

## STOCK EXCHANGE PRACTICES

MONDAY, OCTOBER 23, 1933

UNITED STATES SENATE,  
SUBCOMMITTEE OF THE COMMITTEE ON  
BANKING AND CURRENCY,  
*Washington, D.C.*

The subcommittee met, pursuant to adjournment on Friday, October 20, 1933, at 10 a.m., in the caucus room of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senators Fletcher (chairman), Gore (substitute for Barkley), Adams (proxy for Costigan), Couzens, Townsend, and Goldsborough (substitute for Norbeck).

Present also: Ferdinand Pecora, counsel to the committee; Julius Silver, David Saperstein, associate counsel to the committee; and Frank J. Meehan, chief statistician to the committee; Martin Conboy, counsel for Albert H. Wiggin; Eldon Bisbee, Alfred E. Mudge, A. M. Williams, Joseph B. Lynch, Julian L. Hagen, and C. Horace Tuttle of Rushmore, Bisbee & Stern, and also William Dean Embree and A. Donald MacKinnon of Milbank, Tweed, Hope & Webb, counsel for The Chase National Bank and The Chase Corporation.

The CHAIRMAN. The subcommittee will come to order. Mr. Pecora, who is your first witness?

Mr. PECORA. Mr. Charles Batchelder.

The CHAIRMAN. Is Mr. Batchelder present?

Mr. BATCHELDER. Yes, Mr. Chairman.

The CHAIRMAN. Please stand, hold up your right hand, and be sworn: You solemnly swear that you will tell the truth, the whole truth, and nothing but the truth regarding the matters now under investigation by this committee. So help your God.

Mr. BATCHELDER. I certainly do.

### TESTIMONY OF CHARLES F. BATCHELDER, NEW YORK CITY, A VICE PRESIDENT OF THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK

Mr. PECORA. Mr. Batchelder, will you give your full name and address to the committee reporter?

Mr. BATCHELDER. Charles F. Batchelder, B-a-t-c-h-e-l-d-e-r; 18 Pine Street, New York.

Mr. PECORA. Are you connected with the Chase National Bank of the City of New York?

Mr. BATCHELDER. I am.

Mr. PECORA. In what capacity?

Mr. BATCHELDER. As a vice president.

Mr. PECORA. How long have you been connected with that bank?

Mr. BATCHELDER. I was made a vice president of the Chase Bank, I think in June or thereabouts of this year.

Mr. PECORA. Prior to June of this year were you connected with the Chase Bank in any other capacity?

Mr. BATCHELDER. No.

Mr. PECORA. Are you connected or were you connected with a corporation called Chase Securities Corporation?

Mr. BATCHELDER. I was.

Mr. PECORA. When did you first become connected with that corporation?

Mr. BATCHELDER. In November of 1923.

Mr. PECORA. In what capacity?

Mr. BATCHELDER. I returned to this country after 4 years abroad, or, that is, of being outside the country, and simply entered their employ, without title.

Mr. PECORA. Did you thereafter become an officer, or director?

Mr. BATCHELDER. I became an officer, but was never a director.

Mr. PECORA. What office did you first hold?

Mr. BATCHELDER. I think I was first assistant vice president—and, you will understand, I am speaking now entirely from memory—but it must have been the latter part of 1929, and later than that, and perhaps after a couple of years, I was made a vice president.

Mr. PECORA. And have you continuously served as a vice president of that corporation since that time?

Mr. BATCHELDER. That is right.

Mr. PECORA. That corporation is now known as the Chase Corporation?

Mr. BATCHELDER. That is right. I was never an officer of the Chase Corporation.

Mr. PECORA. Well, it became the Chase Corporation in May of this year by virtue of a change or an amendment to its charter and by-laws, I believe. Is that right?

Mr. BATCHELDER. Well, I cannot verify the date. I had no interest in that. But I think it is so.

Senator COUZENS. What did you specialize in if you did specialize in anything when you were acting for Chase Securities Corporation?

Mr. BATCHELDER. I wouldn't say that I was specializing, Senator Couzens. I went abroad for them, and was in Germany, and I had done a good deal of Canadian business for them. My whole experience and training has been of a general nature, and I do not suppose I am an expert on anything, but I think I have had a good deal of knowledge in a practical way at least of the operation of the security business.

Senator COUZENS. But did you specialize in foreign loans. You said you went abroad, I believe.

Mr. BATCHELDER. Yes, sir.

Senator COUZENS. And did you specialize in foreign loans?

Mr. BATCHELDER. No; I, perhaps, did more of that than anything else, however.

Senator GORE. When was Chase Securities Corporation organized?

Mr. PECORA. In 1917 Senator Gore, which is already in the record.

Senator GORE. All right.

Mr. **BATCHELDER**. Mr. Pecora, might I make a statement as I go along here, for the purpose—

Mr. **PECORA** (interposing). Yes.

Mr. **BATCHELDER**. The first I heard that I was going to be, possibly, called on this Cuban matter was last night and, perhaps, a little after 10 o'clock. On Saturday I was in New York. A list of the officers who were expected to be wanted down here was telephoned to New York, and my name was not on that list. The first I heard I was going to be called this morning was, perhaps, 15 minutes ago. I am not as well informed for the moment on all of the details of this Cuban matter as I should like to be, but—

Mr. **PECORA** (interposing). Well, who is?

Mr. **BATCHELDER**. Let me finish the story, if you please.

Mr. **PECORA**. Talk up a little louder. I cannot hear you.

Mr. **BATCHELDER**. From the record, Mr. Shepard Morgan has made an intensive study, from start to finish, of the Cuban loan, in cooperation with Mr. Geiger, who is sitting here on my left. Mr. Rosenthal, who is an active man in the Habana branch, is also here. Mr. Shepard Morgan, whom I have referred to, is a man who has made over a period of time an intensive study of this matter, from the record. My contact with the Cuban loan, aside from the \$40,000,000 loan, was in connection with a preliminary study, beginning with 1925, I think it was, or 1926, to get a first impression of this public-works program and of the revenues and the way it would operate, which involved a discussion with the Secretary of the Treasury and the secretary of public works—

Mr. **PECORA** (interposing). I do not hear you.

Mr. **BATCHELDER**. As I say, aside from that, my connection did have to do with the \$40,000,000 loan negotiated in February of 1930, as I recall. That was the last financing under the public-works program. I was in Habana perhaps 6 weeks altogether from start to finish on that. That involved a number of discussions and negotiations with departmental officials, and particularly a negotiation with the President, General Machado, which was, as far as I know, one of the most complete that I had with him on this program. That resulted in the negotiation for and the purchase and sale of \$40,000,000 5½-percent public-works bonds. In the short time at my disposal after 10 o'clock at night I have refreshed my memory on that. But as regards the intermediate pieces of financing, I am not anything like as well informed as are other men, who, as I say, I am sure can give you a very satisfactory explanation of the details of all those transactions.

Mr. **PECORA**. To your knowledge did Mr. Shepard Morgan have anything to do personally with the negotiations that led up to the making of those loans?

Mr. **BATCHELDER**. I do not know. He was down there several times. I do not know just exactly how extensive and comprehensive his connection was with that phase of it. But I should think he ought to know the whole story from start to finish.

Mr. **PECORA**. There was some inquiry made into these Cuban loans by the Finance Committee of the United States Senate in the early part of 1932. At that time Mr. Carl Schmidlapp was put forward, apparently by the Chase National Bank, as the officer of the bank best qualified to submit to examination with regard to those loans.

Mr. WILLIAMS. Mr. Pecora, might I explain that?

Mr. PECORA. Will you please give your name for the record?

Mr. WILLIAMS. My name is A. M. Williams.

Mr. PECORA. All right.

Mr. WILLIAMS. At that time Mr. Shepard Morgan, who has been in charge of Cuban financing since 1931, was out of the country, in Cuba. He was not available to be sent down before the committee at that time, so Mr. Schmidlapp, as the only one available, came down to testify from the record, but not as having personal knowledge of any phase of the Cuban business from beginning to end.

Mr. PECORA. I understood that Mr. Batchelder had something to do with the active negotiations that led to the making of those loans, and that he could testify from personal knowledge as well as from hearsay. Whereas, Mr. Morgan, as I understood it, had very little if anything to do with the active negotiations that led to the making of the loans, and that his testimony, hence, would be based solely upon hearsay.

Mr. WILLIAMS. Based upon the records.

Mr. PECORA. But almost entirely upon hearsay.

Mr. WILLIAMS. His testimony would be based upon the records of the bank.

Mr. PECORA. Well, that is hearsay so far as he is concerned, isn't it, Mr. Williams?

Mr. WILLIAMS. Except in so far as the official records of the bank are the evidence of that institution.

Mr. PECORA. Well, he knew nothing about the events that are chronicled in those records. His knowledge is based upon the records, isn't it?

Mr. WILLIAMS. Yes, except—

Mr. PECORA (interposing). Are there any witnesses here, Mr. Williams, connected with the bank, or connected with the Chase Corporation, who can testify with regard to the negotiations that were actively conducted and which led to the making of those loans, and who can give their testimony upon personal knowledge rather than based upon hearsay?

Mr. WILLIAMS. Mr. Pecora, in 1926, when the negotiations were begun, Mr. Robert I. Barr, a vice president of the Chase Bank, was in charge of the Havana end of it and of all the Cuban business. He was also in charge of the branches of the bank in Panama and Colon. Mr. Barr personally handled the negotiations which led to the first stage of the financing, namely, the 10 million dollar credit granted in 1927.

He personally handled the negotiations which led up to the second stage of the financing, namely, the conversion of that 10-million-dollar credit into the revolving credit of 60 million dollars. Mr. Barr handled the situation right down to about February of 1930, at a time when I think he was in Germany, or at least was not available, and then Mr. Batchelder went to Cuba with Mr. Bisbee, on the last loan, namely, the 40-million-dollar public-works bonds, and the 20-million-dollar credit. So in the first stage of the financing the only officer of the bank directly familiar with it was Mr. Barr, who, unfortunately, died in 1930.

The CHAIRMAN. Mr. Williams, you are a member of the firm of attorneys for the Chase National Bank, are you?

Mr. WILLIAMS. Yes, Mr. Chairman. And I may say that from the beginning I have been connected with this Cuban financing, either on the ground in Cuba or at the New York end, connected by telephone or by cable or by letter.

The CHAIRMAN. Are you at present attorney for the Chase National Bank?

Mr. WILLIAMS. I am a member of the firm of Rushmore, Bisbee & Stearn, and we do counsel work for the Chase. We are not under a retainer from the bank, but we are regularly its counsel on matters referred to us.

The CHAIRMAN. The hearings held before the Finance Committee, under Senate Resolution 19, part 4, pages 1943-1945 and on to subsequent pages, show that Mr. Schmidlapp seems to have been the principal witness, and he made quite an extensive statement, and was cross-examined quite fully on that matter.

Mr. WILLIAMS. He did, but he made his statement from the records of the bank and not from the standpoint of his knowledge on the ground.

Mr. PECORA. And that is what you purpose Mr. Morgan to do before this committee, to give his statement from records made by somebody else. He would have to rely on the records of the bank made by somebody other than himself, as I understand it.

Mr. WILLIAMS. Yes, sir. Mr. Morgan was not on the ground when the first two stages were negotiated. That is perfectly true. But there is no one else connected with the bank who was. The one who handled those stages is now dead, as I told you a moment ago.

Mr. PECORA. You are now putting forward Mr. Morgan in the same way that Mr. Schmidlapp was put forward before the Senate Finance Committee, as the one who was best qualified to answer questions, because he had examined the records and made a study of them. He was put forward for that reason rather than because he had personal knowledge from active participation of the matters that were the subject of inquiry.

Mr. WILLIAMS. As the one who is best informed from an examination of the records, and from his own experience since 1931, to give this committee a complete, accurate, and true statement of facts concerning this Cuban financing from beginning to end.

Mr. PECORA. Well, I prefer to have those facts testified to by persons having personal knowledge of them rather than by persons who have prepared themselves by an examination of the records in the making of which they had no part. That sort of thing was done with Mr. Schmidlapp before the Senate Finance Committee, and my experience is that it is not calculated to get the best evidence.

Senator COUZENS. Well, let us go ahead with Mr. Batchelder.

The CHAIRMAN. Is Mr. Schmidlapp present?

Mr. PECORA. I am willing to examine Mr. Schmidlapp on this, if desired. He was put forward 2 years ago as the expert on these loans. Now let him take the stand, and I am willing to examine him. He is here, as I understand.

Mr. WILLIAMS. We merely suggest Mr. Morgan, Mr. Pecora, in order to aid this committee.

Mr. PECORA. Well, all right. But I do not think you aid the committee by asking that one take the stand who, so to speak, is going

to tell us something he has prepared himself to tell merely from an examination of the records, and not from personal knowledge.

Mr. WILLIAMS. Mr. Schmidlapp would have to testify on that basis during the years 1927 and 1928, because he did not personally handle those transactions.

Mr. PECORA. But the bank put him forward as its witness before the Senate Finance Committee nearly 2 years ago.

Mr. WILLIAMS. As the only witness who could—

Mr. PECORA (continuing). Now, you want to put Mr. Shepard Morgan forward for the same reason.

Mr. WILLIAMS. We are merely suggesting it in order to try to be helpful to you in the circumstances.

Mr. PECORA. Is Mr. Freeman here?

Mr. WILLIAMS. Yes, sir.

