F. C. I find them quite difficult to get.

Senator McCLELLAN. It was your statement this morning that prompted me to ask that question and it also prompts me in asking this question—

Mr. WALLACE. There is one particular matter which I think becomes very important in the post-war period and that is the whole matter of small-business loans.

Senator McCLELLAN. Well, do you have in mind that the R. F. C. should supersede the Smaller War Plants Corporation which has been set up for that purpose?

Mr. WALLACE. No. If the Senator is particularly interested in that field he no doubt knows that the R. F. C. has engaged in some small business loans. I think the volume is somewhat larger than was suggested this morning, from what I can discover.

The CHAIRMAN. It was testified yesterday that the volume was \$1,900,000,000.

Mr. WALLACE. Of small business loans?

The CHAIRMAN. Yes. That includes the war period. He gave it in a break-down. Not a great deal prior to the war but since the war started.

Mr. WALLACE. I think it is somewhat larger than was suggested this morning.

The R. F. C. is engaged in small business loans. The Federal Reserve banks are operating in the small business field. There are also the loans by the Smaller War Plants organization. There is also a certain volume of small business loans through the Army and Navy. And there are also small business loans coming up around the corner under the G. I. bill or rights. There are several pieces of legislation pending, like the Wagner-Spence bill, and the Voorhis bill.

So it seems to me that at the present time the power is quite considerably diffused and deserving definitely of a study by Congress to enable the small businessman to be served in a more clear-cut fashion.

Senator McCLELLAN. Is it your idea that small business loans should be made by the R. F. C. or some other organization?

Mr. WALLACE. I think the Congress should look with some care into the way in which there might be coordination between these various agencies that do serve the small businessman.

Senator McCLELLAN. Yes.

Mr. WALLACE. Insofar as local finance agencies can take care of the small businessman, the more they can take care of them the better it is, because the local financial man must be familiar with the kind of risk involved, he is more sympathetic to what the community needs, more understanding of the character of the man who is borrowing the money. But, unfortunately, as I pointed out this morning, the character banking that we used to have prior to 1913 has largely passed out of the picture. The examinations by the bank examiners are so strict that the local banker has not been able to service the small businessman in the field of long-time loans to the extent that the small businessman needs to be served or to the extent that he used to be served in the first decade of this century.

I think there is a definite need to fill that institutional gap in financing. I would conceive it definitely to be the function of the Department of Commerce to give that whole question the most careful study in order to determine what kind of effective cooperation might be worked out between the various agencies financing the small businessman.

Senator McCLELLAN. It was your remark this morning that prompted me to ask the first question that I did with reference to what change in policy, if any, you had in mind with respect to the administration of these agencies, and as I understood this morning you recommended or suggested that the Congress create a committee to investigate the R. F. C. and these agencies.

Now, I would like to ask you in that connection was it your purpose to imply that they have been mismanaged in the past and therefore there was need for investigation, or did you have in mind that the investigation was to determine with respect to changes in policy?

Mr. WALLACE. Well, I would feel it would be a very definite service to me if Congress would take a very careful look at the whole picture to see exactly what might be there. I don't know what is there and I don't know whether anyone in Congress knows exactly what is there.

Senator McCLELLAN. Or in any of the other agencies; it is difficult to keep up with all of them.

Mr. WALLACE. The other agencies have been subjected to regular governmental procedures.

Senator McCLELLAN. I don't think all of them have.

Now, may I ask you another question? In this war program and the necessities of war there must be spending, of course. The national debt has been discussed in connection with this program that you have outlined this morning, and you discussed also briefly, I believe, how this program might be carried out, and to what extent it may be necessary for the Government to finance it.

Do you have in mind now to what extent it would be necessary to expand the functions of these lending agencies in order to carry out the program that you have outlined? I mean, with respect to loan authority and the spending authority. In other words, how much it will take from the Federal Government in outlay of money to finance it.

Mr. WALLACE. I would think, Senator, that that might well be the subject of hearings that would take this committee and the Appropriations Committee several weeks to go into and I certainly could not be expected to give an offhand opinion on that.

Senator McCLELLAN. In other words, you have not come to any conclusion about it yourself; you can give us no idea or opinion of the amount that would be involved?

Mr. WALLACE. Certainly not, Senator.

I can say this, Senator, that judging from past statistical records, if you wish to get a total output of goods and services in excess of \$170,000,000,000 a year, it will require about—something between 35 and 40 billion dollars of what is known as capital formation to do the job.

Senator McCLELLAN. How much?

Senator BREWSTER. You mean billion?

Mr. WALLACE. Billion, yes. Between 35 and 40 billion dollars of capital formation. That is a very technical phrase and does not mean investment. That itself would require extensive hearings to go into and explain and I don't have the figures with me and it would convey a false impression if the break-down is not before you.

Senator McCLELLAN. As I understand at present the loaning authority or the authorization of expenditures for the R. F. C. is \$14,000,000,000. Do you mean by what you have said that that authority would have to be extended?

Mr. WALLACE. I didn't mean that at all, Senator.

Senator McCLELLAN. I wanted to get that clear.

You didn't answer my other question quite completely with respect to whether by request for this committee for an investigation you meant to imply, and I don't think you did, that there had been mismanagement in the R. F. C., but rather you wanted that for constructive to purposes to enable you to determine where improvement might be made.

Mr. WALLACE. I think, Senator, that it would be only fair to whoever administers the R. F. C. that he have a clean page to write upon, that he knows exactly where he is. Any county auditor, when recently elected, takes that precaution.

Senator McCLELLAN. I just wanted to clarify that for the record, if that was what you had in mind by the recommendation you made to the committee this morning.

Mr. WALLACE. I do not express any opinion one way or the other. Senator McCLELLAN. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Wallace, what you have in mind is that when you took over you would want an audit in order to have a base behind you to do your work in the future?

Mr. WALLACE. That is right.

The CHAIRMAN. The other matter you spoke of, the annual formation of capital of \$35,000,000,000 a year—

Mr. WALLACE. I may say that the comparable figure in the prewar period was about \$20,000,000,000 of capital formation.

The CHAIRMAN. I was going to ask if the normal was not about \$5,000,000,000.

Mr. WALLACE. The normal is about \$20,000,000,000 of capital formation.

The CHAIRMAN. New capital investment?

Mr. WALLACE. No; not new capital investment. What is known as capital formation.

The CHAIRMAN. The new capital investment each year normally is between 4 and 5 billion dollars.

Mr. WALLACE. That is capital investment; yes.

The CHAIRMAN. That is according to the Federal Reserve report.

Mr. WALLACE. That is right.

The CHAIRMAN. That kept the country on a pretty even keel.

Mr. WALLACE. Incidentally, that was almost exactly the same as the increase in the total debt during the decade of the 20's.

The CHAIRMAN. Your idea is to supplement that by Government financing?

Mr. WALLACE. No; I didn't say that, Senator. It might be necessary.

The CHAIRMAN. You would be for it if it were necessary.

Mr. WALLACE. I hold to this view, that there is, in the final analysis from an over-all national point of view, there is only one type of an unbalanced budget, and that is labor not at work.

The CHAIRMAN. Are there further questions?

Senator PEPPER. I have one or two questions, if I may, Mr. Chairman.

The CHAIRMAN. Senator Pepper.

Senator PEPPER. Mr. Wallace, in further response to the question which was asked, whether you had in mind anything else that might be done to indicate any change of administration or policy in the office of the Federal Loan Administrator, did I understand you to reply, in response to some question, or in your original statement, that you thought the Federal Loan Administrator's office, and all the lending agencies under that office, should be subject to the regular auditing procedures of the Government through the Comptroller General, who answers to the Congress?

Mr. WALLACE. Yes; and also, Senator, to the Bureau of the Budget.

Senator PEPPER. And if you were Secretary of Commerce and had supervising powers over the Federal lending agencies, as an incident thereto would it be your purpose to take steps to see that that were done?

Mr. WALLACE. I would feel it were a very great safeguard, Senator. I may say in this connection that a very comprehensive program and list of recommendations was made to the President of the Senate on February 10 of 1940 by the Secretary of the Treasury in response to a Senate resolution with regard to governmental corporations. There was a proposal that a uniform policy be adopted by the Congress with respect to the relations of corporate agencies to the Federal Treasury, the Bureau of the Budget, the General Accounting Office, and the United States Civil Service. That is the first item. I will not go ahead unless there is some special interest. But there is a total of eight different points made by the Secretary of the Treasury with respect to procedure that he felt was advisable relative to Government corporations.

Senator PEPPER. So as related to the Federal lending agency and the subsidiary agencies thereunder it is your feeling that they should be subject to the regular processes of the auditing of the Comptroller General and the regular supervision of the Bureau of the Budget?

Mr. WALLACE. Without being too doctrinaire, that is the way it seems to me from outside, Senator. That is why I suggested a congressional investigation committee this morning. It is conceivable that the kind of work done by the R. F. C. is such that it would be greatly handicapped if it had to go through the regular governmental procedure. I personally do not think so, but nevertheless the congressional committee, if one is appointed, could look into that to determine the point.

Senator PEPPER. And would you think it proper to include in the jurisdiction of that committee the determination of whether or not the lending agencies under the Federal Loan Agency might be subjected to the Classification Act?

Mr. WALLACE. Yes; I think that would be well worth looking into.

Senator PEPPER. Now, Mr. Wallace, in your administration of the office of Secretary of Agriculture you dealt with loans under the Farm Credit Administration, which included the Production Credit Association and the regional agricultural credit corporations, I believe, corporation and T-loans, Agricultural Marketing Act revolving funds, bank cooperatives, Farm Security Administration, Rural Electrification Administration, and Federal land banks.

That is the list I have. Do you recall whether that is substantially an accurate list of the lending agencies that were under you as Secretary of Agriculture?

Mr. WALLACE. Yes; all those were there. Did you include Rural Electrification?

Senator PEPPER. Yes; I have. Now, I believe you mentioned this morning that there were several billions of dollars loaned by those several agencies while you were Secretary of Agriculture in your 8-year tenure?

Mr. WALLACE. Yes; that is true. The outstanding loans in the fall of 1940 when I ceased being Secretary of Agriculture were about \$4,000,000,000.

Senator PEPPER. About \$4,000,000,000?

Mr. WALLACE. Yes.

Senator PEPPER. Mr. Wallace, would you express an opinion as to whether there are many men in the country who have had a larger experience than your experience in the conduct of the Department of Agriculture and in the supervision of those several lending agencies over a period of 8 years?

Mr. WALLACE. There are several men in Government who have had experience with lending very large sums of money, but I don't think there are many who have had greater experience than this.

Senator PEPPER. Now, some question was asked about the functions of the Department of Commerce, and I believe you stated that you thought the general statutory provisions for the functions of the Department of Commerce were somewhat analogous in substance to the functions of the lending agency. Did you have in mind the language of the statute setting up the Department of Commerce, which reads, among other things, as follows:

It shall be the province and duty of said Department to foster, promote, and develop the foreign and domestic commerce, the mining, manufacturing, shipping, and fishery industries, and the transportation facilities of the United States.

Mr. WALLACE. You are quoting it accurately, Senator. I was only quoting it this morning from memory, sir.

Senator PEPPER. Well, now, some inquiry was made about small business loans. I have before me what purports to be a report of all loans and commitments authorized to business enterprises by the R. F. C. through August 31, 1944, published by the R. F. C. September 14, 1944, wherein it appears that 6,871 loans under \$5,000 were made, totaling about 17½ million dollars, but constituting only about seven-tenths of 1 percent of the total number of loans made by the R. F. C., and showing that there were loans of less than \$10,000 to small business in the amount of 1.7 percent of the total amount of the loans, and less than \$100,000, the total percentage, would be about 12 or 13 percent of the total amount of money loaned; 66.2 percent of all the money loaned was loaned in units of over \$1,000,000.

Without, of course, having known of the individual applications from small applicants and large applicants, would you say that you believe as a matter of policy that it would be in the public interest for greater consideration be given to small business and that that would be worth looking into?

Mr. WALLACE. Yes; based on the record as you have read it. It is difficult now to say just what the full facts may be. I do think the situation ought to be looked into.

Senator PEPPER. Mr. Chairman, if I may, I would like to submit for the record the three statements which I have in my hand, showing the reports of the R. F. C. up to 1940 and then up to 1944, respecting loans to small business.

The CHAIRMAN. They are official, are they?

Senator PEPPER. Yes. They were taken from official reports.