Mr. BATCHELDER. I should like to make clear in the matter of the 40-million-dollar loan—

Mr. PECORA (interposing). I understand that Mr. Batchelder has stated, either in words or in substance, to our examiners that he was waiting for a chance to come before this committee to give some testimony, and that he would show something.

Mr. BATCHELDER. No; I did not. That is absolutely incorrect.

Mr. PECORA. I wanted to accommodate Mr. Batchelder, that is all.

Mr. BATCHELDER. Well, that is absolutely incorrect. I can testify on the 40-million-dollar loan. I think I explained my position thoroughly. I came down here prepared on another subject entirely.

Mr. PECORA. According to the testimony that you can give regarding this 40-million-dollar loan, it would seem to me, you could also testify rather in detail with regard to the loans that preceded it, because those loans were refunded by the 40-million-dollar loan.

Mr. BATCHELDER. Only in part.

Mr. PECORA. All right, in part.

Mr. BATCHELDER. And that was all preliminary work, and it was all of very little practical value in considering the problems surrounding the \$40,000,000 loan. That was very elemental.

The CHAIRMAN. Do I understand, Mr. Batchelder, that you know about the \$40,000,000 loan?

Mr. BATCHELDER. I was down in Cuba for a matter of 6 weeks and carried on the negotiations. The contract was drawn down there and signed.

The CHAIRMAN. And that is the only loan of which you have personal knowledge?

Mr. BATCHELDER. That is the only loan of which I have absolutely any first-hand knowledge or experience.

The CHAIRMAN. You might let him testify as to that.

Mr. PECORA. But, Mr. Chairman, that would take up the story about in the middle. I want the beginning.

Mr. BATCHELDER. That is the last loan.

Mr. EMBREE. Mr. Pecora, might I say a word?

Mr. PECORA. Surely, Mr. Embree.

Mr. EMBREE. Although counsel are not prominent in this proceeding, we do bear a certain responsibility in the matter. Mr. Williams and I have worked on this case endeavoring to prepare this testimony in a way that it would be most helpful to the committee.

We were confronted at the outset with the deaths of Mr. Barr and Mr. Callahan.

We then set about preparing for this hearing the man whom we thought could give the clear and consecutive story; and I thoroughly agree with you, Mr. Pecora, that wherever you can get direct testimony you want that. But I do suggest in the interest of orderly procedure that you allow us to put forward the witness we have prepared to tell the consecutive story; with the understanding, of course, that the committee would then call Mr. Batchelder and Mr. Schmidlapp and Mr. Geiger, or anybody else, who may have any direct knowledge of the matter. But counsel would feel that they had not done their duty, sir, if we did not urge that the testimony go in in as orderly a way as possible.

Senator GORE. Can Mr. Morgan tell the story from beginning to end?

Mr. EMBREE. Yes, Senator Gore; he can do so. He came prepared to do that very thing.

Mr. WILLIAMS. Mr. Morgan has been in direct charge of all this Cuban situation since 1931.

Senator GORE. That might make a good background.

Mr. WILLIAMS. And during that period of time of course he had familiarized himself with all that went on before, in order to be in position to handle efficiently his current duties after that date.

Mr. PECORA. Well, then, if Mr. Morgan will indicate throughout the course of his testimony when he testifies on the basis of personal knowledge and when he testifies on the basis of hearsay; and, if the source of his hearsay are gentlemen who are present, he will so indicate in the course of his testimony, I have no objection to proceeding in that way.

Mr. WILLIAMS. Mr. Morgan will be very glad to do that.

Mr. PECORA. All right.

The CHAIRMAN. Mr. Batchelder will stand aside for the present. Is Mr. Morgan here?

Mr. MORGAN. Yes, sir.

The CHAIRMAN. Please stand, hold up your right hand, and be sworn: You solemnly swear that you will tell the truth, the whole truth, and nothing but the truth regarding the matters now under investigation by this committee. So help you God.

Mr. MORGAN. I do.

### **TESTIMONY OF SHEPARD MORGAN, NEW YORK CITY, A VICE PRESIDENT OF THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK**

Mr. PECORA. Mr. Morgan, give us your full name and address for the record.

Mr. MORGAN. Shepard Morgan, 18 Pine Street, New York.

Mr. PECORA. Are you connected with the Chase National Bank of the city of New York?

Mr. MORGAN. I am.

Mr. PECORA. In what capacity?

Mr. MORGAN. As a vice president.

Mr. PECORA. How long have you been a vice president?

Mr. MORGAN. Since June 1, 1930.

Mr. PECORA. Prior to that time were you associated with the bank in any other position or capacity?

Mr. MORGAN. No; I was a vice president of the Equitable Trust Co. for about 5 weeks prior to the merger.

Mr. PECORA. And it was merged with the Chase National Bank in 1930?

Mr. MORGAN. Yes.

Mr. PECORA. Were you ever connected with the Chase Securities Corporation?

Mr. MORGAN. Never.

Mr. PECORA. Did you have any personal participation in any of the negotiations that led to the making of these so-called "Cuban loans" that are to be the subject of your examination?

Mr. MORGAN. Small credits of June 1932, December 1932, June 1933; yes. As to the others, no.

Mr. PECORA. The loans that preceded those credits are the principal loans and credits, are they not?

Mr. MORGAN. In dollars; yes. The later loans were for the purpose of maintaining Cuba's credit and the interest of the American investor and of the Cuban Government, and included among the American investors, of course, are the Chase Bank itself and its associates, the participants in the so-called Bankers Credit.

Mr. PECORA. It has been indicated here this morning by the gentlemen representing The Chase National Bank and the Chase Securities Corporation, that you had made a special study of some kind of all the facts and records and the transactions relating to all these Cuban loans in which the Chase Bank and the Chase Corporation took any part. Have you done so?

Mr. MORGAN. It was inevitable that I should, Mr. Pecora. I have been in charge since 1931 of the Cuban finances.

The CHAIRMAN. What do you mean by "small credits"?

Mr. MORGAN. Senator, in June 1932 it became apparent that the revenues of the Cuban Government would not be sufficient to meet the interest and maturing principal due on June 30 of that year. We then organized a small group to assist Cuba in the emergency at that time. There was a very large maturity of serial certificates then due, in the amount of 6 millions and a quarter. For that reason we arranged a small bankers credit and assisted Cuba over that period.

The same procedure in general form was followed the following December and in the following June, that is to say, June of 1933.

The CHAIRMAN. You spoke about organizing a small group. Who composed that group?

Mr. MORGAN. The Chase National Bank in the first instance, together with the Chase Securities Corporation, the National City Bank, the Continental Illinois National Bank & Trust Co. of Chicago. These 3, or as the case may be, 4 institutions, were the participants in the bankers credit.

Senator GORE. When was the first series of loans now under consideration made?

Mr. MORGAN. I beg pardon, Senator?

Senator GORE. When was the first of the series of Cuban loans now under consideration made?

Mr. MORGAN. On February 19, 1927.

Senator GORE. How much?

Mr. MORGAN. \$10,000,000.

Senator GORE. How many have been made altogether?

Mr. MORGAN. Three major, three minor.

Senator GORE. The majors aggregate how much?

Mr. MORGAN. The amount of money involved in the three major arrangements—80 million dollars.

Senator GORE. And the minor?

Mr. MORGAN. Aggregating about seven and a half millions.

Senator GORE. You will put the date of each one in the record, will you not?

Mr. MORGAN. The date of the first agreement was February 19, 1927.

Mr. PECORA. That was the 10-million-dollar one?

Mr. MORGAN. Ten million dollars. The date of the second agreement was June 22, 1928.

Mr. PECORA. What amount?

Mr. MORGAN. That converted the original 10-million-dollar credit into a revolving credit of 60 million dollars.

Senator GORE. That was "inflation"?

Mr. MORGAN. That is a subject that I am not sympathetic with; that is to say, inflation, Senator.

Senator GORE. I agree with you there.

Mr. MORGAN. The third agreement February 26, 1930.

Mr. PECORA. For what amount?

Mr. MORGAN. That was in part a refunding agreement refunding 30 million dollars of serial certificates, turning the 10 million dollars of deferred payment work certificates into a 40-million-dollar bond issue maturing in 1945; that is, into 15-year bonds. In addition the banking group provided 20 million dollars of bank credit for the further prosecution of the public works undertaken. In other words, the banks went along with the public in the financing at that time.

Senator COUZENS. What date was that?

Mr. MORGAN. February 26, 1930.

The CHAIRMAN. Have you examined the hearings before the Finance Committee that I referred to, printed in part 4 of those hearings?

Mr. MORGAN. Senator, I am sorry, I cannot hear.

The CHAIRMAN. I say, have you examined the hearings before the Finance Committee printed in part 4, January 22 and February 20, I think it is, 1932?

Mr. MORGAN. Yes, sir.

The CHAIRMAN. Those hearings contain all those agreements, do they not?

Mr. MORGAN. They do.

The CHAIRMAN. Then I submit there is no need to reprint them here.

Mr. PECORA. No. You may make references from time to time to certain extracts from those agreements.

The CHAIRMAN. Beginning at page 1978.

Senator ADAMS. Mr. Morgan, just one inquiry: You speak of the conversion of the 10-million-dollar loan into an 80-million-dollar revolving fund.

Mr. MORGAN. Sixty million, Senator.

Senator ADAMS. Sixty. Would you give just a brief statement as to how that was accomplished and the other contributions to that fund?

Mr. PECORA. Senator Adams, I was going to suggest to you, before you press that question, that I am going to go into that in detail in its chronological order, but if you want this information now, very well.

Senator ADAMS. No; I was rather suspended in the air about that, and I am perfectly willing to wait.

Senator GORE. Can you state the total amount of Cuba's indebtedness when the first loan was made in '27?

The CHAIRMAN. You mean total indebtedness or indebtedness to the bank?

Mr. PECORA. No; outstanding.

Senator GORE. Total external debt at the time that loan was made. If you cannot answer it, why, all right.

Mr. MORGAN. Yes; we have it here, Senator. The total external debt on June 30, 1927, was \$79,441,900.

Senator GORE. How much is it now?

Mr. MORGAN. On May 31, 1933, \$77,929,700.

Senator GORE. It has been reduced?

Mr. MORGAN. It has been reduced.

Senator GORE. And how much did the Chase or your associates lend during that interval altogether?

Mr. MORGAN. I want to have this testimony as accurate as possible, Senator. In addition to the 77 millions which I mentioned is \$81,250,000 of public-works debt, making a total of \$159,179,700.

Senator GORE. How much did this public-works debt amount to back in '27?

Mr. MORGAN. It had not yet begun to form itself.

Senator GORE. How is that?

Mr. MORGAN. There was no public-works debt in 1927. That was the beginning of the project.

Senator GORE. That has all been incurred in the interval?

Mr. MORGAN. Yes.

Senator GORE. From '27 down to date; and the other indebtedness has remained practically the same, 77 millions?

Mr. MORGAN. It has been slightly reduced, but in the meantime has been included this sugar stabilization debt, which tended to maintain a level of debt.

Senator GORE. How much is that?

Mr. MORGAN. Originally 37 millions, and now in round figures 22 millions.

Senator GORE. When was that first made?

Mr. MORGAN. The date of the sugar stabilization credit when first opened I have not in mind, but I should say about 1931 [after conferring with associate]—1930; I am told.

Senator GORE. How much of this 81 millions public works now has the Chase lent or participated in?

Mr. MORGAN. Sixty.

Senator GORE. Who lent the other?

Mr. MORGAN. Sixty-one million two hundred and fifty thousand, as of May 31, 1933.

Senator GORE. And who lent the other?

Mr. MORGAN. That is the debt to the contractors, so-called; a third lien on the public-works debt.

The CHAIRMAN. You did not mention the internal debt?

Senator GORE. Yes; how much is the internal debt?

Mr. MORGAN. The funded debt is \$7,816,400 on June 30, 1933.

Senator GORE. And how much was it in '27?

Mr. MORGAN. And in 1927, \$10,614,200.

Senator GORE. Now, can you insert at this place the annual revenues of Cuba during these years from '27 down to date?

Mr. MORGAN. Yes, Senator. I will give the figures, Senator, exclusive of public-works revenues, and I will give them, if you desire, as an addendum.

Senator GORE. Yes.

Mr. MORGAN. I should say that the Cuban fiscal year is the same as that of the United States, from July 1 to June 30. The fiscal year 1927 to 1928 the revenues were \$81,973,000; 1928-29, \$79,325,000; 1929-30, \$77,136,000; 1930-31, \$59,581,100; 1931-32, \$47,969,000; 1932-33, 1 month estimated, \$43,969,000.

I should say by way of explanation that the figures for the last 3 years—that is, from 1930-31 to date—are preliminary and subject to revision; but we believe them to be substantially correct.

Mr. PECORA. Will you give the expenditures for those years for which you have given the revenues?

The CHAIRMAN. You did not give the revenue from public works.

Mr. MORGAN. I will give that in a moment, Senator, if I may.

Senator GORE. Insert it at this place.

Mr. MORGAN. You would like the public works revenues at this point?

Senator GORE. I wanted it printed in the record at this point.

Mr. MORGAN. Beginning with 1927 and 1928 as before, the original estimates \$16,000,000, the actual collections \$17,147,925, a surplus of \$1,147,927; 1928-29, original estimate \$18,000,000, actual collections \$18,501,817, a surplus of \$501,817; 1929-30, original estimates \$18,000,000—

Senator COUZENS. You just read that.

Mr. MORGAN. The same. Actual collections \$18,121,937; surplus of \$121,537.

1930-31, again \$18,000,000 original estimate; actual collections \$15,307,011, a minus difference of \$2,692,989.

1931-32, original estimate \$18,000,000; actual collections \$10,756,485, a minus difference of \$7,243,515.

1932-33, the original estimate \$18,000,000; the actual collections, \$9,380,431. That figure is subject to correction, but is approximately correct.

Senator GORE. Is that all?

Mr. MORGAN. That is all, sir.

Mr. PECORA. Senator, I asked him to give the expenditures respectively for these years. I do not believe Mr. Morgan has done that yet.

Mr. MORGAN. No; not yet, Mr. Pecora.

Senator GORE. This estimate, running around 17 or 18 million dollars, does that cover interest and amortization? Those are all serial bonds?

Mr. MORGAN. These are the estimated collections from taxes, Senator.

Senator GORE. I understand, but were these public-works securities serial bonds?

Mr. MORGAN. The second issue was composed of serial certificates.

Senator GORE. How much?

Mr. MORGAN. All told, \$50,000,000.

Senator GORE. What I was trying to get at was, the annual estimate seems to run around 17 or 18 millions. Now I suppose part of that covered interest and part amortization or sinking fund?

Mr. MORGAN. No; it is an estimate of receipts, not of expenditures.

Senator GORE. An estimate, in other words, of the special revenues created by the public works law enacted in July 1925?

Mr. MORGAN. Quite true.

Mr. PECORA. And those apart from the ordinary revenues?

Mr. MORGAN. Quite true.

Senator GORE. And was designed to cover the debt service on these public works?

Mr. MORGAN. Precisely.

Now, may I give the expenditures and ordinary budget?

Mr. PECORA. If you will.

Mr. MORGAN. 1927-28 actual expenditures, \$32,893,000; 1928-29, \$86,765,000.

Mr. PECORA. What were the revenues that year?

Mr. MORGAN. The actual revenues, \$79,325,000.

Mr. PECORA. So there was a deficit of about—

Mr. MORGAN. \$7,000,000.

Mr. PECORA. All right; go ahead.

Mr. MORGAN. 1929-30, \$83,840,000.

Mr. PECORA. What were the revenues?

Mr. MORGAN. \$77,136,000.

Mr. PECORA. So there was a deficit there of about 6 million dollars?

Mr. MORGAN. Yes; 1930-31, \$67,112,000.

Mr. PECORA. Compared to revenues of what amount?

Mr. MORGAN. \$59,581,000.

Mr. PECORA. Another deficit of around 8 million dollars?

Mr. MORGAN. Seven and a half.

Mr. PECORA. All right.

Mr. MORGAN. In 1931-32, \$47,189,000 actual expenditures.

Mr. PECORA. Compared with revenues of what amount?

Mr. MORGAN. \$47,969,000, a small surplus of \$780,000.

1932-33 expenditures of \$45,369,000 against revenues of \$39,491,000.

Mr. PECORA. A deficit of around 6 million?

Mr. MORGAN. Five million eight.

I should say again for the sake of complete accuracy that these figures are subject to revision, but we believe them to be substantially correct.

Mr. PECORA. Now, Mr. Morgan, I understand that you have made some special study of the records and facts with regard to these Cuban loans and are prepared to answer questions thereon?

Mr. MORGAN. From the record, yes.

Mr. PECORA. From the record. Are you familiar with that provision of the Cuban Constitution that is commonly known as the Platt amendment?

Mr. MORGAN. Yes, Mr. Pecora.

Mr. PECORA. That Constitution was adopted back in 1901, was it not, or rather the amendment known as the Platt amendment was adopted that year, is that right?

Mr. MORGAN. Yes.

Mr. PECORA. And it is known as article II of the Constitution. Have you before you the text of that provision?

Mr. MORGAN. We can turn to it. Here it is.

Mr. PECORA. It is very brief. Will you read it into the record?

Mr. MORGAN. Article II?

Mr. PECORA. Yes.

Mr. MORGAN (reading):

That said Government shall not assume or contract any public debt to pay the interest upon which, and to make reasonable sinking fund provisions for the ultimate discharge of which, the ordinary revenues of the Island of Cuba, after defraying the current expenditures of the Government, shall be inadequate.

Mr. PECORA. That constitutional provision was in full force and effect during the times of the making of these loans that you have already made a general reference to?

Mr. MORGAN. Quite true.

Mr. PECORA. Who was the President of Cuba at the time of the extension of the first credit of 10 million dollars on February 19, 1927?

Mr. MORGAN. Gerardo Machado.

Mr. PECORA. When had he become the President of Cuba?

Mr. MORGAN. May 20, 1925.

Mr. PECORA. At that time do you know what the external indebtedness of Cuba was?

Mr. MORGAN. I have it here only for June 30, 1926.

Mr. PECORA. What was it?

Mr. MORGAN. \$84,768,800.

Mr. PECORA. Do you know anything about a message said to have been made by President Machado when he was elected in 1925 that he would not during his term of office increase the public debt of Cuba?

(Mr. Morgan conferred with Mr. Geiger.)

Mr. PECORA. Now, Mr. Geiger, I thought Mr. Morgan had made a special study of all of this. If you have to advise and confer with him to enable him to answer these questions, I have no objection to your doing it, but let the record show that he needs it.

Mr. MORGAN. Will you repeat the question, please?

Mr. PECORA. The reporter will read it.

The shorthand reporter (reading):

Do you know anything about a message said to have been made by President Machado when he was elected in 1925 that he would not during his term of office increase the public debt of Cuba?

Mr. MORGAN. President Machado in his public utterances during the campaign was reported to have said that he would not increase the external debt of Cuba for the sake of carrying out the public-works program which he then had in mind.

Mr. PECORA. Are you familiar with testimony given before the Senate Finance Committee of the Seventy-second Congress or an inquiry held by that committee pursuant to Senate Resolution 19 as

that testimony is recorded in part 2 of the printed minutes of that investigation at page 740 thereof? I refer to the particular testimony of a Mr. Grosvenor Jones. Are you familiar with that testimony?

Mr. MORGAN. I have not read it in probably a year and a half, Mr. Pecora.

Mr. PECORA. Who was Mr. Grosvenor Jones?

Mr. MORGAN. He was in the Department of Commerce. What his position was there I do not recall. He went to Habana at the request of the Ambassador to make an inquiry.

Mr. PECORA. For whom?

Mr. MORGAN. For the Ambassador.

Mr. PECORA. According to the testimony of Mr. Jones appearing at page 740 of those minutes he testified as follows in part—I am reading from page 740 [reading]:

President Machado was elected to office on the pledge that during his term of office Cuba would not increase her public debt. His predecessor, Dr. Zayas, had had to issue \$50,000,000 of bonds to clear up a lot of debt incurred under his predecessor's regime. That was the regime of Menocal. But Machado said solemnly that he was not going to increase the public debt of Cuba.

Proposals were instituted after President Machado took office in 1925 for the construction of a series of public works which included the State Capitol in Habana and a central highway, were they not?

Mr. MORGAN. Correct.

Mr. PECORA. And when was that public-works program first adopted?

Mr. MORGAN. The date of the law which made that program effective was July 15, 1925.

Mr. PECORA. And that is known as the public-works law?

Mr. MORGAN. Correct.

Mr. PECORA. Under that law were any special revenues created for the purpose of servicing any indebtedness that would be incurred in carrying out this public-works program?

Mr. MORGAN. Yes, Mr. Pecora.

Mr. PECORA. And do you know how much these special revenues so created by this act of July 15, 1925, were estimated would be yielded per annum?

Mr. MORGAN. At the beginning 16 million, and running from then on 18 million per annum.

Mr. PECORA. And what proportion of these special revenues so created were required to be set aside for the servicing of any indebtedness that might accrue in the furtherance of this public-works program?

Mr. MORGAN. You mean by law in the beginning?

Mr. PECORA. In the beginning; yes.

Mr. MORGAN. I don't know that. [After conferring with counsel.] The whole thing was dedicated to the prosecution of the public works.

Mr. PECORA. Are you sure of that?

Senator GORE. Can you break those figures down?

Mr. MORGAN. 90 percent of the revenues.

Mr. PECORA. 90 percent of those revenues yielded from these special revenue laws were to be set aside for the servicing of the

indebtedness that was to be incurred in connection with the public works program; that is right, is it?

Mr. MORGAN. Quite true.

The CHAIRMAN. The public works themselves did not yield any revenues, did they? For instance, the Capitol and the highway?

Mr. MORGAN. Senator, it is my opinion that the public works themselves were so designed as very largely to encourage, to stimulate, the revenues which were to pay for the works themselves.

For example, the major part of the public works revenues was the gasoline tax and the license plates on automobiles. Prior to the time of the construction of the highway obviously there was relatively small opportunity for the use of automobiles and the consumption of gasoline in Cuba. It is a practice rather similar to what we have adopted in many parts of our country, to apply a gasoline tax to pay the service on road bonds. And you can find indirect benefits in many of these revenues of a similar sort.

For instance, there were some port improvements.

I have one point there that I would like to introduce, with your permission.

Mr. PECORA. Mr. Morgan, I will come to all that.

Mr. MORGAN. May I respond to the Senator's question first, Mr. Pecora?

Mr. PECORA. We will get to that, step by step.

Mr. MORGAN. May I respond to the Senator's question first? This is very pertinent to the whole operation. The Acting British Consul, in his report to his own Government in November 1925, said, relative to the public works legislation, the following:

The public works law was passed on July 15, 1925, providing, among many improvements, the building of a central highway from one end of the island to the other, with branches connecting it with all the towns and ports along the coast. The necessity for this road from every standpoint is very apparent. It will be a means of obtaining better transport facilities for the sugar products and Cuba's sources of wealth, which up to the present have been inaccessible, will be placed on the market, thereby giving a great impetus to commerce. It will also give employment over a period of years to many who are at present suffering from the general trade depression.

Mr. PECORA. When was that communication of the British Consul?

Mr. MORGAN. November 1925.

Mr. PECORA. When was it brought to the notice or attention of anyone connected with the Chase National Bank or the Chase Securities Corporation for the first time?

Mr. MORGAN. I can only say when it was brought to my attention.

Mr. PECORA. When was that?

Mr. MORGAN. In the course of the study made 2 weeks ago, on rehearsing the economic conditions in Cuba for the last 20 years.

Mr. PECORA. You state 2 weeks ago?

Mr. MORGAN. Reported to me 2 weeks ago. But the fact remains that this memorandum was written in 1925. Whether the statement was made to me now, or then—

Mr. PECORA. What I am trying to find out is what knowledge anyone in the Chase Bank or the Chase Securities Co. had of those official advices by the British consul to his Government.

Mr. MORGAN. It was a matter of universal knowledge in Cuba at the time, and it was observed by our own people who went there.

Mr. PECORA. I do not think that answers the question. I have not asked you for matters of universal knowledge. I am asking you when, for the first time, so far as you have been able to ascertain in your special study of this whole situation, anyone connected with the Chase Bank or the Chase Securities Corporation learned of these official advices conveyed in November 1925 by the British consul to his Government.

Mr. MORGAN. 1925.

Mr. PECORA. Who first learned of it then, in your institution?

Mr. MORGAN. I did, Mr. Pecora.

Mr. PECORA. In 1925 you first learned of it?

Mr. MORGAN. I learned of it 2 weeks ago. I cannot see what the pertinency of this inquiry is. The fact is there, that the report was made in 1925.

Mr. PECORA. Please let us judge of the pertinency. You just answer the questions, will you? You first learned of this communication 2 weeks ago, is that right.

Mr. MORGAN. I have so testified.

Mr. PECORA. Now, to your knowledge did anybody——

Mr. MORGAN. May I——

Mr. PECORA. It is rather unsatisfactory to be interrupted in asking you a question by one of your associates conferring with you, so as to distract your attention from my question.

Mr. GEIGER. I apologize, Mr. Pecora.

Mr. MORGAN. Will you repeat the question, please?

Mr. PECORA. I had not finished it. I had just barely got started when Mr. Geiger distracted your attention from my question.

To your knowledge did anybody in either the Chase Bank or the Chase Securities Corporation learn of the sending of this communication at the time it was sent?

Mr. MORGAN. I have no information on that whatever.

Mr. PECORA. Was there any estimate as to what would be the aggregate cost, the total cost of this public-works program, at the time of the enactment of this public works law on July 15, 1925?

Mr. MORGAN. There were a great variety of estimates, depending upon the individual who made them.

Mr. PECORA. What were the official estimates that were to be verified by the Government?

Mr. MORGAN. Again there were variations.

Mr. PECORA. What were they, giving us the range?

Mr. MORGAN. One estimate that was reported at the time was \$325,000,000 for a very large and ambitious program.

Mr. PECORA. What was the final estimate as to the total cost of this entire public-works program, which included the construction of the capitol and the building of this central highway from one end of the island to the other?

Mr. MORGAN. I do not think one can answer that, Mr. Pecora, because the program was progressively diminished as time went on and economic conditions became more severe.

Mr. PECORA. But this program was first brought to the attention of the law-making body of Cuba at the time of the enactment of the public works law in July 1925.

Mr. MORGAN. Quite correct.

Mr. PECORA. Were not any final estimates arrived at by that time?

Mr. MORGAN. The contemporary estimate I have already given.