(The tables referred to are as follows:)

TABLE I.—Reconstruction Finance Corporation: Amount of business loans authorized and disbursed, cumulative as of Feb. 29, 1940, and Mar. 31, 1944, by size of loan

[Percentages and millions of dollars]

Size of loan	As of Feb. 29, 1940 ¹				As of Mar. 31, 1944 ²				Percentage changes over 1940	
	Authorized		Disbursed (actual)		Authorized		Disbursed (estimated)		Authorizations (percent)	Disbursements (percent)
	Value	Percent	Value	Percent	Value	Percent	Value	Percent		
Under \$5,000	\$7.5	1.6	\$4.9	1.7	\$17.2	0.7	\$6.9	0.7	129.3	40.8
\$5,000 to \$10,000	11.5	2.5	7.0	2.4	25.7	1.0	10.3	1.0	123.5	47.1
\$10,001 to \$25,000	32.1	6.9	19.9	6.8	75.6	3.0	30.5	3.0	135.5	33.3
\$25,001 to \$50,000	41.1	8.8	23.8	8.1	98.4	3.9	39.6	3.9	139.4	96.4
\$50,001 to \$100,000	61.7	13.2	38.3	13.0	149.8	5.9	60.3	5.9	142.8	57.4
\$100,001 to \$200,000	64.4	13.8	42.5	14.5	140.7	5.5	56.7	5.5	118.5	33.4
\$200,001 to \$500,000	90.7	19.5	62.1	21.1	202.3	7.9	81.4	7.9	123.0	31.1
\$500,001 to \$1,000,000	47.3	10.1	31.9	10.8	139.6	5.5	56.2	5.5	195.1	76.2
\$1,000,001 to \$1,000,000	109.9	23.6	63.4	21.6	1,091.0	66.6	680.9	66.6	1,438.7	974.0
Over \$1,000,000										
Total	466.2	100.0	293.8	100.0	2,540.3	100.0	1,022.8	100.0	444.9	248.1

¹ Temporary National Economic Committee Monograph No. 17, Problems of Small Business, p. 300.

² Reconstruction Finance Corporation Summary of Authorizations. Disbursements are estimated on the basis of total disbursement figure of \$1,022,800,000 furnished by the Reconstruction Finance Corporation, by assuming a distribution parallel to that of authorizations. Note that total disbursement figure of \$1,022,800,000 disagrees slightly with the disbursement of \$1,008,000,000 used by Mr. Jones in Washington Star.

TABLE II.—Reconstruction Finance Corporation: Number of business loans authorized and disbursed, cumulative as of Feb. 29, 1940, and Mar. 31, 1944, by size of loan

Size of loan	Feb. 29, 1940 ¹				Mar. 31, 1944 ²				Percent increase, 1940 to 1944
	Authorized		Disbursed		Authorized		Percent		
	Number	Percent	Number	Percent	Number	Percent			
Under \$5,000	3,332	36.6	2,462	40.5	6,738	22.3	102.2		
\$5,001 to \$10,000	1,412	15.5	874	14.4	3,262	15.6	131.6		
\$10,001 to \$25,000	1,739	19.1	1,095	18.0	4,331	20.7	149.1		
\$25,001 to \$50,000	1,032	11.4	665	9.9	2,369	12.5	151.8		
\$50,001 to \$100,000	796	8.6	502	8.3	1,994	9.4	149.2		
\$100,001 to \$200,000	421	4.6	282	4.6	946	4.5	124.7		
\$200,001 to \$500,000	278	3.1	193	3.2	627	3.0	199.8		
\$500,001 to \$1,000,000	63	.7	44	.7	187	.9	296.8		
Over \$1,000,000	40	.4	26	.4	228	1.1	470.0		
Total	9,103	100.0	6,083	100.0	20,882	100.0	129.4		

¹ Temporary National Economic Committee Monograph No. 17, Problems of Small Business, p. 300.

² Reconstruction Finance Corporation—Number and distribution of disbursements to Mar. 31, 1944, not available.

TABLE III.—Size of all loans and commitments authorized to business enterprises by Reconstruction Finance Corporation, through Aug. 31, 1944

[Excludes loans and commitments to subsidiaries of Reconstruction Finance Corporation, Defense Homes, and Great Britain]

[Published by Reconstruction Finance Corporation Sept. 14, 1944]

	Number	Percent	Amount	Percent
\$5,000 and under.....	6,871	3.8	\$17,588,440.29	0.7
\$5,001 to \$10,000.....	3,367	15.6	26,472,512.04	1.0
\$10,001 to \$25,000.....	4,462	20.7	77,882,835.77	2.9
\$25,001 to \$50,000.....	2,701	12.5	102,329,096.02	3.8
\$50,001 to \$100,000.....	2,063	9.6	156,921,782.56	5.9
\$100,001 to \$250,000.....	1,092	4.6	149,182,999.43	5.6
\$250,001 to \$500,000.....	673	3.1	217,540,590.12	8.2
\$500,001 to \$1,000,000.....	205	1.0	151,755,616.47	5.7
Over \$1,000,000.....	245	-1.1	1,762,797,594.22	-66.2
Total.....	21,589	100.0	2,662,481,390.92	100.0
Average of all loans and commitments.....			123,325.00	

Senator PEPPER. Now, Mr. Wallace, this morning I believe you were questioned, after you had made some comment in your original statement about some laxness on the part of the R. F. C. or the lending agencies in the acquisition of critical material or in the expenditure of money for purposes of strategic or critical material.

I would like to read to you just two or three things and ask if that is the kind of thing you had in mind or if it is not the kind of thing you had in mind. I read a copy of a letter from Mr. E. R. Stettinius, Jr., dated November 25, 1940, to the Honorable Jesse Jones, Federal Loan Administrator, Washington, D. C., as follows:

There has been some question raised as to the speed with which the arrangements for the production of synthetic rubber are progressing. This is only to be expected, because it may be a matter of vital importance in the defense effort. I want to take this opportunity therefore to make a matter of record this Division's responsibility in the program.

You will recall the unsatisfactory situation which resulted in conversation carried on between representatives of the industry and both the Reconstruction Finance Corporation and the Industrial Materials Division of the Defense Commission. At your request, therefore, and with the approval of the Congress, I turned the whole matter over to you for final determination. With my letter to you of October 23 was enclosed a copy of my report to the Defense Commission and the report of this Division's chemical group outlining the synthetic-rubber situation. The same material was sent to the President on that date, together with the covering memorandum, making it clear that the whole synthetic rubber situation had been turned over to you.

You are thoroughly familiar with these facts. I have felt it desirable that it be perfectly clear that the Industrial Materials Division of the Defense Commission is not now considering itself responsible for the developments in this matter.

Sincerely yours,

E. R. STETTINIUS, JR.

Now, just a couple of excerpts from the testimony given to the Truman committee on April 2, 1942, by Mr. W. S. Farish, president, Standard Oil Co. of New Jersey. [Reading:]

On January 15, 1941, Standard submitted to the Reconstruction Finance Corporation a complete plan under which it offered to construct a plant for the production of butadiene, to be financed 75 percent by the Reconstruction Finance Corporation and 25 percent by Standard. Nothing came of this proposal.

In September 1941 the Rubber Reserve Company instructed Standard to suspend all work on the Government Baton Rouge butadiene project for 1 year. Notwithstanding the cancellation of the engineering work on the 15,000-ton buta-

diene plant, Standard continued this work at its own expense. Therefore, when Pearl Harbor changed the whole Government attitude toward synthetic rubber and Reconstruction Finance Corporation telegraphed Standard to go ahead, the engineering work had advanced 3 months. Practically no time had been lost as a result of the Government cancellation of the project in September.

Then, further, there was this testimony by Mr. Howard, Mr. Frank A. Howard, vice president, Standard Oil Co. of New Jersey, and he is addressing Mr. Fulton, chief counsel of the committee:

There is a great deal of correspondence, I am sure, that you have, Mr. Fulton, that shows that we didn't believe the reduction of the 40,000-ton program to a program of four shadow plants, each with a capacity for only 2,500 tons, was a wise decision.

And, further, his testimony continues:

From that conclusion of ours, we succeeded in getting—or at least we or others succeeded in getting—the Reconstruction Finance Corporation to reverse itself very soon.

Mr. FULTON. On that I noted that in September, some 5 months later, the Rubber Reserve instructed you to suspend all work on your butadiene project, which you, of course, did not do, but did they reverse their position on this 2,500-ton matter before Pearl Harbor?

Mr. HOWARD. Oh, yes, sir. They had reversed that position sometime quite early in 1941. I am sure before the middle of the year they had reestablished their minimum program at 40,000 tons.

Mr. FULTON. And it destroyed the shadow program of four 2,500-ton plants?

Mr. HOWARD. They enlarged it back up to the place where it had started.

Was that the sort of thing you had in mind?

Mr. WALLACE. That is the sort of thing I had in mind.

I may say, Senator, that the first visit I paid to Mr. Stettinius, when he had his office over in the Federal Reserve Building, was on the subject of synthetic rubber, because of the fact that we had in the Department of Agriculture a chemist who had been with the Standard of New Jersey, had been working on butyl rubber; and while we were not in the war yet, I felt that Mr. Stettinius should be getting into the rubber picture with the utmost vigor. Mr. Stettinius agreed. I know that other gentlemen in positions of authority to help did not share the alarm which I felt about it and which I think Mr. Stettinius felt. That does not in any way impugn their patriotism or their standard of high business conduct.

Senator PEPPER. Now, Mr. Wallace, I think it is only fair to you, if your memory is not clear on the exact words in the last six paragraphs which the able Senator from Texas asked if you still subscribed to, that I might read those paragraphs so that you have them before you to make any comments on them that you care to make [reading]:

The cue for solution of our present problems lies in the Constitution itself, in its declaration of the united purpose of the people, through government, to deal with the eternal problems of justice, liberty, and the general welfare. These problems take new forms; previous mechanisms may not suffice to meet them. New concepts of how to approach them arise in a new age. It would be contrary to the very spirit in which the men of 1787 acted to shrink from the general welfare today. The Constitution itself was the product of a deep conviction that instruments of government are devised by men for furthering the reason for being. Not to use the Constitution in that spirit, but to set it up as a sacred and changeless authority on changing material conditions, is to deny the kernel and worship the husk.

Today we need a great many more persons who will become as deeply motivated by the idea of cooperative economic society as the young men of 1776 and 1787 were motivated by the idea of a democratic political society. The one is the living stream of thought for the twentieth century as the other was for the

eighteenth. I believe the majority of American people are already receptive to the general purposes and possibilities of a cooperative commonwealth. They want more security in sickness, in old age, in unemployment; they want a wider distribution of the good things of life; and they have become disillusioned of the system, in its present self-contradicting form, of free competition and devil take the hindmost as a method for reaching those ends. The movements for achieving such ends is indicative of the feeling of many people. The need is for a body of people in accord on general aims, as idealistic and as realistic as were the young Federalist of 1787, to channelize thought and initiate and consider proposals which may lead to a cooperative society. The means for conveying ideas are certainly more extensive than they were in the 1780's, even though there are 30 times as many people to reach. Perhaps the very multiplicity of means makes for confusion. But we may well profit by the example of the young men of 1787 who used the Federalist with such effect, in utilizing similar national forums for analyzing and propagating new proposals. By such means, by the give-and-take of discussion, by the determined effort of persons themselves convinced and thus able to convince others, new concepts will eventually take form in social mechanisms.

It seems to me that thoughtful people today, in relation to prospective action, stand somewhat in the position of thoughtful men in the early 1780's. At that time they were increasingly aware that the set-up under the Articles of Confederation was not working out to meet national problems in an adequate way. They were thinking, suggesting, comparing ideas and plans, wondering what action was necessary, wondering what form it should take, whether the articles needed amendment, revision, or what. They had not got to the point of actually formulating a definite plan.

Similarly, thoughtful people today are wondering what action will be needed. They know that solution of our present problems will eventually require a new kind of statecraft as effective in the economic field as was the statecraft of Madison, Hamilton, and the others in the more purely political field. The precise form of statecraft which will be required, however, does not yet appear. Thoughtful people today believe that the Constitution provides ample scope for evolution toward the new form of statecraft. Much depends, however, on the way old or new legislation under the Constitution is used by pressure groups. Much depends on whether the plain intent of the Constitution to enable Government to promote the general welfare can really be effectuated under modern economic conditions. If this book has shown anything, it has shown that the present relationships of economic groups and the present scope of individual and governmental action do not work out sufficiently toward the general welfare. If it raises any question of immediate concern to all of us, it is: Who owns the Constitution, if not the people as a whole?

If our more privileged and powerful people under the present rules of the game—financiers, corporation lawyers, and directors—resolutely fail to understand the signs of the times, one type of statecraft may need to be evolved. If they are alive to the necessity for making certain fundamental changes in order to preserve the general welfare quite a different form of statecraft may be in order. One situation might even require amendments to the Constitution. Another might require nothing in the way of constitutional changes. In various countries of the world in the past, privileged classes have often acted in such a way as to make gradual change impossible and have precipitated violent action. Some countries, as for example Sweden, have shown a capacity for gradual change, and have made steady progress in the direction of cooperative organization and intelligent social action.