Mr. PECORA. \$325,000,000.

Mr. MORGAN. It was an estimate for the whole ambitious program. It covered a very ambitious program, which was not carried out.

Mr. PECORA. For what period of time were the special revenues that were designed to meet carrying charges on indebtedness to be incurred for the construction of this public works program?

Mr. MORGAN. Ten years.

Mr. PECORA. Was it not 5 years?

Mr. MORGAN. Ten.

Mr. PECORA. Were not these temporary revenues or special revenues provided to be collected for a period of 5 years expiring on June 30, 1930?

Mr. MORGAN. 1935.

Mr. PECORA. Will you point to any provision of the law which makes it 1935?

Mr. MORGAN (after conferring with associates). I am reading from article 20, Mr. Pecora, under the heading "Duration of the Taxes". [Reading:]

The taxes specified in nos. 14, 15, 16, 17, 18, and 19 are established as temporary and shall be in force only for a period not longer than 10 years as may be required to pay in full for the works that are carried out, after which period their collection shall cease.

Mr. PECORA. Thereafter was that law amended?

Mr. MORGAN. May I finish the clause? [Continuing reading:]

And there shall remain in force as permanent taxes only the tax on traffic and locomotion of vehicles and the tax on gasoline specified in nos. 12 and 13, in order to apply the proceeds therefrom to the conservation and improvement of the works constructed, particularly the highway.

Mr. PECORA. Thereafter was that law amended so as to extend the time for which these special revenues have been created?

Mr. MORGAN. It was.

Mr. PECORA. How much of an extension of time was provided for by the amendatory act?

Mr. MORGAN. An additional 10 years.

Mr. PECORA. After the enactment of this law of July 15, 1925, the Government embarked upon the construction of these public improvements, did it not?

Mr. MORGAN. Yes.

Mr. PECORA. What provision was made for meeting the current expenses of those public improvements at first?

Mr. MORGAN. The preliminary expenses, naturally, were small, because they were mostly studies, surveys, and so forth. They were paid out of the current revenue.

Mr. PECORA. Out of the current special revenues?

Mr. MORGAN. Yes.

Mr. PECORA. Created by the law of 1925.

Mr. MORGAN. Yes.

Mr. PECORA. Were so-called public works certificates given in payment for the work done up to the time of the extension of this \$10,000,000 credit in February 1927?

Mr. MORGAN. I never heard of any.

Mr. PECORA. Now, The Chase National Bank, in conjunction with the banking firm of Blair & Co., were the successful bidders.

Mr. MORGAN. On a competitive bid.

Mr. PECORA. On a competitive bid to finance to the extent of \$10,000,000 these public works.

Mr. MORGAN. Correct.

Mr. PECORA. And the contract entered into between the Cuban Government and The Chase National Bank and Blair & Co. was entered into, I believe you have already said, on February 19, 1927.

Mr. MORGAN. A year and 7 months after the passage of the act.

Mr. PECORA. Can you give the essential features of that agreement, briefly?

Mr. MORGAN. I want this to be accurate (after consulting papers). The agreement provides, first, that the Republic of Cuba was empowered to issue and deliver to the contractors of the central high-way deferred-payment work certificates up to but not exceeding \$10,000,000.

Mr. PECORA. That was for the work already done.

Mr. MORGAN. Already under way.

Mr. PECORA. Under way; and a portion of it which has progressed up to that time.

Mr. MORGAN. Yes.

Mr. PECORA. In other words, the contractors who did that work for the Government received so-called "public-works certificates."

Mr. MORGAN. Countersigned by the Secretary of the Treasury and issued by the Secretary of Public Works.

Mr. PECORA. And certificates of that kind had been issued by the Government to those contractors to an aggregate amount of about \$10,000,000.

Mr. MORGAN. No, they had not.

Mr. PECORA. When were they issued?

Mr. MORGAN. They were issued currently, under the terms of the agreement, but the amount issued was never over \$4,000,000, I think. [After consulting an associate:] The amount issued actually under this agreement was only about \$4,250,000.

Senator COUZENS. Were they complete obligations of the Cuban Government?

Mr. MORGAN. They were; yes.

Mr. PECORA. Did the Chase National Bank and its associate in this financing, namely, Blair & Co., in substance agree under this agreement of February 19, 1927, to purchase from the contractors deferred-payment work certificates which had been issued by the Government for this construction work, to an amount not exceeding \$10,000,000, and that it would so purchase those certificates during the period commencing on July 1, 1927, and terminating on June 30, 1930?

Mr. MORGAN. If you agree, or approve, I would rather develop this in a completely orderly way, as an analysis of the agreement. I can answer the questions piecemeal if you like.

Mr. PECORA. I just want to get certain important features, and not get all the details of the agreement into the record, because I think it would be needlessly encumbering the record.

Mr. MORGAN. The answer to the question is yes.

Mr. PECORA. What rate of interest did those certificates bear?

Mr. MORGAN. 6 percent.

Mr. PECORA. How were they secured as to payment?

Mr. MORGAN. As a first lien on the revenue.

Mr. PECORA. That is, on the special revenues created by the act of 1925.

Mr. MORGAN. Correct.

Mr. PECORA. Not the ordinary revenues, but the special revenues under the act of 1925.

Mr. MORGAN. Yes.

Mr. PECORA. As a matter of fact, Mr. Morgan, had not the Chase Bank sought to enter into financing agreements with the Cuban Government as far back as 1926 with regard to this public-works program?

Mr. MORGAN. Numerous plans were explored, Mr. Pecora. I do not know whether you can call it seeking to enter into an engagement. It was in the normal course of business, inquiring what could be done.

Mr. PECORA. With a view of getting a contract to do the financing.

Mr. MORGAN. Quite true; naturally.

Mr. PECORA. Who was the American Ambassador to Cuba in 1926 and 1927?

Mr. MORGAN. Enoch Crowder.

Mr. PECORA. General Crowder?

Mr. MORGAN. General Crowder.

Mr. PECORA. Had any question been raised in 1926 and in 1927, prior to the making of this agreement of February 19, 1927, with regard to the legality or validity of this public-works program, on the ground that it involved or might involve an expenditure of moneys and the contraction of an indebtedness in violation of the provisions of the so-called "Platt amendment?"

Mr. MORGAN. I never heard of it.

Mr. PECORA. You never heard of it. Now, in your special study of this subject, in order to qualify you to testify to it before this committee, did you by any chance come across a memorandum addressed to a Mr. Tinker, of the Chase Bank, dated March 22, 1926? For your guidance, Mr. Morgan, you might look among your records for a document marked "56-4-A."

Mr. MORGAN. I have the material before me.

Mr. PECORA. Is this the first time your attention has been called to that memorandum?

Mr. MORGAN. No.

Mr. PECORA. When I asked you about it before, you apparently did not recall it.

Mr. MORGAN. Quite.

Mr. PECORA. Who was Mr. Tinker, the gentleman to whom this memorandum was specifically addressed?

Mr. MORGAN. Edward R. Tinker, president of the Chase Securities Corporation.

Mr. PECORA. He is now traveling about the country, is he not?

Mr. MORGAN. I do not know where Mr. Tinker is.

Mr. PECORA. Can any of your associates inform us about that?

Mr. ALDRICH. Mr. Pecora, Mr. Tinker is on an automobile trip, and I have done everything I can to locate him, and I have asked

his secretary to get in touch with me. I have not asked him myself, but I have asked our people to tell him to get back.

The CHAIRMAN. Is he now connected with the Chase Securities Corporation?

Mr. ALDRICH. He is not at present connected with the Chase Securities Corporation. To make the record perfectly clear, he is doing some special work for the bank in connection with the reorganization of the Wesco Theaters Co., but he is not an officer of the bank.

Mr. PECORA. I have just been advised, Mr. Aldrich, by Mr. Tuttle that word has been received from Mr. Tinker by telephone substantially to the effect that he will be here later this week.

Mr. TUTTLE. Mr. Tinker was given a release by Mr. Meehan until Friday. He will get in touch with Mr. Sandefur Friday and find out when he will be required. Mr. Meehan said he would not be required until next week.

Mr. PECORA. On the first page of this memorandum to Mr. Tinker, which bears date March 22, 1926, is it not set forth as follows [reading]:

On Sunday, March 21, about 3 o'clock in the afternoon, General Crowder approached Mrs. Graves at the Jockey Club, stating he was very anxious to see me at once. Upon learning that I was at the Country Club he immediately came there and sent for me on the golf links. He seemed to be much exercised. He stated that he had heard persistent rumors that Blair & Co. and the Chase Securities Corporation were attempting to negotiate a loan to the Cuban Government of \$100,000,000, and that, in view of the fact that their indebtedness was already \$98,000,000 and the financial and economic condition of the country was in such a deplorable state, he found it very difficult to credit the above statement. He stated that the character of his information was such, however, that he could not disregard it, and, as a matter of fact, Cespedes was supposed to present to him a proposed project today (Monday, March 22); that as he understood it, they were attempting to make a loan to the government, but under another name, and that we all know, if any difficulty arose, the United States Government would be appealed to to make Cuba comply with her engagements.

Senator GORE. What are you reading from?

Mr. PECORA. I am reading from a memorandum addressed to a Mr. Tinker, on March 22, 1926, by a Mr. Graves. Is that right, Mr. Morgan?

Mr. MORGAN. Yes.

Mr. PECORA. The initials at the end of this memorandum are the initials of a Mr. Graves.

Mr. MORGAN. Correct.

Mr. PECORA. Who was Mr. Graves at that time?

Mr. MORGAN. He was on detached service from the bank, at the Havana branch; now vice president of the Chase National Bank.

Mr. PECORA. Does this memorandum of Mr. Graves to Mr. Tinker further say:

General Crowder stated that he and I had been friends for a long time, and he thought it was only fair to tell me of the situation, because, as he saw it, it placed upon him the responsibility of making an immediate protest to the State Department in Washington. He called my attention to Article 2 of the Platt amendment and further said that he supposed these people had secured advice from American lawyers who really were insufficiently acquainted with the proper construction of the constitution of Cuba, of which the Platt amendment was a part.

Do you find that in that memorandum, Mr. Morgan?

Mr. MORGAN. I beg your pardon?

Mr. PECORA. Do you find that in the memorandum?

Mr. MORGAN. It is there; yes.

The CHAIRMAN. When was the branch of the Chase National Bank established in Habana?

Mr. MORGAN. It was a successor institution to an office of the American & Foreign Banking Corporation, which the Chase Bank took over in January 1925. [After conferring with an associate:] It was not a successor organization. It purchased the assets and assumed the liabilities of this office of the American & Foreign Banking Corporation.

Mr. PECORA. I show you, Mr. Morgan, what purports to be a photostatic reproduction of the entire memorandum from which I have read only a part which was addressed by Mr. Graves to Mr. Tinker on March 22, 1926. Will you be good enough to look at it and tell us if you can identify it as being a true and correct copy of such a memorandum sent by Mr. Graves to Mr. Tinker?

Mr. MORGAN (after examining paper). I do identify it.

Mr. PECORA. I offer it in evidence and ask that the entire memorandum be spread on the record.

The CHAIRMAN. Let it be admitted.

(The document referred to, memorandum, March 22, 1926, Graves to Tinker, was received in evidence, marked "Committee Exhibit No. 30", and the same will be found on page 2608.)

Mr. MORGAN. Mr. Pecora, I would like to call your attention at this point to the fact that this relates to an undertaking that never took place.

Mr. PECORA. It had relation to a public-works program, did it not?

Mr. MORGAN. But it never took place.

Mr. PECORA. I say, it had relation to a public-works program contemplated by the Cuban Government.

Mr. MORGAN. It was a \$100,000,000 external loan, according to this statement, and that loan was not placed.

Senator COUZENS. What was the purpose of the \$100,000,000 loan?

Mr. MORGAN. This was one of the numerous plans exploring the public-works situation in Cuba, Senator, and, of course, this \$100,000,000 was for the purpose of financing a public-works program.

Senator COUZENS. So, your answer to Mr. Pecora's question is yes, that it was in connection with public works.

Mr. MORGAN. But a project that never took place.

Senator COUZENS. I understand; but you are evading the question.

Mr. MORGAN. But he is discussing the legality of a project that never took place.

Senator COUZENS. He was not doing anything of the kind. He asked you the question whether this was in connection with public works, and you evaded the question. I want to know whether it was yes or no.

Mr. PECORA. Do you know, Mr. Morgan—

Senator COUZENS. Do you want an answer to that question?

Mr. PECORA. Yes; I do.

Mr. MORGAN. I supposed I had answered it. If I did not, I apologize to you. I meant to say yes.

Senator GORE. Do you know whether it was abandoned on account of this Crowder protest or not?

Mr. MORGAN. Senator Gore, would you repeat that? I did not hear it.

Senator GORE. Do you know whether or not it was abandoned on account of this Crowder protest?

Mr. MORGAN. No; I do not.

Mr. PECORA. Have you read this memorandum of Mr. Graves to Mr. Tinker in full at any time heretofore?

Mr. MORGAN. Yes.

Mr. PECORA. When did you read it for the first time?

Mr. MORGAN. About 3 or 4 weeks ago.

Mr. PECORA. Was that the first knowledge you had of the existence of this memorandum?

Mr. MORGAN. It was.

Mr. PECORA. Are you familiar with the last paragraph of this memorandum of Graves to Tinker, which reads as follows (reading):

It is clear that the bank should preserve cordial relations with the United States Ambassador, but, while not telling him anything that would damage our interests in Cuba, to be careful not to make any statements which he might easily learn were contrary to facts.

Are you familiar with that statement in this memorandum?

Mr. MORGAN. Yes.

Mr. PECORA. Have you, from any sources that have become available to you in any way in order to enable you to make this special study of this Cuban loan situation, learned what Mr. Graves and Mr. Tinker had in mind at that time.

Mr. MORGAN. Yes; I have.

Mr. PECORA. What did you learn about that?

Mr. MORGAN. Some 4 years before, or 3 years before, a large piece of financing was done by an important banking house in New York, in which General Crowder was deeply interested—and when I say “deeply interested” I mean precisely that—

Senator GORE. You mean in an official way?

Mr. MORGAN. Completely so, Senator; and he naturally felt, or our representatives, so I am informed, naturally felt that Ambassador Crowder believed that any further financing should go to the same house. Accordingly our representatives told him everything that had happened, but they did not say what was, in their minds, to happen in the future.

Mr. PECORA. What do you mean when you say they told him everything that had happened, but did not tell him what they had in mind regarding any future relations?

Mr. MORGAN. They were entirely prepared to report to him on matters on which we had come to an agreement.

Mr. PECORA. In other words, they were willing to tell him what was already a matter of public record?

Mr. MORGAN. No, indeed. Before it became a matter of public record. But they were willing to inform him of conclusions reached.

Mr. PECORA. Do you know what reason they might have had at that time not to take the American Ambassador into their confidence with regard to future plans for financing the Cuban Government?

Mr. MORGAN. Simply banking competition.

Mr. PECORA. What is that?

Mr. MORGAN. Banking competition.

Mr. PECORA. Were they afraid that General Crowder might break the confidence for the benefit of some competitor?

Mr. MORGAN. There was no use in embarrassing the general with confidences when he was already anxious to see that the financing should continue the line already set down.

Mr. PECORA. Let us see what further Mr. Graves said to Mr. Tinker in this memorandum that you first learned about 3 or 4 weeks ago. I am reading from the memorandum, our committee Exhibit No. 30 in evidence as of this date:

I pointed out to him that I represented neither Blair & Co. nor the Chase Securities, although both organizations were friendly with the Chase Bank; that any financial plans or discussions they may have had with the Cuban Government were matters which I was not in a position to discuss. I told him that I would assume, however, the first thing any group of bankers would be sure of was that any plans they had would not run counter to the provisions of the Cuban Constitution or the Platt amendment, and that I would presume that any such groups would not only have the best legal advice from American lawyers, but from the most outstanding legal talent in Cuba as well.

General Crowder said, you know, I believe in treating all American interests alike, to which I replied that I was well aware of this. He said that 2 or 3 years ago representatives of Blair & Co. came to Cuba in an attempt to loan the Cuban Government 40 million dollars, but they did not call on him and they had not even had the courtesy of calling on him this time either.

I made no comment on these statements, but told him that I would attempt to find out something about the situation that night, and if I were successful I would communicate with him as soon as I was in position to do so.

And then further on he says:

In view of the fact that General Crowder was to have the plans submitted to him today and he knows that Mr. Tinker and Mr. Benard had been here and that I had been with them, it would be foolish to pretend utter lack of knowledge of their interest in the public-works program, and in view of the fact that General Crowder expected to hear from me in some form it was better I should communicate with him and tell him that Mr. Benard had not returned but I would get in touch with him immediately upon his arrival in Habana, so that he might explain to General Crowder any ideas they might have on the financing plan. Failing to do so, I expected to get into communication with Mr. Tinker during the course of the day and would let him know whatever Mr. Tinker wished to communicate to him.

Do you believe that these statements embodied in this memorandum, relating, as they purport to do, to conversations between Mr. Graves and General Crowder, then the American Ambassador to Cuba, indicate a disposition on the part of Mr. Graves and the interests he represented to keep General Crowder in the dark with regard to their proposed financing plans for the Cuban Government?

Mr. MORGAN. I do not want to judge their motives, Mr. Pecora.

Mr. PECORA. I beg your pardon?

Mr. MORGAN. I do not want to judge their motives. All that I know is that this was a preliminary project. That this was entirely in the exploratory stage. That the State Department was always advised in advance of any conclusion of a program.

Mr. PECORA. Well, what do you suppose Mr. Graves had in mind then when he said to Mr. Tinker in this memorandum "it would be foolish to pretend utter lack of knowledge of their interest in the public-works program \* \* \*"? Was he counselling Mr. Tinker not to commit himself to a profession of ignorance with regard to these proposed financing plans?

Mr. MORGAN. I should assume that the memorandum means—

Mr. PECORA (interposing). That the memorandum speaks for itself?

Mr. MORGAN (continuing). That the memorandum means exactly what it says.

Mr. PECORA. And it might be construed as meaning just what I have indicated, might it not?

Mr. MORGAN. I will not go as far as that, Mr. Pecora.

Mr. PECORA. Your special study has not qualified you to go that far?

Mr. MORGAN. Certainly not.

Mr. PECORA. All right. What do you suppose, if you can tell us, Mr. Graves had in mind when he said in the concluding paragraph of this memorandum to Mr. Tinker:

It is clear that the bank should preserve cordial relations with the United States Ambassador, but while not telling him anything that would damage our interests in Cuba, to be careful not to make any statements which he might easily learn were contrary to facts.

Mr. MORGAN. I have already explained the background of that. The statement can speak for itself.

Mr. PECORA. What meaning does it convey to you with regard to what was in the minds of Mr. Graves and Mr. Tinker at this time?

Mr. MORGAN. Mr. Pecora, I cannot enter into the mentalities of those men so long ago, or even now, for that matter.

Mr. PECORA. Mr. Morgan, I understand you made a special study of this whole situation, and that in the course of that special study you came across this memorandum 3 or 4 weeks ago.

Mr. MORGAN. Quite true.

Mr. PECORA. And I presume you have read it, digested it, and fully considered its import, meaning, and significance, have you?

Mr. MORGAN. Quite true, and I have already stated it, Mr. Pecora.

Mr. PECORA. Do you think it is a violent assumption to say that from the language of this concluding paragraph of Graves' memorandum to Tinker, Graves was advising Tinker that the representatives of the Chase Bank or Blair & Co. or the Chase Securities Corporation should be careful not to disclose anything to the American Ambassador to Cuba, at that time General Crowder, that might be harmful to the interests of those financial institutions?

Mr. MORGAN. I leave the paragraph as it stands. I cannot explain the mentalities of those men, Mr. Pecora. I think that it is not proper to ask me.

Mr. PECORA. Well, on the basis of your own understanding of the meaning of the words employed by Graves in this memorandum to Tinker do you think that it is a violent assumption that what Graves was advising Tinker to do was to preserve cordial relations with the American Ambassador, but at the same time refrain from telling him anything that might be detrimental to the best interests of the bank?

Mr. MORGAN. I can only stand by the record.

Mr. PECORA. What is that?

Mr. MORGAN. I can only stand by the record.

Mr. PECORA. What record are you referring to now?

Mr. MORGAN. This.

Mr. PECORA. This memorandum?

Mr. MORGAN. Quite true.

Mr. PECORA. Well, can you not answer my question which is based upon the meaning of this last paragraph?

Mr. MORGAN. I cannot interpret this paragraph beyond what it says.

Senator COUZENS. May I ask you: When you discovered that in the files did you confer with Mr. Graves or with Mr. Tinker or with anybody else in the company?

Mr. MORGAN. No.

Mr. PECORA. You do not know what interpretation Mr. Graves or Mr. Tinker placed on this memorandum then, do you?

Mr. MORGAN. No.

The CHAIRMAN. You say that the proposal that was in the minds of Mr. Tinker or Mr. Graves never went through. When did that proposal terminate?

Mr. MORGAN. It died aborning, I think, Senator.

Mr. PECORA. As a matter of fact, Mr. Morgan, while the immediate plan of financing referred to in this memorandum might have died aborning, is it not true that subsequent to March 22, 1926, the date of this memorandum, the interests that were represented by Graves and by Tinker at that time did in February of the following year enter into an agreement to finance these deferred payment public-works certificates in the amount of 10 millions of dollars, issued under this public-works program?

Mr. MORGAN. A totally different project in conception and in kind

Mr. PECORA. Is it not a fact that in this memorandum of Graves to Tinker the question of whether or not any part of this public-works program would constitute a violation of the Platt amendment was in General Crowder's mind, and he brought it up for discussion with Mr. Graves?

Mr. MORGAN. The document relates exclusively to the 100-million-dollar project as Ambassador Crowder had it in mind, which was an external loan, and which General Crowder gave as a horseback opinion to be contrary to the Platt amendment.

Mr. PECORA. It was his horseback opinion that it was contrary to the Platt amendment. Did your people discard that opinion from your calculations or their contemplation of the future financing that they were to do?

Mr. MORGAN. Indeed not. The future financing was scrutinized most carefully from the standpoint of the Platt amendment.

Senator GORE. This 100-million-dollar loan that was proposed and was rejected—

Mr. MORGAN. Senator Gore, will you pardon me a moment so that I may finish the answer I was giving to Mr. Pecora's question?

Senator GORE. Yes. I beg your pardon for interrupting you.

Mr. MORGAN. It was scrutinized most carefully from the standpoint of the Platt amendment. It was passed upon by competent attorneys in New York and competent attorneys in Habana. The attorney in Habana, by the way, is a judge who is a member of the World Court, and at one time was its president. The subsequent financing—not this program, which never went through, but the subsequent financing was always reported to the State Department,

and the State Department answered in its usual form that it made no objection.

Senator GORE. This 100-million-dollar proposal, which was rejected, which you say was entirely different from the one that was afterward adopted, did that include either the capitol building or this highway that was subsequently constructed?

Mr. MORGAN. The 100-million-dollar—I do not know, Senator.

Mr. PECORA. What was this 100-million-dollar program that is referred to in this memorandum?

Mr. MORGAN. That is all I know about it.

Mr. PECORA. That is all you know about it?

Mr. MORGAN. Yes.

Mr. PECORA. All you know about it is the reference to it in this memorandum?

Mr. MORGAN. Yes.

Mr. PECORA. Your special study did not prompt you when you came across this portion of the memorandum to make further inquiries as to what that 100-million-dollar program was?

Mr. MORGAN. Mr. Pecora, there were an immense number of plans that were explored all the way through this Cuban financing from beginning to end.

Mr. PECORA. That does not answer my question, Mr. Morgan. Are you an attorney?

Mr. MORGAN. Oh, no.

Mr. PECORA. I thought you were, because you answer questions the way lawyers are reputed to answer them.

Mr. MORGAN. That is a compliment that I supposed I would never be good enough to get.

Mr. PECORA. That is not a compliment, because it is said that lawyers make the worst witnesses.

Senator GORE. You do not know anything about the projects that were included in this original proposal of 100 million dollars?

Mr. MORGAN. No; I do not, Senator.

Mr. PECORA. So far as you know to the contrary, this 100-million-dollar program referred to in this memorandum was part and parcel of the program initiated under the enactment of the public works law on July 15, 1925?

Mr. MORGAN. Quite true.

Mr. PECORA. Wait a minute. [Continuing:] Which you have already said was estimated to cost a total of \$325,000,000?

Mr. MORGAN. Yes.

Mr. PECORA. So that this \$100,000,000 program referred to in the memorandum could very well have been part of that program?

Mr. MORGAN. Oh, I think it was.

Mr. PECORA. All right. And General Crowder, according to Mr. Graves' advices to Mr. Tinker, had serious and grave doubts at that time, in March 1926, as to whether or not that program would constitute a violation of the Platt amendment, did he not?

Mr. MORGAN. He appears to have; yes.

Mr. PECORA. Yes. Was that concern of General Crowder's brought to the attention of the attorneys representing the Chase Bank or the Chase Securities Corporation or Blair & Co.?

Mr. MORGAN. Unquestionably.

Mr. PECORA. Who were the attorneys?

Mr. MORGAN. Rushmore, Bisbee & Stern, in New York, and Antonio S. de Bustamante, in Havana.

Senator COUZENS. Have you a copy of those opinions here?

Mr. MORGAN. No; I have not.

Senator COUZENS. I would like to have them.

Mr. PECORA. I was just going to call for them, Senator, because we have no copies of them.

Did they submit any opinions in writing about their conclusions on this subject?

[Mr. Williams submitted opinions on the validity of the financing that actually went through.]

Mr. PECORA. I would suggest that the gentleman who made a special study of this whole program tell us what the knows about it—

Mr. WILLIAMS. I beg your pardon.

Mr. PECORA. Because I imagine that a special study, which includes a consideration of the question of the legality of these loans, ought to include attention to this particular subject.

Mr. WILLIAMS. Naturally includes all the legal details involved in it.

Mr. PECORA. Do you know anything about any such opinions, Mr. Morgan?

Mr. MORGAN. At the time of such financing as was actually put through, unquestionably.

Mr. PECORA. Have you seen any such opinions rendered by counsel to the bank or to the Securities Corporation or to Blair & Co.?

Mr. MORGAN. No; I have not.

Senator COUZENS. He did not make a very extensive study, then, did he?

Mr. PECORA. In your consideration or special study of this subject, Mr. Morgan, did it not occur to you that it was important for you to ascertain all the facts with regard to any controversy or question that might have arisen or had arisen with respect to the legality of this public works program as being in violation of the Platt amendment.