We in the United States should eventually be prepared if necessary to work out in the spirit of Madison a mechanism which would embody the spirit of the age as successfully as the Constitution of 1787 mirrored the philosophy of the eighteenth century. We may hope that such action can be taken as bloodlessly as the Constitution was enacted and that the handiwork will be as enduring. This will undoubtedly be possible if a spirit of common sense prevails; and if we use our Constitution as Hamilton anticipated it should be used, such action may not be necessary at all.¹

America's contribution in 1787 to world governmental practice was enormously significant. It is my belief that in the spirit, if not in the form of 1787, the United States can, in the not too distant future, make again fully as great a

¹See art. 34 of the Federalist, as quoted on p. 205 of this book.

contribution to the productivity and ordered welfare of the peoples of the world and perhaps an even greater contribution to the consuming power and happiness of all the nations.

Senator BREWSTER. I want to ask one question. It seemed to me the record had been blurred a little from the beginning, from your categorical statement as I understood at the conclusion of your statement this morning, that if the loan agencies were given to you as Secretary of Commerce you propose to use all the power they contain to carry out these objectives which you have outlined to us.

Mr. WALLACE. Subject, of course, to the President and Congress.

Senator BREWSTER. You mean if Congress should make a change, you would recognize that change? In connection with that, I invite your attention to your potato cuts.

Mr. WALLACE. Senator, I wanted the Senators and Congressmen to think it over again and again before they insisted we go ahead with the compulsion of the potato cuts.

Senator BREWSTER. You did make the statement you would use all the powers of the office to advance what you believed was the goal.

Mr. WALLACE. Subject, of course, to—

Senator BREWSTER (interposing). To future action?

Mr. WALLACE. No; subject, of course, to the regular Governmental checks, by which I refer not merely to Congress and the President but quite possibly also the Budget Office and Accounting Office.

Senator BREWSTER. As you know, in this case the loan agency is not subject to either the Budget or the General Accounting Office, so you are taking the powers, the same powers possessed by Mr. Jones, which, as you know, are very unlimited. He pointed out to us yesterday he made loans of many billions; we did not get clear how many billions were involved, but it certainly was in character with this revolving fund that he could loan that amount at any time to any person for any purpose. I think that was his plain statement. So there would be very great powers possessed here, and if then they were to be used for the purposes you outlined it would certainly go outside the purpose which I think the Congress had in view when they enacted the law.

Mr. WALLACE. I think the Congress ought to step in and review the whole situation, as I suggested this morning, but I also suggested what could be done.

Senator BREWSTER. Could be done?

Mr. WALLACE. What could be done.

Senator BREWSTER. You are not modifying that statement in any way?

Mr. WALLACE. No; I am not modifying that statement in any way; neither am I suggesting any arbitrary use of power.

Senator BREWSTER. This is not arbitrary at all. I mean if you use the powers Mr. Jones has to accomplish your different concepts of the public welfare.

Mr. WALLACE. Frankly, I think undoubtedly the Congress would have to pass on those items, there is no question about that.

Senator BREWSTER. They would not under the present law.

Mr. WALLACE. I think they would.

Senator BREWSTER. Why do you say that?

Mr. WALLACE. I am sure Congress would have to pass on that.

Senator BREWSTER. You mean to say you would not exercise the powers which you possessed?

Mr. WALLACE. You see, I started out with unemployment.

Senator BREWSTER. Yes.

Mr. WALLACE. Obviously, under the R. F. C. as it now exists, under section 5 (d) of the R. F. C. Act, there is a provision there for loaning money to prevent unemployment.

Senator BREWSTER. Yes, yes, and for manufacture, there is a provision in that for manufactures which was not subject to the President, I think, but they could aid manufactures.

Mr. WALLACE. Insofar as I have already been granted power by Congress, I have served notice on Congress that I would do my best in the loaning, to carry out what is set forth in section 5 (d).

Senator BREWSTER. I just wanted to be sure that the questions which Senator O'Daniel and Senator McClellan asked did not mean you modified in any way your determination to use the power given you to do everything humanly possible in the direction the powers were set forth.

Mr. WALLACE. Insofar as the powers have been specifically set forth by Congress, I would carry them out for the objectives which I set forth this morning.

The CHAIRMAN. Are there any further questions?

I think Senator Tobey desires to ask a question.

Senator TOBEY. Mr. Wallace, last October, in reading the Washington Post, the issue I think of the 16th of October, there came to my eye an article telling about a statement made in Muncie, Ind., in the course of political debate. There you made this statement, and I would like to read it to you:

Mr. Wallace said, "After the war we can buy twice as many automobiles as we did in the past. We can buy twice as many refrigerators. To make these things possible we need only the money."

As to where the money will come from, you answered:

From a man who will do more than give the green light to Wall Street.

Did you refer to the President?

Whom did you refer to?

Mr. WALLACE. I was referring to Franklin Delano Roosevelt when I made the statement.

Senator TOBEY. Where is the money coming from to buy twice as many refrigerators and twice as many automobiles as we had in the past?

Mr. WALLACE. The money is coming from men fully at work, at full wages.

Senator TOBEY. The statement is: "twice as many * * * as * * * in the past." That means after the war. Is that your belief?

Mr. WALLACE. I am sure it can be done, Senator. As a matter of fact, if we are to have full employment we shall have to consume nearly twice as many automobiles and twice as many refrigerators.

Senator TOBEY. One other question. I think this morning you expressed what has been in my heart for many years, that is that you are hostile to cartels. I believe you have expressed yourself before on that?

Mr. WALLACE. Yes.

Senator TOBEY. I would like to present to your mind an article which you wrote, which appeared in the New York Times Sunday magazine issue about a year or a year and a half ago, the substance of which is that with the aftermath of the war you would discard a large part of the productivity set-up in the synthetic-rubber industry in this country and go back and purchase from the old order. Is that correct?

Mr. WALLACE. That, Senator, is not quite fully stated.

Senator TOBEY. How would you phrase the article?

Mr. WALLACE. There did seem to be some misunderstanding there. I think it is clear in the article, and if it is not clear it was made clear later on, that I think it is regrettable to put a tariff on rubber merely in order to keep these synthetic plants going. I feel that a tariff would put a burden on every automobile user. I feel the synthetic-rubber plants should be kept going, but not in an extensive way, if it requires a tariff to keep them going.

Senator TOBEY. But over against that, if you returned to the old order and brought out rubber from the original supply, which was controlled by the largest cartel in the world, perhaps, the British and Dutch cartel, we would have a repetition of the very thing that you and I abhor, would we not?

Mr. WALLACE. I have been very strong, over a period of many years, for the development of rubber production in Latin America. I share with you your feelings in regard to the cartels of the Far East, whether they have had to do with rubber or with quinine.

Senator TOBEY. Of course, under that cartel you and I know that sometimes the price went from 2 cents to \$2, depending on the whims of the cartel.

Mr. WALLACE. I think the highest price was reached in November 1925, when it was \$1.30 a pound.

Senator TOBEY. It is amazing when you contrast it to the low price that it sometimes has come down to. It is a rigged market, rigged production, and I do not want to see that returned. When we pay \$20,000,000 to build a synthetic-rubber industry I say we should keep that on the job in case we have another war.

Mr. WALLACE. I agree, Senator. Rubber, I might say, has been a hobby of mine for some time. I probably worked as hard to avoid our being "caught with our pants down" with respect to rubber as anybody in this country. I think the record will prove that, Senator. But neither do I think this situation should be used to enrich anything in the nature of a domestic cartel. And remember this: It is an old, old democratic saying that the "tariff is the mother of monopoly," and you should be a little careful before you use the tariff at the expense of the American automobile user, merely to build up a domestic synthetic-rubber cartel.

I do think we want to utilize everything we have found here in the course of the war.

Furthermore, if we found, as the result of our war experience, that we can make rubber cheaper than it can be produced in the natural way, rubber of a superior quality, I am all for it, but if it is more expensive, why, I think it would be a serious mistake to soak the American consumer, unless there is a campaign of national defense involved, and in that case I would suggest we consider our

Latin-American neighbors, we should survey the situation to see to what extent we can produce rubber close to our shores, if natural rubber can be produced cheaper than synthetic rubber.

Senator BREWSTER. You realize, don't you, that the price of rubber in the Dutch East Indies is dependent on the standard of living of the men producing it? You would not advise having competition on that basis, would you?

Mr. WALLACE. Their wages were deplorably low, Senator. As a matter of fact, that is one of the great difficulties in building up the Latin-American rubber industry. But I may say this also, that science works in the biological world just as much as in the world of inorganic matter. Science has done some very remarkable things in the way of rubber breeding, and I am beginning to think it is possible to produce rubber at 6 to 8 cents a pound in Latin America, because of the high productivity of some of these rubber clones that have recently been discovered.

Senator BREWSTER. What kind of wage would you pay the workers?

Mr. WALLACE. The workers could be paid a much higher wage than the workers in the Far East.

Senator TOBEY. Mr. Wallace, I would like to say for the record in reference to your work in the Board of Economic Warfare and your appearance before the Banking and Currency Committee of the Senate in which you gave an account of the new development, I think it is a very constructive piece of work. The Nation and the world are benefited by that work of the Board of Economic Warfare very materially, and that is also true with reference to quinine.

The CHAIRMAN. Are there any further questions? If not, we thank you, Mr. Wallace. You have very thoroughly discussed the matter before us and given us your views. We will excuse you as a witness and we will go into executive session.

(Following is additional testimony submitted by Mr. Wallace for the record.)

ADDRESS BEFORE THE COMMUNITY FORUM, PITTSBURGH, PA., JANUARY 3, 1938, ON
THE COMMUNITY OF INTEREST BETWEEN LABOR, CAPITAL, AND AGRICULTURE

* * * But businessmen in general are not seeking predatory profits.

Business does want a chance to earn an honest return on true investment values. This it can hope to get in the long run only through balanced abundance. Business cannot hope for long to cover the overhead costs of its plant if it operates at 25 or 50 percent of capacity. It must recognize that profits are the reward of initiative and leadership and that ancient plants eventually become valueless. Any attempt over long periods of time to operate at limited capacity and to maintain the values of obsolete equipment will react against the interest of new investors, new capital, and new business leadership. The true interests of capital, seeking opportunity for profitable investment, like the interests of agriculture and labor, lie in balanced abundance.

It is my belief that business management and investors both have everything to gain from a sound working relationship between agriculture and labor. If business management is willing to produce and sell at prices which with full production will return a reasonable yield on the capital invested, and if investors are willing to put their funds into use at moderate interest rates, they will find wide markets for their products and effective use for their funds. The more effectively farmers and labor cooperate to expand production, the wider will be the opportunities for industry as a whole. Yes; there will be plenty of work for all capital which is willing to accept a fair return as soon as labor,

capital, and agriculture really understand each other and start pulling together to turn out more goods in such a balanced way that there will be no serious set-backs.

As we consider the absolutely vital functions of capital we should all remember that there are a number of capitalists who are capable of lifting their eyes higher than the problem of profit to the general welfare considerations involved in getting new industries started in a sensible way. Capitalists with vision should not be blamed for the abuses practiced by the others. Of course there are certain abuses which are inherent in any system of maturing capitalism with which we must wrestle courageously in order to keep capitalism from destroying itself. Insofar as we have set our hand to that task, I hope the utmost of good feeling will characterize all our efforts and that the flow of private capital into productive investment will be encouraged. The time is now rapidly approaching when the general public will demand that labor, capital, and agriculture spend less of their energy in a struggle for relative advantage and more of their energy in devising constructive cooperative ways to increase the national output. We have the inventive ability, the factories, the workers, the farmers, to take care of all of our people in marvelous fashion. Capital, labor, and agriculture cooperating can do the job.

STATEMENT BEFORE THE INTERSTATE COMMERCE COMMISSION JANUARY 18, 1938, ON
THE DEPENDENCY OF THE RAILROADS ON INCREASED INDUSTRIAL PRODUCTION

The only short-time policy which can mean real health for the railroads is one which means real health for the construction, manufacturing, mining, agricultural, and all other industries that supply the railroads with volume. I believe that steps can be taken to bring about a rapid restoration of business activity and production through our productive system and a rapid restoration of employment and production. I believe the railroads might effectively cooperate with the industrialists and other groups that are now trying to devise ways and means for getting construction and industrial activity revived. Such means can bring profits to the railroads at the same time it brings profits to all other industries.