Mr. MORGAN. Mr. Pecora, it seemed to me to be obvious that it was within the meaning of the Platt amendment inasmuch as the action was approved by the lawyers and was reported to the State Department and no exception taken.

Mr. PECORA. Well, to whom did it seem obvious? To you?

Mr. MORGAN. To me.

Mr. PECORA. To you?

Mr. MORGAN. Yes.

Mr. PECORA. Just look a moment at the provisions of that Platt amendment, reading as follows:

That said Government—

meaning the Cuban Government—

shall not assume or contract any public debt to pay the interest upon which and to make reasonable sinking-fund provision for the ultimate discharge of which the ordinary revenues of the island of Cuba, after defraying the current expenses of the Government, shall be inadequate.

I see that you have the text of this Platt amendment before you. Let me ask you with reference to this, Mr. Morgan: In view of the

fact that under the public works law of 1925 special revenues were created to meet the service charges of the indebtedness to be incurred in the construction of that public-works program, do you not think that the mere necessity for creating special revenues was in and of itself evidence that the ordinary revenues of the island were insufficient?

Mr. MORGAN. I think you are reading too much into the word "ordinary." As I read that, the ordinary revenues to my mind are the revenues from taxation. An extraordinary revenue, within the meaning of the Platt amendment, would be a loan.

Mr. PECORA. Extraordinary revenues would be a loan?

Mr. MORGAN. Quite true.

Mr. PECORA. Well then, what in the world is the value of this Platt amendment if that construction of it is correct? Will you point that out?

Mr. MORGAN. That is to say that any debt incurred by Cuba should be self-supporting; that it should be within the means of Cuba to repay.

Mr. PECORA. To repay out of the ordinary revenues, is that not what the Platt amendment says?

Mr. MORGAN. Out of taxation.

Mr. PECORA. No; it does not say out of taxation at all. Look at the text [reading]:

\* \* \* the ultimate discharge of which the ordinary revenues of the Island of Cuba after defraying the current expenses of the Government shall be inadequate.

Is that not the language of the amendment?

Mr. MORGAN. I repeat, Mr. Pecora, that the ordinary revenues do not have the restricted sense to my mind that they have to yours.

Senator GORE. Do you figure that they were going to borrow money to repay their debts?

Mr. MORGAN. Do I figure that they were going to borrow money to repay their debts? Yes.

Senator GORE. I know that is a new method of finance. I did not know that it was that old. Did the State Department make any written response to the inquiry about the eligibility of this loan?

Mr. MORGAN. The State Department wrote in the usual form that it did not take exception to the financing.

Senator GORE. Is that in the record?

Mr. MORGAN. I do not know whether you have it in.

Senator GORE. I wish you would put it in at this point.

Mr. PECORA. That was the stereotyped form used by the State Department in regard to all foreign issues which were brought out in this country.

Mr. MORGAN. Quite true.

Mr. PECORA. And the State Department has always been specific to state that by using that expression it did not mean to approve a loan at all.

Mr. MORGAN. Quite true.

Senator GORE. Mr. Pecora, I would like to get the State Department's records down here to see what Ambassador Crowder said to the State Department when the State Department had this matter up. Have you got them?

Mr. PECORA. No, Senator.

Senator GORE. I would like to have them.

The CHAIRMAN. Did you have it up with Ambassador Crowder at all? Was that subject taken up with the Ambassador? You say it was taken up with the State Department, but was it taken up with the Ambassador? Was he aware of what was going on?

Mr. MORGAN. Again let me make perfectly clear, Senator Fletcher, that the project to which Mr. Pecora is referring here, and upon which he is examining me, never went through. That when the final financing went through on February 19, 1927, Ambassador Crowder and the State Department were fully informed.

Mr. PECORA. Mr. Morgan, that was not the final financing, was it? That was only the beginning of it? This \$10,000,000 loan of February 1927 was only the beginning of a series of financing?

Mr. MORGAN. Yes; I meant when the financing was finally put through.

Mr. PECORA. Well, it was not finally put through until some years after 1927? And involved eventually an aggregate of 80 millions of dollars, did it not?

Mr. MORGAN. Yes; quite true, but—

Mr. PECORA. And all was part of this public-works program, was it not?

Mr. MORGAN. Quite true.

Mr. PECORA. And so far as you know to the contrary this \$100,000,000 program referred to in this Graves' memorandum to Tinker was also in relation to that public-works program; was it not?

Mr. MORGAN. Yes.

Senator COUZENS. When did General Crowder resign? Do you know?

Mr. MORGAN. We have got the date here somewhere, Senator.

Senator COUZENS. I would like to know it.

Mr. MORGAN. I suggest about 1928. I do not know.

Senator COUZENS. About 1928?

Mr. MORGAN. Yes.

Senator COUZENS. And who succeeded him? Do you know?

Mr. MORGAN. Ambassador Judah, of Chicago.

The CHAIRMAN. Did not Mr. Guggenheim succeed General Crowder?

Mr. MORGAN. No. Ambassador Judah, from Chicago, succeeded General Crowder.

The CHAIRMAN. How long did he serve?

Mr. MORGAN. About 2 years.

Mr. PECORA. General Crowder is now dead; is he not?

Mr. MORGAN. Yes.

Mr. PECORA. Mr. Morgan, let me recall to your attention this statement from Graves' memorandum to Tinker:

He—

Meaning General Crowder—

called my attention to article II of the Platt amendment and further said that he supposed these people—

Meaning the bankers—

had secured advice from American lawyers who really were insufficiently acquainted with the proper construction of the constitution of Cuba of which the Platt amendment was a part.

Does not that indicate to you, Mr. Morgan, that back in March 1926 General Crowder had expressed to Mr. Graves a conviction on his part, on General Crowder's part, that any financing of this public-works program would constitute a violation of the Platt amendment, and that if any American lawyers had advised American bankers to go ahead with it, that those American lawyers were insufficiently versed in the Cuban law and in the Platt amendment?

Mr. MORGAN. No; it does not.

Mr. PECORA. What does it mean to you then?

Mr. MORGAN. It means this project.

Mr. PECORA. This 100-million-dollar project?

Mr. MORGAN. Yes.

Mr. PECORA. You have already said that the 100-million-dollar project was part of the public-works program of 1925.

Mr. MORGAN. No. I am sorry. That is not what I said; or if I did say it, the context was different. I said it related to the public-works program without question.

Mr. PECORA. All right. Well, that is what I am asking you about.

Mr. MORGAN. But it was not a part of the public-works program because it never happened.

Mr. PECORA. We know it never was finally consummated, and has not been yet.

Mr. MORGAN. Well, that is what I am after.

Mr. PECORA. Because there has not been any \$325,000,000 public-works program consummated as yet, but when Mr. Tinker and Mr. Graves were considering this matter in the light of the concern which General Crowder expressed as to whether or not the financing of that program would be a violation of the Platt amendment General Crowder had in mind the entire program, did he not?

Mr. MORGAN. I cannot conceive of it.

Mr. PECORA. You cannot?

Mr. MORGAN. No.

Senator GORE. Do you know any difference in the state of facts underlying the loan that was proposed and never went through that differentiates it from the state of fact underlying the loan that did go through, that would put one outside of the Constitution and bring the other inside of the Constitution?

Mr. MORGAN. Yes, Senator Gore; I think that I can state that perfectly.

Senator GORE. Do.

Mr. MORGAN. This was an external loan to be offered to the public in the amount of 100 million dollars.

Senator GORE. When you say "this", do you mean the original one?

Mr. MORGAN. The one upon which Mr. Pecora is so industriously examining me.

Senator GORE. You mean the \$100,000,000?

Mr. MORGAN. Yes; the \$100,000,000.

Senator GORE. Yes?

Mr. MORGAN. The project that went through on February 19, 1927, was a \$10,000,000 operation, and was designed for the financing in anticipation of revenues of the actual day-to-day construction of the public-works program. It had a 4-year maturity and the amounts

involved were amply within the revenues not only anticipated but actually received.

Senator GORE. It could be serviced out of the ordinary revenues and the \$100,000,000 could not?

Mr. MORGAN. Well, my interpretation of "ordinary revenues" includes the taxation.

Senator GORE. Yes?

Mr. MORGAN. The special taxes provided for this operation.

Mr. PECORA. What did you think ordinary revenues meant, as that term is used in the Platt amendment?

Mr. MORGAN. The proceeds of taxation.

Mr. PECORA. And the amendment prohibited the contracting of any public debt of any kind where the servicing thereof could not be affected out of those ordinary revenues, did it not?

Mr. MORGAN. Quite.

Mr. PECORA. Now the servicing of this public works program was accomplished through the medium not of the ordinary revenues but special revenues created by special acts, was it not?

Mr. MORGAN. But it is impossible to conceive Mr. Pecora, under the reading of the Platt amendment, that the taxes of Cuba should remain in exactly the same position that they were in at the time that the Platt amendment was put through. I cannot conceive of its being possible that it would prohibit an increase in taxation.

Mr. PECORA. What did you understand or what do you now understand was the purpose of this Platt amendment?

Mr. MORGAN. To prevent Cuba incurring a debt which she could not properly manage.

Mr. PECORA. Which she could not properly manage out of what?

Mr. MORGAN. Out of her revenues.

Mr. PECORA. Out of what revenues?

Mr. MORGAN. Out of taxation.

Mr. PECORA. The ordinary revenues?

Mr. MORGAN. Out of taxation.

Mr. PECORA. Well, it does not say "out of taxation", does it? It says "out of ordinary revenues."

Mr. MORGAN. I would say that an extraordinary revenue, in my interpretation of the meaning of the Platt amendment, is a loan.

Mr. PECORA. Then in effect you are saying that extraordinary revenues are the same as ordinary revenues, are you not?

Mr. MORGAN. No; I am saying no such thing.

Mr. PECORA. I thought you just said that. What was his answer to the last question before that?

(Thereupon the answer was read by the reporter as above recorded, as follows:)

Mr. MORGAN. I would say that an extraordinary revenue, in my interpretation of the meaning of the Platt Amendment, is a loan.

Senator ADAMS. I should say that a loan was the most extraordinary revenue.

Mr. MORGAN. I should, too.

Mr. PECORA. Do you as a banker in the ordinary acceptance of the term "loan" regard that in the same way as you do "revenue"?

Mr. MORGAN. It is frequently.

Mr. PECORA. I say, do you as a banker in the ordinary acceptation of the term "loan" regard that in the same way that you do "revenue"?

Mr. MORGAN. In public financing it is frequently set up that way, Mr. Pecora.

These revenues were provided for by act of the Cuban Congress on July 15, 1925. The financing was arranged for on February 19, 1927.

Mr. PECORA. The initial financing?

Mr. MORGAN. The initial financing. For a year and seven months revenues had been coming in—

Mr. PECORA. Ordinary or special?

Mr. MORGAN. I would say that we would designate them adequately as ordinary revenues, earmarked—

Mr. PECORA. Even the special revenues?

Mr. MORGAN. An earmarked revenue does not indicate an extraordinary revenue.

Mr. PECORA. Are you using the terms "special revenues" and "ordinary revenues" as synonymous terms?

Mr. MORGAN. No; as an earmarked revenue—

Mr. PECORA. As distinguished from ordinary revenue?

Mr. MORGAN. Yes. That has a special advantage; first, from the standpoint of the Cuban Government, that it restricted the improvements to the field set up by taxation; and from the standpoint of the creditor it had a special advantage in having earmarked revenues which could not be diverted except for the service of those obligations, unless that was already taken care of.

Mr. PECORA. In the course of your special study of these loans, Mr. Morgan, what, if anything, did you ascertain as to the attitude or opinion of the Chase Bank or the Chase Securities Corporation or Blair & Co. with respect to making any loan to the Cuban Government at that time, in view of this statement which General Crowder had made to Mr. Graves? I am reading again from exhibit 30:

He—

meaning General Crowder—

seemed to be much exercised. He stated that he had heard persistent rumors that Blair & Co. and the Chase Securities Corporation were attempting to negotiate a loan to the Cuban Government of \$100,000,000, and that in view of the fact that their indebtedness was already \$98,000,000, and the financial and economic condition of the country was in such a deplorable state, he found it very difficult to credit the above statement.

Mr. MORGAN. I would say that the form that the financing initially took gave full effect to even the extreme interpretation of this opinion.

Mr. PECORA. Of which opinion?

Mr. MORGAN. General Crowder's opinion.

Mr. PECORA. Do you think General Crowder's opinion was an exaggerated one, that he remarked that the external indebtedness of Cuba at that time was already \$98,000,000 and that the financial and economic condition of the country was in a deplorable state?

Mr. MORGAN. I did not say that.

Mr. PECORA. I am asking you if that is what you thought?

Mr. MORGAN. I said, even the exaggerated interpretation—

Mr. PECORA. It is because you used that term "exaggerated", that I am asking you now if you think that General Crowder, when he made that observation, was exaggerating the situation.

Mr. MORGAN. I have no opinion on that at all. I would say that General Crowder was amply competent to express himself, if he is adequately reported here.

Mr. PECORA. And General Crowder's expression, if adequately and properly reported by Mr. Graves, was to the effect that the financial and economic condition of Cuba at that time was deplorable?

Mr. MORGAN. So he says.

Mr. PECORA. Do you think he spoke within the bounds of facts or not?