LETTER TO SENATOR BYRNES, CHIEF OF SENATE COMMITTEE TO INVESTIGATE
UNEMPLOYMENT AND RELIEF, JANUARY 12, 1938

From speech January 3, 1938:

"Farmers, workers, and businessmen all suffer when investment varies widely from time to time, and when steel and other durable-goods industries fluctuate erratically between frantic attempts to fill orders at one time and almost complete stagnation at others. When new investment, or even the expenditure of depreciation reserves for repairs and replacements, is checked by business uncertainty or fright, or by investors' fears, business activity, industrial pay rolls, and the demand for farm products collapse together. It doesn't do either labor or agriculture any good to scarce capital; instead, they must all find ways to work together. Means must be worked out so that repairs and depreciation can be made good, and new plants created, more evenly year after year, instead of all in a lump when times seem good. Cooperation between farmers and workers is needed for expanding production, and cooperation of both with businessmen and investors is needed to create a steady flow in the creation of durable goods. If this problem can be solved, much of the extreme ups and downs of the business cycle may be smoothed out."

ADDRESS AT JACKSON DAY DINNER, MINNEAPOLIS, MINN., JANUARY 7, 1939, ON THE
CHALLENGE TO THE WEST

In the future there will probably always be greater Federal expenditures than was the case previous to 1930, but we all hope the day will soon come when private financing will increase and Government financing will decrease. Both the art and science of government in the years immediately ahead will center in considerable measure around the problem of bringing about this transition as rapidly as possible but without shock.

Rooseveltian democracy has learned and is learning more completely than any party has ever done, the need for agriculture, labor, and capital to pull continuously together in a balanced way for the service and welfare of all the people. We are determined to serve the farmers, the workers, the small businessmen and the underprivileged. We know that if this is done in terms of increased balanced abundance the larger businessmen will take care of themselves and will prosper along with the rest. We want to cooperate with capital to keep it continuously productive. Our program is one of unity in the service of the general welfare.

REMARKS AT FIRST OF A WEEKLY SERIES OF BROADCASTS ON DEMOCRACY IN ACTION, DESCRIBING FEDERAL PARTICIPATION IN THE WORLD'S FAIR, PRESENTED OVER NATIONAL BROADCASTING CO., FEBRUARY 5, 1939

I do not mean that the Government produces and distributes the food, but I do mean that it must see to it that the conditions are such that production and distribution and consumption can continue in behalf of the general welfare.

The farmer's job is of course only one complicated step in the total process of feeding those 2,000,000 residents of Manhattan Island. The processor, the distributor, and the retailer usually have functions to perform before the consumer can eat.

Modern distribution has done two great things. It has banished distance, and has just about banished season. The entire country's food resources are available now at the consumer's door, no matter where or how large the city.

ADDRESS AT THIRD ANNUAL NATIONAL FARM INSTITUTE, DES MOINES, IOWA, FEBRUARY 18, 1939, ON HOW AGRICULTURE, INDUSTRY, LABOR, AND GOVERNMENT CAN WORK TOGETHER FOR A \$100,000,000 INCOME

I believe it is just as important for government to follow stable and well-considered spending and investment policies for productive and social purposes as for private business to do so. That means, first, Government activities ought not to be suddenly curtailed without regard to the effect on the course of business. But since budget considerations make it impossible for government to match in full the outlays that private business normally makes, it means, second, the sensible thing would be to encourage private capital and get it to flowing as it ought to flow. Can agriculture, industry, labor, and government agree on these two principles? If they can, then why not declare a truce and call off the argument and concentrate on doing the job that needs to be done? We must carry out both principles. We must maintain government activity as long as necessary. And we must encourage private capital to go back to work. That is the sound way, and the only sound way, to get the increase in business activity and national income which will increase Government revenues, decrease Government expenditures, and achieve the balanced Budget which all of us so earnestly desire. The Nation needs more business, and that should be our first goal.

REMARKS BEFORE MEETING OF THE FOOD AND GROCERY CONFERENCE COMMITTEE, WASHINGTON, D. C., MARCH 13, 1939

All of us in Government appreciate the way in which the members of the trade groups have worked with us on this important problem (food stamp plan). We rely upon your cooperation, including increasingly effective methods of merchandising, to make this plan successful. In turn you can rely upon the necessary cooperation of Government agencies. It is only through united effort that we can find the way to plenty.

I have been continually delighted with the reports of the mutually fine attitude displayed by the representatives of the different groups. Having confidence in each other, they have got down to work on the mechanical details in a very effective way. The food trades, I am confident, are going to do their very best to do a real job of moving the surplus in the selected cities in such a manner as to demonstrate real efficiency to the public.

ADDRESS AT ANNUAL JEFFERSON DINNER SPONSORED BY NATIONAL DEMOCRATIC CLUB AT COMMODORE HOTEL, NEW YORK, APRIL 22, 1939, ON PROGRESSIVE DEMOCRACY AND THIS CHANGING WORLD

Jefferson tried to get an amendment to the Constitution to prevent corporations from being formed. I am sure if he could see the way in which corporations and labor unions are serving the people in the cities today, he would be eager to have agriculture served by compensating devices and organizations, democratically administered. The businessmen of the wholesale and retail grocery trade have unanimously indorsed this (food stamp) plan and are taking the lead to make it work to the greatest advantage of all. Through this plan we hope to help farmers dispose of more of their surpluses, give low-income groups in the cities better nourishment and better health, and bring to business more volume. If successful and if applied on a wider scale, this plan will be a three-way contribution to the general welfare.

In this job of rebuilding, an essential role must fall to businessmen. This twentieth century is a machine age, and a machine age is an age of business. American life as we know it centers largely around business, and without the constructive leadership of businessmen, cooperating with the constructive leadership of agriculture, the constructive leadership of labor, and the constructive leadership of government, the general welfare cannot be adequately served.

It would be a splendid thing if businessmen themselves would take the initiative in setting up machinery that would help guide business toward increased production, employment, and distribution. Insofar as businessmen succeed in this effort, farmers and workers will share in the increased prosperity of a balanced, continuing abundance.

ADDRESS AT BANQUET FOR EIGHTY-SEVENTH ANNUAL CONVENTION OF DISTRICT GRAND LODGE I OF B'NAI B'RITH AT HOTEL ASTOR, NEW YORK (BROADCAST BY BLUE NETWORK, NATIONAL BROADCASTING COMPANY), MAY 21, 1939, ON AMERICA THE LAND OF OPPORTUNITY

The existing physical needs make America a land of opportunity right now for men with training and experience in the investment field. The wise investor does not wait for a high tide of business before he goes ahead, for he knows that by that time the best opportunities are gone. The wise investor puts his capital to work when business is just starting on its upward curve. By his boldness, he helps make jobs for idle men, and he helps create business for all. At the present time the greatest opportunities are open to those who can make the right combination of labor, capital, management, and the democratic powers lent by Government.

There is always room for a difference of opinion on details, but it seems to me the national recovery program sponsored by President Roosevelt deserves all the cooperation that the whole country can give. We can never get full recovery unless everyone—including the leaders of industry, the leaders of labor, the leaders of agriculture, and the leaders of government—are willing to put their shoulders to the wheel.

ADDRESS AT LUNCHEON OF RETAILERS' NATIONAL FORUM AT MAYFLOWER HOTEL, WASHINGTON, D. C., MAY 23, 1939, ON THE AGRICULTURAL SURPLUSES

The question is, Can the distribution system be improved? Yes; I think it can. I think it is being improved. I think the Federal Government and the various State governments are helping distributors to improve their methods—but to be fair, we must recognize that, after all, the men in the distribution business are in the best position to do the improving, and that valuable improvements have been made and are being made within the distribution system itself.

Execution of this plan is largely in the hands of retailers themselves. Its success or failure largely depends on their diligence. If the plan succeeds, it will be because you and your associates make it succeed. I feel sure that all of you here who have anything to do with the plan will see to it that it has a fair test, that you will give it your loyal cooperation and your determined support. I feel sure that you will do your very best to make the stamp plan work.

When capital is flowing and employment is increasing, purchasing power will be more widely spread. When these things come to pass, then the retailers will truly be able to serve the masses of the American people. When mass distribution is accomplished, mass production can be unleashed and the American people can enjoy to the full the abundance which Nature's generosity and man's ingenuity have combined to bring about.

I know the retailers of America are eager to see business, labor, agriculture, and government cooperate together to do a larger volume of business. I believe that, international affairs permitting, we are going to do more business.

ADDRESS AT DINNER OF THE DEMOCRATIC PARTY IN MILWAUKEE, WIS., JUNE 17, 1939, ON PROGRESSIVE FOUNDATIONS THAT CAN ENDURE

The job of stimulating private investment, so that the building of factories and production of articles to be sold to consumers can be kept in balance with each other and with the needs of the American people, is perhaps the principal task which now confronts us.

This job cannot be done—or at least is not being done—by business operating by itself. Neither can it be done by government operating by itself, unless we are willing to go to a system of state capitalism. Under our American system this is a job which must be undertaken by business, with whatever government aid is needed to assure success. Doing this job will give us the kind of foundation we need if our progressivism is going to endure.

ADDRESS AT STATE UNIVERSITY OF IOWA, IOWA CITY, IOWA, JUNE 23, 1939, ON PILLARS OF FUTURE DEMOCRACY

Capitalism is based on the idea of putting money to work at a profit. A healthy capitalism requires an expanding frontier of some kind. This frontier doesn't have to be land, but it may be some new method of production. Vital capitalism, therefore, must have in it the idea of progress. It must either be in position to exploit a new physical frontier, or it must give the utmost attention to new scientific discoveries or inventions which promise to minister to the human desires of the future.

The capital for loan was held more or less informally by thousands of individuals. The corporate capitalism of the twentieth century is undoubtedly more efficient in producing steel than the individual capitalism of the early nineteenth century. Corporate capitalism has made it possible for millions of people to pool their resources, to produce products which would be difficult or impossible for any one individual, no matter how wealthy, to produce at a reasonable cost. A certain amount of corporate capitalism is undoubtedly in the line of progress. Without it, we could not have built our railroads and factories so fast. As long as the corporations were borrowing money from the public and spending it to build railroads, public utilities, or factories under the guidance of the early captains of industry, it seemed that democracy was probably being helped rather than harmed by corporate capitalism.

RADIO ADDRESS OVER COLUMBIA BROADCASTING SYSTEM, SEPTEMBER 8, 1939, ON FARMERS, CONSUMERS, AND MIDDLEMAN AND THEIR FOOD SUPPLIES IN TIME OF WAR

I am confident that the men who are responsible for the operations of the sugar mills as well as our domestic growers of sugar beets and sugarcane know from sad experience that it doesn't do anyone in the sugar business any good to have wide fluctuations in sugar prices based on nothing more than hoarding and speculative activity. These men who have cooperated earnestly with the Department during the past few years in endeavoring to stabilize returns for producers and processors would undoubtedly join in advocating that kind of stability in sugar prices which will best insure justice to the farmers and justice to the consumers.

It is time now to settle down calmly for the long-time pull. Certain readjustments are necessary, of course, but there is no reason why we cannot make them in a common-sense way without getting alarmed. There is no basis whatever for alarm as far as food is concerned. I am convinced that farmers, processors, wholesalers, grocers, and labor are going to do the patriotic thing. They are going to stand for abundance and a fair relationship between prices and services of different sorts. All of them will be against unjustified price advances. None of us wants again to invite frenzied expansion and tragic collapse. By counselling together we can avoid such a disaster.

ADDRESS AT ANNUAL JACKSON DAY DINNER AT DES MOINES, IOWA, JANUARY 8, 1940, ON THE FIGHT FOR DEMOCRACY IN 1940

The vast majority of businessmen are honest. Government should, so far as possible, encourage them in their legitimate endeavors. They are the men who pay a large part of the Federal income taxes and who pride themselves on furnishing jobs for laboring men and markets for farm products.

ADDRESS, SEPTEMBER 19, 1940, ON THE PRICE OF FREEDOM

Practical businessmen and engineers are beginning to think through the joint obligation of government and business toward maintaining full employment and economic stability, and the powers that might be placed at the disposal of government and business to mitigate the fluctuations of the business cycle. New opportunities for thought and action are available in the new frontiers of social-economic engineering to businessmen, engineers, educators, and young people seeking ways to serve the Nation.

ADDRESS IN CADLE TABERNACLE, INDIANAPOLIS, IND., SEPTEMBER 23, 1940, ON DEMOCRACY AND CAPITALISM

The substance of democracy that I want to see handed down to my children is a democracy that meets the ideals and protects the interests of the vast majority of Americans—of farmers, of workers, of small businessmen, and of those big businessmen whose great power is matched by good judgment, fairness, and responsibility to the general welfare.

During all this long struggle, we Americans have been trying to protect capitalist business, which includes agriculture, against the growing powers of high finance. There is a difference between business and finance, which some people sometimes try to make you forget. Capitalist enterprise is a familiar process of producing and selling food, clothes, automobiles, and other useful goods and services.

There are plenty of legitimate businessmen in the utility business. They are to be found in most of the operating companies, doing the actual work of managing the generation and distribution of electricity. The engineering achievements of the industry are a testimony to the fact that in the works there are real producers who know and care about production. They are not the ones who lack knowledge or business judgment, if only they were free to exercise their talents.

ADDRESS AT DETROIT, MICH., OCTOBER 24, 1940, ON LABOR AND JOBS

You all know what a real or working businessman is. He runs a store or a factory. He buys materials, hires workers, sells goods. He may be a success or a failure, but at least he knows what it means to struggle with the real everyday problems of producing and selling. The New Deal has no quarrel with real businessmen.

RADIO ADDRESS ON EIGHTY-SIXTH ANNIVERSARY OF BIRTHDAY OF WOODROW WILSON, UNDER SPONSORSHIP OF WOODROW WILSON FOUNDATION, AMERICAN POLITICAL SCIENCE ASSOCIATION, AND AMERICAN HISTORICAL ASSOCIATION, DECEMBER 28, 1942, ON AMERICA'S PART IN WORLD RECONSTRUCTION

When the war is over, the more quickly private enterprise gets back into peacetime production and sells its goods to peacetime markets here and abroad, the more quickly will the level of Government wartime expenditures be reduced. No country needs deficit spending when private enterprise, either through its own efforts or in cooperation with government, is able to maintain full employment. Let us hope that the best thought of both business and government can be focused on this problem which lies at the heart of our American democracy and our American way of life.

The war has brought forth a new type of industrialist who gives much promise for the future. The type of business leader I have in mind has caught a new vision of opportunities in national and international projects. He is willing to cooperate with the people's government in carrying out socially desirable programs. He conducts these programs on the basis of private enterprise and for private profit, while putting into effect the people's standards as to wages and working conditions. We shall need the best efforts of such men as we tackle the economic problem of the peace.

Maintenance of full employment and the highest possible level of national income should be the joint responsibility of private business and of government. It is reassuring to know that business groups in contact with government agencies already are assembling facts, ideas, and plans that will speed up the shift from a government-financed war program to a privately financed program of peacetime activity.

[From American Magazine, March 1943]

WHAT WE WILL GET OUT OF THE WAR

The American businessman will rise to the challenge of the air age, to the challenge of the new frontier, to the infinite possibilities for development not only in our own country, but in the tropics and in Asia. Just as he has cooperated with Government in time of war to build planes for the saving of civilization, so likewise will he cooperate with Government to make air power the preserver of civilization.

More and more, everyone will recognize that business, labor, agriculture, and Government have just one job in their four-way partnership: To lead the common man to full employment, a higher standard of living, and a peace which will be permeated by the exciting spirit of new frontiers. The creative businessman of the future will recognize that, while Government will play a large part in opening up these new frontiers, the Government activity will be such as not to reduce but to increase the field for private initiative. Better Government organization and more individual drive will go hand in hand.

In serving the common man, the business leader will have opportunities for initiative such as he never dreamed of before.

ADDRESS BEFORE MEETING OF DETROIT LABOR AND CIVIC ORGANIZATIONS AT THE STATE FAIRGROUNDS, DETROIT, MICH., JULY 25, 1943, ON "AMERICA TOMORROW"

If industrial management can bring the same wisdom in producing for peace that it has shown on many production fronts in the supply program for war, the horizons we face are bright. We have witnessed many evidences of industrial statesmanship, of cooperation with labor to increase production and cut costs. In hundreds of industries the war has demonstrated that management and labor can be friends in the service of the Nation.

[From Saturday Evening Post, October 23, 1943]

WE MUST SAVE FREE ENTERPRISE

Capitalism throughout the world, and even in our own country, has often been the object of derision. Not its inherent faults but its misuse has been the underlying reason for this attitude. Considered in its essentials, however, capitalism can be the most efficient system of organizing production and distribution on principles of freedom and equal opportunity yet devised by man. It should not, as many radical reformers have suggested, be uprooted. It should be modernized and made to work. Indeed, it must be made to work if we are to maintain the foundations of those things which we believe to be the essentials of American society. The chief trouble with capitalism has been the perversion of its instruments and their misdirection by small, powerful, privileged groups for purposes they were never intended to achieve.

The system of free enterprise is based upon the willingness of the businessman to accept risk. As technology grew, as our economy expanded, and as large-scale production came to dominate the economic process, the individual found it impossible to undertake such huge ventures alone. To fill this need, the corporation had the soundest reasons for coming into being. Every new corporation enabled numbers of men to pool their resources and to carry out a venture beyond the means of any one of them. Economic teamwork—yet fully within the framework of competition—was the genesis of the modern corporation. To the corporate form of organization must go much of the credit for the speed with which new industries were founded, railroads were built and a continent opened up to the American people.

Risk taking was an essential of the free economy. Because a corporation limited the liability of the individual and spread the possible losses, and as destined to become the principle means of attracting venture capital. It encouraged the businessman and the investor to assume the risk of developing new industries. As an elastic, flexible association of risk takers, the corporation was ideally fitted to bring forth new goods and services and to create going concerns. Without the use of the corporate form, the emergence of the railroad, the telegraph and telephone, the automobile and the radio, the large-scale distribution of electric power, to say the least, would have been delayed. Viewed from this perspective, the developments of the nineteenth and twentieth centuries have proved the social and economic importance of the corporation.

It is clear that the corporation and the patent system were major factors contributing to the growth of modern America. The patent system gave to the little man with the big idea an unparalleled opportunity to utilize his creative imagination and to risk his limited resources in a game where the rewards of success were great and where his own gain served the general welfare.

It is a hopeful sign when Eric Johnston, the president of the United States Chamber of Commerce, can say in the September Reader's Digest:

Then there is a people's capitalism. I come from it. I want to see it survive for every poor boy and girl in America after me. And not only survive but triumph. Only America, I think, can light the world toward an ultimate capitalism of everybody.

What happens when the little man with the big idea is able to fight the forces of special privilege and power which attempt to strangle him is shown clearly in the development of the automobile industry. The saga of the American automobile industry is one of the proudest chapters in the history of free private enterprise. The importance of this industry to our well-being is readily apparent.

The rebuilding of a war-torn world, the development of new trade routes and new markets, and the endless stream of discoveries which flow from our laboratories will be new frontiers. To the hardy, to the venturesome—in short, to the American businessman with the pioneering spirit—the chance for reward and the promise of useful and fruitful action for the release of those energies which have characterized him are an open road. There will be the greatest need for cooperation between business, labor, agriculture and Government. There will be obstacles. There will be discord and disappointments.

But none of these hurdles is so great that it cannot be surmounted if American business lives up to its responsibilities.

Primarily, the task of reemployment is the responsibility of businessmen. It is a responsibility which they can meet only if enterprise is free to develop and extend the new lines of industry as well as the presently existing enormous plant capacity.

To aid business in carrying out this responsibility, the existing plants constructed by the Government for the war effort should not fall into disuse. Neither should they become part of the philosophy of planned scarcity which is implicit in monopoly control. So far as practical, they should be turned over to private business and become part of our free private-enterprise system. Why not, for instance, lend-lease these plants to those American businessmen who are free of monopoly association and willing to engage in full production? Such men are entitled to encouragement and should be given every incentive to produce.

STATEMENT BEFORE ANNUAL CONVENTION OF NATIONAL CONGRESS OF INDUSTRIAL ORGANIZATIONS, AT BELLEVUE-STRAFFORD HOTEL, PHILADELPHIA, PA., NOVEMBER 3, 1943

The fourth duty of the farmer and worker is to see that capital is fairly treated, that the man who risks his name and credit may get his risk capital returned when he has served well in creating new jobs and needed products. Otherwise stagnation and joblessness will increase; otherwise there can be no growth of new enterprise or free enterprise. Free enterprise must not be made a mockery by big enterprise. In the backwash of war the small businessman must not be washed out.

STATEMENT BEFORE SUBCOMMITTEE ON WAR MOBILIZATION OF THE SENATE MILITARY AFFAIRS COMMITTEE, OCTOBER 14, 1943

I welcome this opportunity to support your interest in one of the most urgent problems before the American people today—the full use of our technological resources to win a decisive victory and to build an enduring peace. In our struggle to translate the total capabilities of this Nation into an effective striking force, we have every reason to be proud of the splendid achievements of science, both in industry and in Government. We must realize, however, that in reality we have only begun to marshal the inventive skills and energy of the American people on the scale required for the tasks which lie ahead.

The application of modern science should not be the exclusive domain of great corporations and cartels who can, if they desire, restrict and suppress new inventions and scientific information to suit their own interests instead of the public interest. Unless the little man has access to the bounties of technology, free enterprise will suffer, to the detriment of full employment of labor and our resources.

ADDRESS BEFORE LUNCHEON MEETING OF COMMITTEE FOR POLITICAL ACTION OF THE CONGRESS OF INDUSTRIAL ORGANIZATIONS, AT PARK CENTRAL HOTEL, NEW YORK, JANUARY 15, 1944, ON FULL EMPLOYMENT

But, fortunately, there are many big businessmen who believe wholeheartedly in allied unity in just the same way as the President. They believe in unity both for the war and for the peace. They want to see an enduring peace based on a higher standard of living and a growing volume of world trade and therefore believe in the good-neighbor policy, not only between the United States and Latin America but also between the United States and the other United Nations in the post-war period. These businessmen do not finance anti-Semitic movements or American Fascists. They believe in clean, aggressive competition in foreign markets. They may fight Roosevelt on his domestic policies, but in the main they do it fairly. If the common man has to choose between these two big business groups, there is no question as to where his interest lies.

ADDRESS GIVEN IN LOS ANGELES, FEBRUARY 4, 1944, ON WHAT AMERICA WANTS

Some of the businessmen who most want to serve the world in the post-war period are probably those who have rather recently graduated from the ranks of the small businessmen into handling large affairs in the war effort. Because of his unusual capacity, this kind of man has made large sums of money during the war but has paid nearly all of his profits to the Government. He will come out of the war with large plant facilities. He wants to know how to reconvert as fast as possible. His success has often depended largely upon his fine relationship with labor. Appreciating the loyalty of labor, he wants to give his workers jobs in the post-war period, not so much from the standpoint of making money as from the standpoint of doing things both for his workers and for his country. Such men are in some ways the hope of America and the world.

SPEECH GIVEN AT PLANKINTON HALL, CIVIC AUDITORIUM, MILWAUKEE, WIS., FEBRUARY 11, 1944

Full employment involves governmental cooperation, whether it be in war or peace. When I speak of governmental cooperation producing additional jobs, I am referring to the free enterprise job opportunities which flow from the creation of such national assets as airfields, housing projects, schools, hospitals, T. V. A.'s, good roads, and other public works. No single firm, no local government, no single group, can provide activities of this sort in sufficient volume to save us from joblessness. Only by democratic, cooperative planning between government and the various groups and regions can there be provided sufficient activity to create for private business the additional jobs which are needed to save our free-enterprise system. Free enterprise and joblessness cannot long exist side by side in the same nation.

SPEECH AT MEETING SPONSORED BY DEMOCRATIC, CIVIC, AND LABOR GROUPS OF MINNEAPOLIS AT MINNEAPOLIS, FEBRUARY 14, 1944

The development of regional capital markets is a task for local business and financial interests. Here is an opportunity for small investment banking houses and security dealers to expand their services in behalf of local industry. Here is an opportunity to reduce the cost of financing so as to encourage the growth of regional enterprises which will ultimately develop into more financing.

Investment in the development of regional economies will require venture capital rather than the timid capital which seeks safety in the bonds of established enterprises. Federal legislation has done much to relieve those who would invest venture capital of the unnecessary risks that attach to fraudulent financing. A revision of our tax laws can provide further incentives to invest in the common stocks of new enterprises.

The development of regional economies within a full-production national economy will open a new era in American history. New opportunities for employment, for capital investment, for enterprise, will be the first effects. The use of new natural resources, plus the fuller employment of labor and capital, will mean enlarged production, both regionally and nationally. A balanced regional development will provide increased stability for business and the foundation for a new post-war American standard of living.

ADDRESS BEFORE THE AMERICAN BUSINESS CONGRESS AT WALDORF-ASTORIA HOTEL, NEW YORK (BROADCAST OVER LOCAL STATIONS), MARCH 17, 1944

Free enterprise means that each and every industry is open to new capital and new firms, that all business has free access to raw materials, to labor, to technologies; that producers have free access to the markets in which they buy and sell; that all individuals, in accordance with their varying abilities and irrespective of color, race, and creed, have equal opportunity to work at their chosen jobs.

In the tasks assigned to them during the war small businessmen have done a magnificent job. It will be even more important that small business continues to function when reconversion begins—that adequate resources are then available to permit them to participate in this great task. Small businessmen have always been the foundation of our American economic system—it is vitally important that they continue as producers and distributors in our American system.