Mr. MORGAN. The conditions were not good; no. There was unemployment, and that was one of the main reasons for this public works program following very much the line that we are following now in the United States, Mr. Pecora.

Mr. PECORA. You think the Government today is borrowing this plan that the Machado government embarked upon in 1925?

Mr. MORGAN. I am saying that the Machado government embarked upon this public-works program in order to improve economic conditions in Cuba, providing for improved instrumentalities for commerce and trade, to provide for unemployment within the country, to relieve the economic situation generally. I say that is one of the reasons why we are embarking upon a public-works program in the United States.

Senator GORE. Did it improve the economic conditions of Cuba?

Mr. MORGAN. Yes; it did temporarily.

Mr. PECORA. For how long?

Mr. MORGAN. Until the whole world depression caught us.

Mr. PECORA. Is it not a fact that the expenditures exceeded the revenues right shortly after that?

Mr. MORGAN. Perhaps because the budget was too generously drawn. The public-works revenues exceeded anticipation right through to 1929 and 1930; and, of course, it is the public-works revenues that are relevant.

Senator GORE. You say that it improved economic conditions until the crash came?

Mr. MORGAN. It was not sufficient to avert the crash in Cuba.

Mr. PECORA. You commenced this special study about 4 weeks ago?

Mr. MORGAN. Mr. Pecora, I have been in charge, for the bank, of Cuban financing since September of 1931.

Mr. PECORA. But did you commence this special study—I am talking about your special study—about 4 weeks ago?

Mr. MORGAN. I reviewed a great many things that I was already in part familiar with, and learned some things that I had not known before.

Mr. PECORA. The term "special study" did not originate with me, but was used here by associates of yours who urged that you be put on the stand and examined on this subject. Did you commence this special study of this subject about 4 weeks ago?

Mr. MORGAN. I intensified my study of Cuba beginning 5 or 6 weeks ago.

Mr. PECORA. Five or six weeks ago. That might be regarded as a species of "cramming" for an examination?

Mr. MORGAN. Quite.

Mr. PECORA. During the cramming process did you come across a letter that was written by Mr. Batchelder, dated July 29, 1926?

Mr. MORGAN. Can you give me the number of that?

Mr. PECORA. The number is 56-7a. Did you come across that in the cramming process?

Mr. MORGAN. Yes.

Mr. PECORA. I show you what purports to be a photostatic reproduction of that letter, dated July 29, 1926. Will you kindly look at it and tell me if it is a true and correct copy of such letter written by Mr. Batchelder?

Mr. MORGAN. Yes.

Mr. PECORA. I offer it in evidence, and I would like to read it to the committee.

(The letter referred to, dated July 29, 1926, addressed "Dear Ned" and signed by Batchelder, was received in evidence as Committee's Exhibit No. 31, of October 23, 1933.)

Mr. PECORA. The letter marked "Committee's Exhibit 31", in evidence of this date, reads as follows: In handwriting across the top of the front page thereof is the inscription "Cuban Highway." Then in typewriting it is as follows:

JULY 29, 1926.

**DEAR NED:** I returned from Habana on Tuesday of this week, having stayed down there at least 2 weeks too long, just so that everybody up here would feel that we were leaning over backward in giving the Cubans plenty of time to decide whether or not they wanted to do any business with us at this time, and also as evidence of our desire to cooperate with them. I was sorry to hear that you had left before my return so that I could have spoken to you about this situation, not that it was of pressing importance but more as a matter of general policy.

The chances of any business being done on financing the public-works program are just as real now as they have ever been, not more nor less. At the moment the situation is about as follows: Notices have been published calling for bids to be submitted September 1, first publication having been made on July 23, which gives the contractors 40 days' notice to file their bids. Details, specifications, surveys, etc., are on file with the Public Works Department. A general clause has been inserted in the notices to the effect that the Government reserves to itself the right to accept any propositions which might be submitted on September 1 involving the financing of all or any part of the work, and the other bidders shall have no right to object. They hope this will bring forth some financing ideas from the contractors that will meet the views of the Secretary of the Treasury. I can tell you, however, that the Public Works Department feels that it will not get any acceptable propositions, and so certain are they of this opinion that I am told they are planning to start piecemeal operations with the money on hand on the so-called secondary roads which can be built locally and at less cost.

You are familiar with the President's statement that he would not make any foreign loans. I agree that the institute idea is the most practical and will enable him to save his face, but there is this difficulty in connection with this situation at this time. The general elections throughout the island will take place on November 1, all the Representatives and Senators are out campaigning in their districts, and it would be difficult to get legislative action necessary to create and authorize in a satisfactory manner the machinery for the institute plan. This is particularly so, as I am told the President would be besieged with demands from the politicians that he support them in their district in return for their voting the necessary legislation. This does not mean that the President has not sufficient prestige and power to insist upon the passing of the legislation, but rather that he does not want at this time to be

put in this position. As near as I could gather, this seems to be the crux of the difficulty at this time insofar as the indirect loan is concerned.

Looking forward there are two dates to keep in mind—September 1, when the bids are to be submitted, when we should be represented, and shortly after November 1, when it seems to me the chances would be more favorable for getting the necessary legislation. There is, without question, a great local demand that something on an intensive scale be done on the public-works program. The administration has made ambitious promises, and it will be difficult for them to fulfill them without financing. The taxes have been coming in satisfactorily, but are working an unusual hardship on the people by reason of their selections during this time of acute economical depression throughout the island plus the fact that the money is withdrawn from circulation, being loaded up in the treasury.

I am absolutely of the opinion that we must consider this business only with a guarantee direct or indirect of these public-works revenues. There is a good deal of agitation for the reduction of the transportation and sales taxes, and with the power which the President has to suppress or reduce all taxes, any bankers would be foolish not to insist upon protection against such actions.

Regarding our position, it seems to me that we are as well situated as any of our competitors. In order to have had two strings to our bow I should like to have been allowed to impress our own individuality upon the President rather than relying entirely upon intermediaries. As far as I could gather, the President is looked upon with increasing favor and his administration is considered a remarkably honest one for the Island. The Secretary of the Public Works, who has all the money he wants, is apparently out to make a record for himself by making the best trade possible for the government on all construction work and purchases. The Secretary of the Treasury presents a difficulty. He is looked upon as a thoroughly honest man, but is more theoretical than practical. However, he can be satisfied provided the President will change his idea about any loan and secure the necessary simple legislation. The Secretary of the Treasury objects to the limitations imposed by the present authorizations much in the same manner as we do.

The City Co. people are doing nothing more than to keep an eye on the business inquiring once or twice a week if there is any progress. I feel that their activities stopped about 3 weeks before we got down there; they having then reached about the same conclusions as ourselves.

The Morgan people, if they have any interest in the indirect loan, have it through the City Co., but if a direct loan does come out of all this they probably expect to get it in their own name.

During my absence I asked Strahan & Sieglie to make inquiries from time to time from the Public Works Department and through Grau as to any progress. Whatever information they do get will probably come from the Public Works Department because I am quite of the opinion that Grau is of very little real assistance.

Very sincerely yours,

C. F. BATCHELDER.

Senator COUZENS. To whom is that addressed?

Mr. PECORA. To "Ned." Who was Ned?

Mr. MORGAN. Mr. Tinker.

Mr. PECORA. The same Mr. Tinker to whom Graves addressed the memorandum of March 22, 1926?

Mr. MORGAN. Yes.

Senator GORE. What is the difference between a direct and an indirect loan?

Mr. PECORA. Perhaps Mr. Morgan can tell us that.

Mr. MORGAN. A direct or indirect loan? At this time, Senator Gore, a proposal was being explored—one of the many explored at the time—which contemplated the erection of an institute, so called, which would be owned in full by the Cuban Government. This institute should have the right to borrow and, at the same time, should make contracts in connection with the public-works program. That would be an indirect loan rather than a direct one.

Senator GORE. The Government would guarantee the loan?

Mr. MORGAN. Presumably so. I should think anyone would want to have a guarantee by the Cuban Government in that case, or else a prior lien on the taxes.

Senator GORE. The direct loan method was finally decided on?

Mr. MORGAN. Yes.

Senator COUZENS. Was that to get around the Platt amendment; that proposed organization of the institute?

Mr. MORGAN. I think not.

Mr. PECORA. This institute that you have referred to was designed to be the medium through which the financing of the public-works program was to be effected, was it not?

Mr. MORGAN. Yes.

Mr. PECORA. Whose idea was that institute, by the way?

Mr. MORGAN. I think that that idea was given birth to in several banking quarters, not simply in the Chase, but elsewhere.

Mr. PECORA. Did a Mr. Catlin have anything to do with giving birth to this idea?

Mr. MORGAN. I do not know.

Mr. PECORA. Do you know the Mr. Catlin to whom I refer?

Mr. MORGAN. Yes.

Mr. PECORA. Who is he?

Mr. MORGAN. Mr. Catlin was a lawyer who at that time was a member of the advisory committee—

Mr. PECORA. What advisory committee?

Mr. MORGAN. Of the branch in Habana.

Mr. PECORA. Of the Chase Bank branch in Habana?

Mr. MORGAN. Yes; and an officer of the Electric Bond & Share Co. of New York.

Mr. PECORA. It was while he was an officer of the Electric Bond & Share Co. in New York that he was also an officer of the Chase Bank branch?

Mr. MORGAN. No; not an officer. He was a member of the advisory committee.

Mr. PECORA. Of the bank?

Mr. MORGAN. As is usual in such cases, the advisory committee is made up of people having important business relations.

Mr. PECORA. Mr. Morgan, in your cramming for this examination did you come across many references to Mr. Catlin's activities?

Mr. MORGAN. I did.

Mr. PECORA. What is his full name?

Mr. MORGAN. Henry W. Catlin.

Senator COUZENS. Where is he now?

Mr. MORGAN. Dead.

Mr. PECORA. Mr. Morgan, in the consideration which you gave, be it much or little, if any at all, to this letter of Mr. Batchelder's to Ned, dated July 29, 1926, did it occur to you that Mr. Batchelder, in July 1926, himself expressed grave concern about the financial and economic condition of Cuba?

Mr. MORGAN. No.

Mr. PECORA. Does he not indicate some such opinion in this letter?

Senator COUZENS. Mr. Batchelder is here. Is he not the best witness?

Mr. PECORA. Apparently not; according to these gentlemen, Mr. Morgan is the best witness.

Mr. MORGAN. On the whole subject. If you choose to examine Mr. Batchelder on his own letter, he is entirely prepared to do so, I am sure.

Mr. PECORA. My recollection of the brief statement Mr. Batchelder made when I put him on the stand this morning was that he had no knowledge of the whole steps of this financing. Apparently, back in July 1926, before the initial financing was effected in February 1927, he was down in Cuba, making observations and writing the results of his observations to Mr. Tinker. At least, that is how I construe the letter which has just been offered in evidence. You have no different notion about that, have you, Mr. Morgan?

Mr. MORGAN. No.

Mr. PECORA. All right.

Mr. MORGAN. Mr. Batchelder's references to economic conditions in Cuba were strictly relative to the withholding of public works taxes if I mistake not.

Mr. PECORA. Let us see what he says about it. Let me quote from the second page of his letter:

The taxes have been coming in satisfactorily, but are working an unusual hardship on the people by reason of their collection during this time of acute economical depression throughout the island, plus the fact that the money is withdrawn from circulation and being laid up in the Treasury.

He is referring to the general economic situation of the island, isn't he?

Mr. MORGAN. No; and that is precisely what I had in mind, Mr. Pecora, when I started to answer your question, that—

Mr. PECORA (interposing). What did you have in mind?

Mr. MORGAN. When you impound a very substantial revenue in the Treasury and take it out of circulation, you naturally restrict business activity. It is one of the commonplaces of monetary theory, and that is exactly what Mr. Batchelder was talking about.

Mr. PECORA. You are not willing in these circumstances to have Mr. Batchelder's words speak for themselves, and now—

Mr. MORGAN (interposing). That is what he says.

Mr. PECORA (continuing). And now you are placing on the words your interpretation.

Mr. MORGAN. No, that is what he says.

Mr. PECORA. Let us see if that is a fact. Exactly what he says in this letter is the following:

The taxes have been coming in satisfactorily but are working an unusual hardship on the people by reason of their collection during this time of acute economical depression throughout the island, plus the fact—

Mr. MORGAN (interposing). That is just the point.

Mr. PECORA (continuing). One minute:

plus the fact that the money is withdrawn from circulation and being laid up in the treasury.

And that is the fact, that the money was withdrawn from circulation, which is in addition to the acute economical depression existing throughout the island. Isn't that what Mr. Batchelder says?

Mr. MORGAN. It seems to me that the two are joined inescapably together, and necessarily augmented the depression, the economic

situation. If you remove revenues at the rate of \$18,000,000 a year and tie them up in the treasury of the island, that is what it will do.

Senator GORE. Do you know what the circulating medium down there in Cuba is? I do not want to embark on that field of inquiry particularly, but would like to know about this matter.

Mr. MORGAN. Rather less than \$100,000,000 at the present time. I do not know what it was in those days.

Senator GORE. You say it is \$100,000,000 now?

Mr. MORGAN. Something under \$100,000,000 now.

Mr. PECORA. If I correctly understand your interpretation of this statement in Mr. Batchelder's letter, what he called the acute economical depression throughout the island was due to the fact that the money was withdrawn from circulation and was laid up in the treasury.

Mr. MORGAN. That augmented it.

Mr. PECORA. You say it augmented it?