ADDRESS UNDER THE AUSPICES OF THE INDEPENDENT CITIZENS COMMITTEE,
PITTSBURGH, PA., SEPTEMBER 30, 1944

Tonight I want to talk about your community here in Greater Pittsburgh, because this area is a symbol of so much of America's industrial greatness—her power in coal, iron and steel, oil, railroads, glass, aluminum, and electrical equipment. Pittsburgh has been the beating heart of America's vast development since 1860. Pittsburgh boomed during the Civil War and the railroad expansion which followed that war. She boomed again during World War No. 1 and enjoyed the tremendous stimulus which came to heavy industry as a result of the rapid growth of automobile construction during the twenties. Today we stand on the threshold of another post-war era following upon a time when Pittsburgh has made a greater contribution many times over to the American war effort than ever before in American history. Tomorrow, as in the past, Pittsburgh will be the barometer of the Nation's success in building prosperity for all Americans in the post-war period.

We are not going to have a planned economy in the United States, but we must plan for our economy in peace just as we did in war. We are not going to have a planned economy, because that means that everything is done from one central spot by one group of people. But we do need specific plans in every city, in every industry, in every State, and coordination of these plans on a national basis. When I visited with the mayors, the chambers of commerce, and the members of the Committee for Economic Development in many eastern cities, I found them doing excellent work. But nearly everywhere I found them thinking just a little too much in terms of an outmoded normalcy and not enough in terms of the truly great abundance which we must have if we are to have full employment. An abundance program for our economy should be based on the needs of the average American family.

(Whereupon, at 4:12 p. m., the committee retired into executive session.)

X

January 26, 1945

Dear Will:

I am enclosing herewith a very confidential memorandum which I gave to the President. I also gave a copy of it to the Secretary of State.

I would be glad to discuss this proposal with you at any time.

Sincerely yours,

(Signed) Henry

The Honorable William L. Clayton,
Assistant Secretary of State,
State Department,
Washington, D.C.

X - Held Indefinitely

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Jan 10, 1945

MEMORANDUM FOR THE PRESIDENT

A \$10 Billion Reconstruction Credit for the U.S.S.R.

I suggest consideration be given to a financial arrangement with the U.S.S.R. to provide her with \$10 billion credits for the purchase of reconstruction goods in the U.S., with provision for repayment to us chiefly in strategic raw materials in short supply in the U.S.

1. The interest rate could be 2%, amortized over a period of 35 years. A schedule of repayments is attached.

2. The Russians have more than adequate means to assure full repayment. There are three principal sources from which she can obtain the necessary amount of dollars.

(a) Selling to us strategic raw materials which are in short supply in the U.S. because of our depleted natural resources. (See attached memorandum)

(b) Russia will be able to develop substantial dollar assets from tourist trade, exports of non-strategic items to the U.S., and from a favorable balance of trade with the rest of the world.

(c) Russia has a stock of gold estimated at \$2 billion now and is reported to be able to produce from \$150 to \$250 million per year. These gold resources can be used to pay her obligations to the United States to the extent that her other dollar sources are not adequate.

3. An important feature of this proposal is that we will be conserving our depleted natural resources by drawing on Russia's huge reserves for current needs of industrial raw materials in short supply here. We would be able to obtain a provision in the financial agreement whereby we could call upon Russia for whatever raw materials we need without giving a commitment on our part to buy.

4. This credit to Russia would be a major step in your program to provide 60 million jobs in the post-war period.

hdw;hg;afl;jed;sg;rl 1/10/45

Regraded Unclassified

Conservation of U.S. Natural Resources and Imports from the U.S.S.R.

The U.S. has had to draw heavily on domestic raw material reserves during the war to meet peak production requirements. The following table prepared from some recent confidential reports for the Under Secretary of Interior discloses the depleted natural resources of the United States, and emphasizes the need for conservation measures.

Reserve Domestic Supplies

	<u>On Basis of our 1939 Domestic Consumption</u>	<u>On Basis of our Current Consumption 1943</u>
Petroleum	16 years supply	13 years supply
Manganese	9 " "	3 " "
Tungsten	23 " "	3 " "
Zinc	17 " "	8 " "
Lead	7 " "	6 " "
Chrome	No record	Less than 1 year's supply
Mercury	3 years supply	

We could safeguard and conserve our strategic material reserves in post-war years which are now at minimum levels, by importing from abroad to meet ordinary annual production requirements. The U.S.S.R. has tremendous reserves of many materials which the U.S. will urgently require after the war. A reconstruction loan to the U.S.S.R. will give us the means whereby we can conserve our own natural resources for the next two generations, by utilizing Russian reserves. The U.S.S.R. could provide substantial quantities of strategic raw materials for an annual basis within five years after the close of the war as indicated in the following table.

Metals and metallic ores (Manganese, Tungsten, graphite, mica, chrome, mercury, iron ore, platinum, copper)	\$80,000,000
Timber and wood products	45,000,000
Petroleum	50,000,000
Oils and oilcake	10,000,000
Other industrial raw materials	<u>15,000,000</u>
Total	\$200,000,000

Repayment Schedule for Advance of \$10 Billion
Credit for 35 Years at 2 Percent 1/

(Millions of Dollars)

Year	Scheduled Expenditure	Annual Interest	Annual Scheduled Repayment	Unpaid Balance At End of Year
1	1,000	20	0	1,020
2	2,500	70	0	3,590
3	3,000	132	0	6,722
4	2,500	184	100	9,307
5	1,000	206	150	10,513
6		210	200	10,523
7		210	250	10,484
8		210	300	10,393
9		208	350	10,251
10		205	400	10,056
11		201	400	9,857
12		197	400	9,655
13		193	400	9,448
14		189	400	9,237
15		185	500	8,922
16		178	500	8,601
17		172	500	8,273
18		165	500	7,938
19		159	500	7,597
20		152	500	7,249
21		145	500	6,894
22		138	500	6,532
23		131	500	6,162
24		123	500	5,785
25		116	600	5,301
26		106	600	4,807
27		96	600	4,303
28		86	600	3,789
29		76	600	3,265
30		65	600	2,730
31		55	600	2,185
32		44	600	1,629
33		33	600	1,061
34		21	600	483
35		10	492	
		4,691	14,842	

1/ This schedule is a basis for negotiation.

January 26, 1945

My dear Lieutenant Putzell:

I have received your letter of January 23rd, enclosing copy of a letter from General Spaatz to General Donovan, and also your letter of January 24th, enclosing a radio-telephone message from your representative in Bern. I appreciate your forwarding this information to me.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Lieutenant (j.g.) Edwin J. Putzell, Jr.,
Assistant Executive Officer,
Office of Strategic Services,
Washington, D.C.

SECRET

OFFICE OF STRATEGIC SERVICES
WASHINGTON, D. C.

237
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23 January 1945

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

My dear Mr. Secretary:

Upon returning to my office from your very enjoyable luncheon, I find a letter from General Spaatz to General Donovan, dated 16 January 1945, a copy of which is enclosed. It may be of interest to you.

As the letter indicates, personnel of our organization has, for an extended period, been working with the Strategic Air Forces in the systematic selection of bombing targets in Germany and in analysis of damage done.

On behalf of Dr. Langer and all of his associates, permit me to express our appreciation for the instructive and enjoyable meeting we had with you and your men today.

Respectfully yours,



Edwin J. Putzell, Jr.
Lt., (j.g.), USNR
Assistant Executive Officer

Enclosure

SECRET

SECRET

16 January 1945

Major General William J. Donovan
Office of Strategic Services
Washington, D. C.

AM

Dear General Donovan:

I would like to express to you my appreciation of the material aid which the Office of Strategic Services and its sub-section have rendered to the United States Strategic Air Forces while operating in this theater of war. This appreciation is enhanced by numerous reports made to me by my Staff Officers, who have profited continually by their valuable contacts with your service organization.

It would seem unfair to single out any particular aid which the Office of Strategic Services has extended to the United States Strategic Air Forces. However, I would like to stress that the wealth of timely assistance given to us by your sections dealing with the periodic condition of the various German industrial complexes has been of tremendous value. We have made use of intelligence given to us by men of your organization time and time again in our target work, and it is sincerely hoped that the type of services which are presently being rendered by your sections dealing with these matters will not end with this War, but will continue to develop throughout the future of our country.

Your generosity in allowing the United States Strategic Air Forces to utilize experienced analysts has made for a well rounded program and has enabled our Intelligence and Operational Directorates to feel a certain confidence in their decisions which might have been lacking without this assistance.

Sincerely yours,

CARL SPAATZ,
Lieutenant General, U.S.A.,
Commanding.

COPY

SECRET

Regraded Unclassified

RESTRICTED

OFFICE OF STRATEGIC SERVICES
WASHINGTON, D. C.

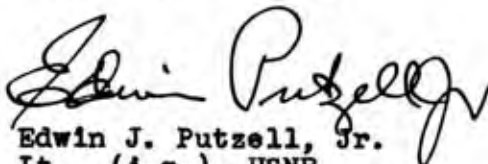
24 January 1945

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

My dear Mr. Secretary:

I thought that the attached radio-
telephone message from our representative in
Bern might be of some interest to you.

Respectfully yours,



Edwin J. Putzell, Jr.
Lt., (j.g.), USNR
Assistant Executive Officer

Attachment

RESTRICTED

OFFICE OF STRATEGIC SERVICES

OFFICIAL DISPATCH

DATE: 22 January 1945

#270

FROM: Berne		HBG	PRIORITY
TO: DIRECTOR, OFFICE OF STRATEGIC SERVICES			ROUTINE
			DEFERRED
DISTRIBUTION			
(FOR ACTION)		(FOR INFORMATION)	

RECEIVED IN PLAIN TEXT

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GERMANY

The question is generally being asked here whether the Russian offensive will bring about the collapse of organized German resistance, or whether Germany will be able to organize for another stand. The loss of Silesia would certainly be a serious blow, but it is extremely difficult to understand German military dispositions except on the theory that the Germans still have confidence in their ability to halt the Russians well short of Berlin. Otherwise, why did the Germans keep troops fighting in North Italy, in the Balkans, in Norway, in Denmark? And why do they still engage in offensive action in strategically secondary, even if politically important, areas, such as Alsace? The fury of the Russian offensive may well have surprised the Germans, but not the fact that a great offensive was in preparation.

The vigorous defensive and offensive tactics in the West might, of course, be explained as being a decision on the part of the Nazi leadership to hold at all costs in the West, even at the risk of a breakdown in the East. This is probably an over-simplification of the situation. However, as previously indicated, I am inclined to feel that many of the high Nazis, despite their fear and hatred of Russia, would prefer to see the Russians first in Berlin rather than the Anglo-Saxons. I believe this view is also shared by many in the German Army. Russian policy towards Germany has been more subtle and psychologically more effective than our own. The use which the Russians have made of their captured German generals has had some effect. They have not talked very much about what they plan to do with Germany except insofar as the punishment of criminals is concerned, and it is a natural tendency of all human beings, shared by many high SS officials, to believe that, in one way or another, they will avoid inclusion on the list of criminals.

It is most unlikely that the Germans now nourish any illusion that they can make a separate deal with Russia prior to German military collapse. On the other hand, many Nazis believe that there are similarities

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OFFICE OF STRATEGIC SERVICES

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OFFICIAL DISPATCH

REF. No. 270

FROM Berna

TO DIRECTOR, OFFICE OF STRATEGIC SERVICES

RECEIVED

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between the National Socialist and the Communist movements; that the National Socialist movement can be shifted to the Left and communized; and that, after the collapse, they, the SS in particular, will find it easier individually to work out their future with the Russians than with the Anglo-Saxons.

The fact that relatively ^{little} bombing damage has been done by Russia and particularly that Silesia has not been destroyed has considerable effect in turning many Germans towards Russia rather than towards the West. Also, Russia has never been identified with the Anglo-Saxon slogan of unconditional surrender, and this has undoubtedly had some influence on the German people.

The Nazi leaders may also calculate that ^{if} they cannot hold both the eastern and western fronts, their bargaining position may be better if they succeed in holding one front than if both fronts collapse. They possibly hope that Russia would be grateful to them if they succeed in doing this and thereby cause Russian rather than Anglo-Saxon influence to predominate in the first phase of the occupation of Germany. Hence, they may hope to gain some good will from Russia if they keep the American and British forces out of the country until the last possible moment. By this I do not mean that the Germans would deliberately allow the Russians to come in, but merely that, when faced with the fateful choice, they would choose the Russian invader to the American and British.

In view of the discipline of the German Army and the fact that the German generals have rarely, if ever, done any political thinking, the choice, if it is ever consciously made, will be made by Hitler and Himmler and Goebbels and Bormann, and the Army will probably obey.

I do not mean to imply and I do not believe that Hitler would be likely to surrender himself to the Russians under any circumstances. The information we get here locally seems to tend more and more to the theory of a final Nazi withdrawal into the Austrian and Bavarian Alps, with the idea of making a last stand there. This seems more likely than a dramatic attempt on the part of Hitler and the present Nazi leaders to escape by submarine or other modes of flight. Such flight might be attempted by the weaker characters of the Goering class. Hitler will probably seek a Wagnerian end, and Himmler et al. will presumably be with him. The smaller fry among the SS will probably be divided into two groups -- those who might prefer to take a chance with the Russians, and the fanatical ones who will follow Hitler into a mountain retreat. This is all speculation and guesses made here are probably no better, possibly not as good as those made from the perspective of Washington, and the end may not come for some months yet.

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JAN 26 1945

TO: Mr. Collado

FROM: Mr. Glasow

Will you please send the following cable to the American Embassy, Chungking, China:

FOR ADLER FROM THE SECRETARY OF THE TREASURY

The following press release was issued on January 22, 1945 with approval of State and War Departments:

"The U. S. Treasury Department has just completed transfer to the Republic of China of \$210,000,000 in settlement for advances of local currency and for supplies, services and military construction furnished the U. S. Forces in China.

"This excludes certain aid furnished to the United States by the Chinese Government in the form of reciprocal aid.

"A portion of the settlement came from U. S. funds already in China, a portion from funds previously placed to China's credit in the United States and the remainder in the form of a check for approximately \$150,000,000 which Secretary Morgenthau gave to Dr. H. H. Kung here."

EXECUTIVE OFFICE OF THE PRESIDENT
WAR REFUGEE BOARD

INTER-OFFICE COMMUNICATION

DATE January 26, 1945

TO Mrs. Klotz
FROM Miss Hodel

In connection with your recent request for a copy of the reports issued by the British army concerning the German prison camp at Breedonck, Belgium, you will be interested in the attached excerpt from a letter we received from our representative in London, together with the clippings he forwarded from the leading newspaper articles appearing in the British press.

As soon as the report is received from Mr. Mann we shall send it to you.

JH.

Excerpt from a letter dated January 16, 1945, from
James H. Mann, War Refugee Board Representative
in London

"The London newspapers of January 4 carried detailed accounts concerning the British army report of Nazi atrocities in Belgium. I clipped the leading newspaper articles on that date and immediately tried to find the basic reports in question. Thus far I have been unable to get either the report or the photographs. I am informed that such are not available. However, the British Foreign Office has very kindly consented to attempt to obtain these for me. You may be assured that as soon as such reports are received they will be forwarded to you by airmail. In the meanwhile, I am enclosing some of the more important newspaper clippings."

PAPER: NEWS CHRONICLE

NUMBER:

CITY: LONDON

DATE:

JAN - 4 1945

First official British Army report on Nazi atrocities

From S. L. SOLON, News Chronicle War Correspondent

TWENTY-FIRST ARMY GROUP H.Q., Wednesday.

THE British Twenty-first Army Group has issued its first official report on German atrocities. I believe it is the first report issued by any of the British armed forces.

It is a solemn and important document, which deserves the careful attention of every Allied reader, although it is stated "that this report cannot be regarded as exhaustive."

As the report states, "the first thing that strikes one when mentioning German atrocities is the scepticism of the British troops and the British civilians.

"The idea of torture and mutilation is so abhorrent to the British mind that it is not easy to believe that practices which are associated, say, with the Spanish Inquisition could be carried out in the twentieth century by Europeans.

"This paper produces evidence of German atrocities. Whilst it is not easy to find people who bear signs of mutilation, it must be remembered that the worst mutilated people were killed, or died, or were taken off to Germany."

The guilty men

Five German and quisling organisations are held chiefly responsible for the atrocities. They are:

1. The German Security Police—the "Sicherheitspolizei"—of which the Gestapo is a part;
2. The German Army Secret Field Police—the "Geheime Feldpolizei";
3. The German Army Guards;
4. The Flemish and Walloon S.S. in Belgium;
5. The Dutch S.S. in Holland.

Civilian prisoners were beaten, starved, burnt with cigar ends, tortured with special electric instruments, including a hot plate with needle projections, humiliated and degraded in unmentionable ways.

Torture deaths

The part of the report issued today deals primarily with the activities of the Germans at Breendonck.

Executions at Breendonck by shooting and hanging, apart from the "incidental killings" by torture, maltreatment and starvation, run into hundreds. A former employee of the camp told British interrogators that the number executed was at least 350.

Another employee states that to his knowledge more than 500 men died during his stay at Breendonck from March 3, 1941, to March 31, 1944.

About 200 of this number died of maltreatment at the camp. Many more were transported from the camp while they were sick and dying. They are not included in the figure of 500.

I have seen this amazing fortified prison camp from which escape seems impossible.

Some prisoners state that a room known as the "gas chamber" was used as a mortuary and sometimes contained up to 20 bodies.

Naked women beaten

One former prisoner told how German guards would order sick men to lash each other into insensibility for their amusement.

Once, when Flemish S.S. Guards rounded up a number of Jews for shipment to Breendonck, dozens of them were pressed into a train truck which was left for 24 hours.

OUR MEN LEARN ABOUT THE MEN THEY ARE FIGHTING

MONTGOMERY ORDERED TORTURE INQUIRY

These are the horrors he wants you to know

From PAUL HOLT: Western Front, Wednesday

SO shocked was Field-Marshal Montgomery when he first found that the enemy treated civilian prisoners of war with medieval cruelty, that he gave an order for a full investigation of atrocities throughout the area of his command.

Senior officers at his headquarters were removed from their duties to conduct it. Their report is released today.

It is a message from Monty and his Army to all at home, saying: "This is the man you are fighting. Get to know him as we know him."

The atrocities revealed by this cold count of sadism were committed, in main, by the German secret field police against Belgian civilians in the resistance movement and against women who helped British and American airmen to escape.

The discoveries Monty's officers made so sickened them that they fought, they told me, all through the investigation, to check, weed out, discount or disprove all evidence brought to them.

After they had finished, here is a short summary of what they have admitted as evidence.

The report starts with this preamble:

"The first thing that strikes one when mentioning German atrocities is the scepticism of British troops and civilians. The idea of torture and mutilation is so abhorrent.

Torture chamber

"This paper produces evidence of German atrocities. Many of these stories would not have been obtained if two train loads of prisoners, on the way to Germany from Belgium at the beginning of September, owing to sabotage to the engine and damage to the track, had not been left behind by the Germans."

The report continues to give the first full story of the Gestapo torture chamber at Bredonock.

At this fort the Germans built 32 brick cells, 6ft. 6ins. by 4ft. 6ins.

The bed, a wooden board, was lowered at black-out by an iron lever operated from outside, and raised against the wall at 6 a.m. every day.

At this same fort there are six dark cells where no daylight could penetrate. The walls are white-washed. If a prisoner leaned against one the white-wash showed on his clothes and he was thrashed next day by a Nazi army guard.

The prisoners were taken out of the cell for five minutes each day. Before they reached daylight they had a black hood thrown over their heads and were led to latrines.

One room is known as the "gas chamber." It has no window, but two ventilation shafts and a coke stove.

Gassed

Prisoners state that men and women were gassed by the coke stove in this room. Others think that it was used as a mortuary and say that up to 20 bodies were put in there.

The torture chamber is circular without windows. A shallow gutter cuts the stone floor in two and serves as a drain.

In one wall there is an electric point, to which was connected a five-pronged "loasting fork," used to burn the flesh of the prisoners under interrogation.

A pulley on the ceiling was used to hoist by the hands or by the feet some stubborn people who would not give the right answers.

To vary the treatment two sharp wooden triangular blocks, by the gutters, were waiting for the bare feet of the prisoners who, thrashed in mid-air, did not answer and had to be dropped sharply to the ground.

The German secret police guards were also pleased to discover that a clamp for pinning the tail of an aircraft on the ground made a most excellent apparatus for crushing the fingers of a questioner.

That method they favoured with women, who were frequently interrogated naked.

Apart from this modern innovation the report makes clear that the Germans were strictly medieval in their methods.

Cigar butts

They used a cat-o-nine-tails made of cord with split buckshot attached. They burned their victims' flesh with cigar butts.

They had an iron hook they heated in stoves, small enough to drive straight into the flesh when white hot, there to be twisted and withdrawn at leisure.

At another camp the Germans had a small cell with a wooden bunk and two holes in the wall. One let in scalding steam, the other jets of ice water.

For "extra dangerous" prisoners at this camp there were the dark cells with ankle shackles cemented to the wall furthest from the door.

The point of this inconvenience was that the cell door had a little trap-door through which food was pushed. But it had to rest on the ledge of the trap-door, which made the prisoner eat extended on all fours.

The story is not new. What is new and notable is that, for the first time since this war started, it is not the Foreign Office, not the Ministry of Information, who issue these further evidences of German bestiality.

It is the Commander-in-Chief of the British Liberation Army. He wants you to know.

PAPER: DAILY TELEGRAPH

NUMBER:

CITY: LONDON

DATE: JAN - 4 1945

NAZI BESTIALITY

So carefully documented a report as the 6,000-word account from Shaef of German bestialities in Belgium, notably at the Breendonck camp, will confirm beyond a suspicion of doubt previous evidence that the mentality of those who claim to rule Germany belongs to the Dark Ages. To make their victims talk, the gaolers at Breendonck subjected them to the most terrible medieval tortures, dragging them to be interrogated after one month of mental cruelty so that their resistance might make them more amenable to speech. If they refused, as so many unknown and unrecorded patriots did, then the carefully planned horrors were unloosed upon them.

To the tortures of the Middle Ages were added the more modern, essentially Germanic refinements of thrashings while the victim hung in the air, or burning the body with cigar ends. Women were not excluded from these tortures. The value of this truly awful document lies in the fact that it is the first official report of German horrors issued by the British Army. The minds of those who read it will reel before its revelations. Let us hope that it will also strengthen our resolution to punish those who devised the cruelties as well as their underlings who carried them out.

DEPARTMENT
OF
STATE

OUTGOING
TELEGRAM

DIVISION OF
COMMUNICATIONS
AND RECORDS

January 8, 1945
Distribution of true reading only by special arrangement. (SECRET-W)
DEPARTMENT OF STATE
Midnight

1945 JAN 10 AM 10 30

COMMUNICATIONS
AND RECORDS
(LIAISON)

AMEMBASSY

LONDON

177

The following for Mann is WRB 36.

Newspaper PM of January 4 under heading of Reuter article dated January 4, Headquarters 21st British Army Group, summarizes 12 page report issued by British army authorities describing the German prison camp at Breendonk Libreendonk during the occupation of Belgium. According to the newspaper article the report is accompanied with a volume of photographs.

Please forward a copy of this report by air mail, together with photographs if possible.

CONFIDENTIAL
For security reasons the
text of this message must
be closely guarded.

STETTINIUS
(GHW)

STETTINIUS

WRB:MMV:KG
1/8/45

BC

VE

CABLE TO AMBASSADOR, PARIS, FRANCE, AND HOFFMAN, TREASURY REPRESENTATIVE.

Embassy is authorized accept War Refugee Board cables submitted by Hoffman on reimbursable basis, Authority retroactive September 1, 1944.

3:00 p.m.
January 26, 1945

Miss Chauncey (for the Sec'y) Ackermann, Akzin, Cohn, Drury, DuBois, Gaston, Hodel, Marks, McCormack, Pehle, Files.

DWhite:hmd

1/26/45

IF
Distribution of true
reading only by special
arrangement. (SECRET W)

January 26, 1945

2 p.m.

AMEMBASSY

ROME

148

The cable below for Kirk is from War
Refugee Board.

The following item appeared in the Jewish Telegraphic
Agency Bulletin, December 18, 1944:

QUOTE 1,000 YUGOSLAV JEWS RETURNED HOME FROM CAMPS IN
ITALY AT TITO'S REQUEST -- ROME, Dec. 17 (JTA)--Approximately
1,000 Jews are among 5,000 to 6,000 Yugoslavs who have
recently been returned from relief camps in Italy to their
homeland at the request of Marshal Tito. Stateless persons
and refugees from Germany, Poland, Czechoslovakia and northern
Italy will be placed in the camps vacated by the Yugoslavs.
Maximum use will probably be made of the camps only after the
liberation of northern Italy. At present, only a few state-
less persons are being moved there from camps in central
Italy UNQUOTE

Will you kindly investigate and advise the Board of the
correctness of this item and furnish us with any other relevant
information pertaining thereto.

GREY
(Acting)
(GLW)

WRB:MMV:KG
1/25/45

SE

CGI

CABLE TO AMERICAN LEGATION, LISBON, FROM WAR REFUGEE BOARD.

Please deliver following message to Robert Pilpel from M. A. Leavitt of American Jewish Joint Distribution Committee, New York:

QUOTE PLEASE INSTRUCT LAURA MARGOLIS ARRANGE PAYMENT \$10,000 FOR MEDICINES PURCHASED SWEDEN FOR SHIPMENT EMIL SOMMERSTEIN LUBLIN ACCORDANCE AMENDED LICENSE. TRANSMITTED SECOND \$500,000 SALY MAYER JANUARY. UNQUOTE

THIS IS WRB LISBON CABLE NO. 132.

Jan. 26, 1945

MFD-845

PLAIN

Lisbon

Dated January 26, 1945

Rec'd 7:40 a.m., 28th

Secretary of State,
Washington.

195, Twentysixth.

WRB 293 FOR HIAS 425 LAFAYETTE STREET, NEW YORK
FROM JAMES BERNSTEIN HICEM.

Request Max Simon, 392 Miller Avenue, Brooklyn
secure United States of America visas favor Sigmund
Rosie Segal and Sara Golda Simionowits, also financial
help for mother, all healthy, Bucharest. Oscar Albert,
601 West 151 Street, New York secure United States of
America favor Samuel Ruff family healthy, Bucharest.
Sammy Schery, 115 Evergreen Avenue, Hartford, Connecticut
secure United States of America visa favor Samuel Ruff
family healthy, Bucharest. Sammy Schery, 115 Evergreen
Avenue, Hartford, Connecticut secure United States of
America visa favor Moritz Eserik Toees, Healthy, Bucharest.
Olga Seareiber, 55 Brockdale Drive, Crestwood Tuckahoe
New York News and secure United States of America visa
favor Leopold and Rachelle Nadler, Healthy, Bucharest.
Egon Neustadt, 133 East 58 Street, New York secure United
States of America visa favor Oscar Fritzi, healthy,
Bucharest. Inform Goldie Itzovici, care of Davidovitz,
322 East 8th. Street, New York, Israel Itcovici alone,
healthy Bucharest, without news, family intends emigrate
Palestine, brother Itaic Russia. Sigmund Steiner,
905 Avenue, St. John, New York, Emerich Steiner, healthy,
Bucharest intending emigration Palestine, family remained
Germany. Ours December 27 Calra Goldstein, Sami
Goldstein, also healthy, Bucharest Harry Palestine
Clara Engelber children healthy.

Inform Minna Dunkin 608 West 184th. Street, New
York, Daphne Zaisev, healthy, Bucharest asking news.
Else Gold, 2075 Grandencours, Bronx Schein all family

-2-#195, Twentysixth, from Lisbon

and Hilda Fischer, healthy, Rumania asking news.
Hirschmann, 9012 178 Street, Jamaica, New York, sister
Rosa Hirschmann healthy Palais New York Frederic Passy
Nice asks financial help. Lina Golodets, 120 Wall
Street, New York, Marguerite Fildermann, healthy,
Bucharest, 31 Marie Rosetti, parents address Hotel Bugey
Bellay Ain France asks news.

CROCKER

BB

SH
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arrangement. (SECRET W)

January 26, 1945

2 p.m.

AMLEGATION

BERN

436

The following for McClelland is WRB 383.

Reference your No. 389 of January 19, 1945. The \$19,533.60 which you are now holding for Friends of Luxembourg can not (repeat not) be expended in Luxembourg because these funds were appropriated by National War Fund for relief and rescue in enemy or enemy-occupied territory. Accordingly, interested groups here hope that you will be able to arrange with InterCross for relief program suggested in Department's No. 288 (WRB No. 367) of January 18, 1945.

For your information, Friends of Luxembourg and labor groups expect to send \$12,500 very shortly to labor trustees in Luxembourg for relief in Luxembourg.

Donors wish to assure you of their complete satisfaction with your handling of the funds which have been remitted to you for various relief projects.

CREW
(Acting)
(GIN)

WRB:MMV:EO
1/26/45

WES

SWB

CABLE TO MR. HUDDLE AND MCCLELLAND, AMLEGATION, BERNE, SWITZERLAND,
FROM WAR REFUGEE BOARD

Reference your 459 of January 22. Action taken by Legation is
fully approved.

THIS IS WRB BERN CABLE NO. 384.

9:30 a.m.
January 26, 1945

347

CABLE TO AMERICAN LEGATION, BERN, FOR MC CLELLAND, FROM WAR REFUGEE BOARD.

Please deliver following message to Adolf Freudenberg,
41 Avenue de Champel, Geneva, from Dr. Leland Rex Robinson,
American Christian Committee for Refugees:

QUOTE ANSWERING YOUR CABLE RECEIVED TODAY \$5,000
REMITTED YOUR REGULAR SWITZERLAND BUDGET ALSO SUCH
CONTINGENCIES AS WORK HUNGARY RUMANIA. PLEASE CABLE
YOUR AVERAGE ANTICIPATED MONTHLY NEEDS FOR PURCHASING
IN SWITZERLAND FOR REFUGEE WORK CIMADE AND FRENCH
CHAPLAINCY SERVICE. REMITTANCE FUNDS TO FRANCE VIA
SWITZERLAND PROHIBITED UNDER EXISTING U.S. REGULATIONS
BUT APPLYING PERMISSION USE DOLLARS FOR PURCHASES FOOD
MEDICINE CLOTHING IN SWITZERLAND FOR SHIPMENT FRANCE. PROVIDED
LATTER PERMISSION OBTAINED ACCR HOPES REGULARLY SUPPLY ADDITIONAL
NEED FUNDS FOR LATTER PURPOSES BEYOND YOUR BASIC OPERATING
REQUIREMENTS. WILL INFORM YOU RESULTS OUR APPLICATION.
NECESSITY ACCR DIRECTLY DEALING CIMADE OTHER FRENCH REFUGEE
AGENCIES THROUGH ANTICIPATED REPRESENTATION FRANCE BECAUSE
SUPPORT OF SUCH WORK PARTLY FROM NONCHURCH FUNDS BUT WOULD
ASSURE CONSTANT COORDINATION WITH ECUMENICAL REFUGEE COMMISSION
WHICH MIGHT ACT DIRECTLY AS ACCR'S SWISS AGENT IN PURCHASES
FOR FRANCE FINANCED FROM SECULAR SOURCES. YOU ARE AUTHORIZED
COMMUNICATE BOEGNER AND BAROT REQUESTING USE 200,000 FRENCH
FRANCS FROM OUR \$10,000 REMITTANCE FOR WORK PASTOR TOURELLE.
WE ARE SO CABLING MLE. BAROT. UNQUOTE

THIS IS WRB BERN CABLE NO. 385.

1:00 p.m.
January 26, 1945

CABLE TO AMLEGATION, BERN, FOR MCCLELLAND FROM PEHLE, WAR REFUGEE BOARD

Reference your No. 483 of January 23. We, of course, have no objection to your taking a well-earned vacation between either of the dates mentioned by you. I assume that you have made arrangements for the handling of War Refugee Board work during your absence.

THIS IS WRB BERN CABLE NO. 386.

1:00 p.m.
January 26, 1945

BU
Distribution of this
reading only by special
arrangement. (SECRET W)

January 26, 1945
10 p.m.

AMENDATION

BERN

442

The following for McClelland from Pehle is WRB 386.
Reference your No. 483 of January 23. We, of
course, have no objection to your taking a well-earned
vacation between either of the dates mentioned by you.
I assume that you have made arrangements for the hand-
ling of War Refugee Board work during your absence.

BERN
(Acting)
(GLW)

WRB:MMV:KJ
1/26/45

WE

CABLE TO AMERICAN LEGATION, BERN, FOR MC CLELLAND, FROM WAR REFUGEE BOARD.

Please deliver following message to Adolf Freudenberg, 41 Avenue de Champel, Geneva, from Dr. Leland Rex Robinson, American Christian Committee for Refugees, Inc.:

QUOTE SENDING \$5,000 REGULAR \$3,000 BUDGET \$2,000 CONTINGENCIES INCLUDING HUNGARIAN CHURCH COMMITTEE SENDING SAME AMOUNT FEBRUARY. RECEIVED DOCUMENTS WARNSHUIS BROUGHT LATE DECEMBER. GIVING CONSIDERATION BEST WAYS DIRECTLY SUPPORTING CIMADE'S REFUGEE WORK BEGINNING MARCH PROBABLY THROUGH PROPOSED DIRECT REPRESENTATION FRANCE. FOLLOWING ADVICE WARNSHUIS LAST REMITTANCE MADE BOEGNER. APPRECIATE RECIPROCATE NEW YEARS MESSAGE. FUNDS USED SHANGHAI 1944 VIA AMERICAN JEWISH JOINT DISTRIBUTION COMMITTEE. WILL CHECK WITH YOU BE FORE SENDING FURTHER FUNDS THERE. UNQUOTE

THIS IS WRB BERN CABLE NO. 387.

3:00 p.m.
January 26, 1945

CORRECTION

MF
Distribution of true
reading only by special
arrangement. (SECRET W)

January 26, 1945

Cable from Bern numbered 531, dated January 25,
3 p.m. reading "FOR WRB FROM MCCLELLAND" serial number
should be "530" instead of "531".

DIVISION OF CENTRAL SERVICES

JMB

Not@: Correction from Legation at Bern.

MS-275
Distribution of true
reading only by special
arrangement. (SECRET W)

Bern
Dated January 26, 1945
Rec'd 1 p.m.

Secretary of State,
Washington.

547, January 26, 2 p.m.

As authorized in your 317 (January 19 WRB's
370), I paid Dutch Minister at Bern, Mr. Bosch de
Rosenthal, sum of 704,009.45 Swiss francs, equiva-
lent of \$165,000 minus customary one-half percent
Swiss National Bank Commission, on January 26.

I asked Mr. de Rosenthal to kindly confirm
receipt immediately to Netherlands Government in
London.

This therefore exhausts all Queen Wilhelmina
funds I have been holding.

HUDDLE

BB

EAS-227
Distribution of true
reading only by special
arrangement. (SECRET W)

Bern

Dated January 26, 1945

Rec'd 10:31 a.m.

Secretary of State,
Washington.

548, January 26, 3 p.m.

FOR WRB FROM MCCLELLAND

Department's 387, January 23, WRB'S 376 refer my
8265 December 22.

Do you?

HUDDLE

RB

JEC-412
Distribution of true
reading only by special
arrangement. (SECRET W)

Bern
Dated January 26, 1945
Rec'd 7:53 p.m.

Secretary of State,
Washington.

570, January 26, 7 p.m.

FOR WRB FROM (*) IND.

I immediately contacted Dr. Riegner World Jewish Congress representative in Switzerland in an attempt check on these reports. (Department's 400, January 24, WRB's 379) Riegner stated that he had received no (repeat no) information to effect that Germans were transforming the Resienstadt into an extermination camp. His information was principally to effect that since about last October Nazis had transferred great many people from the Resienstadt into Germany proper ostensibly as labor. Number is unknown as is fate of many elderly people unsuited for work who must have been left behind. Customary post cards dated end November, however, reached Geneva 2 days ago from the Resienstadt which contain no indication that situation as far as treatment is concerned has changed in the Resienstadt.

Reports contained your wire were nevertheless used as basis urgent appeal to ICRC to do all its power investigate and secure permission visit the Resienstadt once more as soon as possible.

HUDDLE

(*) correction to follow

MJF

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Moscow
TO: Secretary of State, Washington
DATED: January 26, 1945
NUMBER: 238

CONFIDENTIAL

I have reminded the Foreign Office, in conformity with the desires express in message of January 22 from the Department, No. 134, that these concentration camps exist and that it is possible that they may contain victims of Nazi persecution still. The interest of the War Refugee Board in the welfare of these people and in such measures as can be taken for their protection has been expressed by me. No information with regard to the civilian populations of the areas covered by the recent advances of the Soviets has as yet been released by the Soviet Government and the fact that this question is looked upon as a military secret for the time being is obvious. Furthermore, the Soviet Foreign Office has not been willing in any way to divulge information of this kind to my knowledge. It is doubtful whether the Soviet military authorities discriminate at all between Jews and other people in such records as they may make of the civilians which their advance has liberated. In addition, when we inquired last September about the Jews in Lodz, the Foreign Office made reply that it was not able to furnish us any information on that matter and referred us to the Polish National Committee of Liberation; a similar attitude will be taken in the present instance, I have no doubt.

The Embassy has made every effort to secure information on the fate of the Jews in Russian controlled territories, as the Department will notice from the message dated December 9 from the Embassy, No. 4730 and the one dated December 30, No. 5059. We will not fail, as soon as the Polish authorities have had an opportunity to establish their administration in the territories recently liberated and to find out what has transpired there, to exploit every possibility for securing information with regard to those territories which is similar to that secured from Russian controlled territories.

DC/L:LCW:AN
1-29-45

KENNAN