Mr. MORGAN. Yes.

Senator COUZENS. It augmented what?

Mr. MORGAN. The depression in the island.

Mr. PECORA. There was acute depression irrespective of this element of the money collected from taxes and being withdrawn from circulation by reason of its being hoarded in the treasury.

Mr. MORGAN. I suppose you understand that I testified to that before, that economic conditions in the island were not good.

Mr. PECORA. No; I did not understand it that way.

Mr. MORGAN. Well, that is what I said.

Mr. PECORA. I understood you to tell this committee—

Mr. MORGAN (interposing). That was the reason why the President of Cuba was anxious to prosecute his public-works program.

Mr. PECORA. I understood you to tell this committee that your opinion of what Mr. Batchelder had in mind when he wrote this letter was that the acute economical depression was due to moneys collected—

Mr. MORGAN (interposing). Not exclusively.

Mr. PECORA (continuing). Was being withdrawn from circulation.

Mr. MORGAN. Not exclusively.

Mr. PECORA. You did not say that?

Mr. MORGAN. No. Not exclusively.

Mr. PECORA. Well, I wish I had known that. I would have saved my voice a little bit. Now, Mr. Morgan, who is the Mr. Strahan referred to in this letter of Mr. Batchelder?

Mr. MORGAN. A member, or possibly at that time an assistant, in the office of Rushmore, Bisbee & Stern.

Mr. PECORA. An attorney in their office?

Mr. MORGAN. An attorney; yes, sir.

Mr. PECORA. Who is Mr. Sieglie, who is referred to in this letter?

Mr. MORGAN. He was associate manager of the branch in Havana.

Mr. PECORA. What is his first name?

Mr. MORGAN. It is Mario.

Mr. PECORA. Mario?

Mr. MORGAN. Yes, sir.

Mr. PECORA. Do you know Mr. Octavio Sieglie?

Mr. MORGAN. His brother, but I do not know him.

Mr. PECORA. He is a brother of Mario?

Mr. MORGAN. Yes, sir.

Mr. PECORA. Did you ever hear of Octavio Sieglie?

Mr. MORGAN. Yes, sir.

Mr. PECORA. What was his business?

Mr. MORGAN. Revolutionary.

Mr. PECORA. It is quite an active business down there, isn't it?

[Laughter.]

Mr. MORGAN. It is one of the leading businesses.

Mr. PECORA. And because it is one of the leading businesses the Chase National Bank financed these loans, did it?

Mr. MORGAN. Not at that time.

Senator GORE. There is no depression in his business, is there?

[Laughter.]

Mr. MORGAN. Hardly.

Mr. PECORA. Mr. Chairman, it is now 10 minutes to 1. At this point I am going to resume the questioning of this witness in detail with regard to Institute Plan that has already been referred to by him. May I ask that you take a recess until 2 o'clock? My voice is a little bit hoarse and I should like to rest it.

Senator GORE. May I ask a question right now, Mr. Chairman?

The CHAIRMAN. Certainly, Senator Gore.

Senator GORE. I may not be back this afternoon, and I should like to ask the question now.

The CHAIRMAN. You may proceed, Senator Gore.

Senator GORE. Mr. Morgan, I am not familiar with the history of the vicissitudes of this loan which was the final loan. But the Chase National Bank, or Chase Securities Corporation, took over those bonds as an investment or as an underwriting, which?

Mr. MORGAN. It was divided among a group of bankers, Senator Gore, and not offered to the public.

Senator GORE. Well, didn't the group of bankers distribute it?

Mr. MORGAN. Pardon me, Senator Gore, but which one of the operations are you now referring to?

Senator GORE. Well, the \$80,000,000 loan, \$60,000,000 of which was handled by the Chase institution.

Senator COUZENS. Senator Gore, Mr. Aldrich testified to that on Thursday or Friday of last week.

Senator GORE. Well, I want to lay the foundation for something else. Did those banks to which the bonds were distributed in turn market them throughout the country or did they hold them?

Mr. MORGAN. They marketed \$40,000,000 of bonds, and they marketed \$20,000,000 of serial certificates. The financing other than that was held by the bankers, retained by them.

Senator GORE. How much has the Chase Bank now of those bonds and certificates?

Mr. MORGAN. The certificates have been entirely retired, with the exception of \$87,000, of which the Chase Bank has about one half.

Senator GORE. Are you in a position to state—

Mr. MORGAN (continuing). And we have about \$3,000,000 of the bonds, par value.

Senator GORE. Are you in a position to state whether or not the other institutions to whom the bonds were allotted still retain them or have disposed of them?

Mr. MORGAN. They disposed of them.

Senator GORE. Are the bonds in default?

Mr. MORGAN. They are not in default.

Mr. PECORA. What are they quoted at today?

Mr. MORGAN. About 30.

Senator GORE. Has Cuba a fiscal agent or disbursing agent in this country through which we could ascertain who holds those bonds now?

Mr. MORGAN. That is an almost impossible thing. I have frequently attempted to get information of that sort.

Senator GORE. As to interest that is paid to holders of the bonds, who is the fiscal agent in this country?

Mr. MORGAN. The Chase National Bank.

Senator GORE. When you make disbursements semiannually, or whenever it may be, you know to whom the interest goes, don't you?

Mr. MORGAN. No; they come in the form of coupons from all over the country, and banks ordinarily send them in.

Mr. PECORA. Could you ascertain how many banks send in coupons from all over the country?

Mr. MORGAN. But they may not send the coupons in for themselves.

Senator GORE. That is not the point. How many banks send in coupons?

Mr. MORGAN. I can find that out, I think, and will be delighted to let you know.

Senator GORE. I wish you would.

The CHAIRMAN. Do you say the bonds are in default now?

Mr. MORGAN. No; the bonds are not in default now.

The CHAIRMAN. And you paid 95 for them, did you not?

Mr. MORGAN. Yes.

The CHAIRMAN. And you sold them at how much?

Mr. MORGAN. At 98.

The CHAIRMAN. And now they are worth 30?

Mr. MORGAN. So the market appraises them. There has been a revolution.

The CHAIRMAN. Now, Mr. Morgan, I am interested a little in these figures you have given us as to expenditures. In 1927-28 the expenditures of the Cuban Government were \$82,893,000, and in 1928-29 they were \$86,765,000. In 1929-30 they were \$83,000,000 plus. Then in 1930-31 the expenditures dropped to \$67,112,000. In 1931-32 expenditures dropped to \$47,189,000. And in 1932-33 they dropped to \$45,389,000. Can you tell us why that decrease in expenditures occurred, and what caused it?

Mr. MORGAN. It was due to two causes. One was a radical reduction, or successive reductions, in the budget. And, second, because some of the current expenses were not paid.

Senator GORE. Could you break down this 16 to 18 million dollars estimate per annum to service this loan? At 6 percent it would not be anything like that amount. Was the other set aside for amortization?

Mr. MORGAN. No; for current construction in Cuba.

Senator GORE. It did not go to extinguish the debt?

Mr. MORGAN. The bonds had a lien on the revenues to the extent of 90 percent, but once the lien was satisfied the surplus could pass

into the budget or be utilized for public-works purposes. You see, we did not finance anything like the total cost of the work.

Senator GORE. I see. Then a part of the construction cost was paid out of current revenue.

Mr. MORGAN. The whole thing was designed as far as possible on a pay-as-you-go basis.

Senator GORE. Do you know what the whole budget was or what the two projects cost over all?

Mr. MORGAN. I have got an elaborate calculation on that here which I will be glad to tell you about.

Senator GORE. This \$80,000,000 loan did not take care of the entire transaction, then?

Mr. MORGAN. No. There was a third lien of \$20,000,000 and—

Senator GORE (interposing). What was that?

Mr. MORGAN. A third lien of \$20,000,000, with which we have nothing whatever to do.

Senator GORE. I did not get that answer.

Mr. MORGAN. There was a third lien of \$20,000,000 which the Chase Bank has had nothing whatever to do with. Based on official statements and on our own calculations the total income of the public-works fund, including loan proceeds, during the fiscal years 1925-26 to 1932-33, inclusive, amounted to approximately \$236,000,000.

Senator GORE. Now, that is revenue from taxes and proceeds from loans?

Mr. MORGAN. Yes; excluding short-term advances the total income aggregated approximately \$227,000,000, of which \$80,000,000, or 35 percent, represents financing done by the Chase group.

Senator GORE. I had not understood that before. That is all, Mr. Chairman.

The CHAIRMAN. The subcommittee will now take a recess until 2 p.m.

(Thereupon, at 1 p.m. Monday, Oct. 23, 1933, the subcommittee recessed until 2 p.m. the same day.)

#### AFTERNOON SESSION

Upon the expiration of the noon recess the hearing was resumed at 2 p.m.

The CHAIRMAN. The committee will come to order. Mr. Pecora, may we interrupt long enough to put in the record a letter just received from Mr. Whitney, president of the New York Stock Exchange, and my reply thereto. I do not think it is necessary to read those. It refers to revision of questionnaire and the course the committee decided to pursue about that.

(The letter from Mr. Whitney and reply of Senator Fletcher thereto are as follows:)

NEW YORK STOCK EXCHANGE,  
October 21, 1933.

To the Hon. DUNGAN U. FLETCHER,  
*Chairman Committee on Banking and Currency,  
United States Senate, Washington, D.C.*

MY DEAR SENATOR FLETCHER: I have just received a copy of the transcript of the hearing before the committee yesterday and have noted your question as to whether the exchange would submit a modified questionnaire to its mem-

bers "with the statement that they are not ordered or directed to answer the questionnaire but that the exchange recommend that they answer them if feasible and leave it to the discretion of the members as to whether they answer the questionnaire or not, without imposing any penalties upon them in case they did not."

This, of course, is the first time that such a suggestion has been made to the exchange. When Mr. Pecora submitted his original questionnaire, he asked that the exchange obtain the information from its members. This, in effect, would have compelled them to answer or run the risk of being disciplined by the governing committee of the exchange. For the reasons stated in my letter of October 16, 1933, to Mr. Pecora, we did not feel that we could comply with his request. Your suggestion presents an entirely different question.

I am advised there was a meeting yesterday afternoon with representative members of the exchange to consider further modifications of the questionnaire with a view to reducing to a minimum both the cost and the burden of work which would be imposed upon the members in answering it and also with a view to clarifying certain of the questions so as to eliminate the possibility of duplication or other errors which would have tended to produce inaccurate answers. As soon as these modifications have been agreed upon we shall be glad, if it is your wish, to transmit the modified questionnaire to the members of the exchange with the recommendation that they, in order to facilitate the pending investigation, send their replies to the exchange. The replies so received will be tabulated and the information furnished to the committee. If any members of the exchange feel that they cannot or should not furnish the information, we shall inform you of their position so that the committee may take such action in regard to them as it deems necessary.

Faithfully yours,

RICHARD WHITNEY, *President.*

OCTOBER 23, 1933.

HON. RICHARD WHITNEY,  
*President Stock Exchange, New York, N.Y.*

MY DEAR MR. WHITNEY: Referring to yours of the 21st, just received.

I am advised that the form of questionnaire has been agreed upon, in a conference with Mr. Pecora's assistants and representatives of members of the stock exchange.

When my question was propounded, which you mention, Mr. Redmond replied there was no one here authorized to speak for the exchange.

The subcommittee, in executive session, decided that day that the questionnaire be taken up, as was done, and also that when revised and perfected it be submitted directly to the members of the stock exchange.

Very truly yours,

DUNCAN U. FLETCHER, *Chairman.*

MR. PECORA. Mr. Chairman, with respect to the letter that has just been put into the record and which was addressed to you by Mr. Whitney as president of the New York Stock Exchange under date of October 21, 1933, may I make this very brief statement: In this letter Mr. Whitney states as follows [reading]:

When Mr. Pecora submitted his original questionnaire, he asked that the exchange obtain the information from its members. This, in effect, would have compelled them to answer or run the risk of being disciplined by the governing committee of the exchange. For the reasons stated in my letter of October 16, 1933, to Mr. Pecora, we did not feel that we could comply with his request.

I want to say with respect to that statement, Mr. Chairman, that at no time did I say to Mr. Whitney or any other representative of the New York Stock Exchange, in words or substance, that I wanted, or the committee wanted, the governing authorities of the exchange to compel their members to answer the questionnaire, and there was no suggestion at any time made in the conferences that were held with Mr. Whitney and Mr. Redmond by my representatives, as the results of those conferences were reported to me, that the request

I made to Mr. Whitney to circulate the questionnaire among his members would be tantamount to compelling the members to answer whether they wished to do so or not.

In my letter to Mr. Whitney forwarding the questionnaire originally there is not a single word or phrase or sentence that could be construed as any understanding on my part or any request on my part or statement on my part that I wanted the exchange to compel its members to answer the questionnaire.

### TESTIMONY RESUMED OF SHEPARD MORGAN

Mr. PECORA. Now, Mr. Morgan, referring again to the memorandum of Mr. Graves to Mr. Tinker, dated March 22, 1926, which is known as "Committee's Exhibit 30" in evidence here, will you tell me what connection Mr. Graves then had with either the Chase National Bank, the Chase Securities Corporation, or Blair & Co.?

Mr. MORGAN. He was vice president of the Chase National Bank on detached service in Cuba at the branch.

Mr. PECORA. Now, let me call your attention to this statement of Mr. Graves in his memorandum to Mr. Tinker, referring to his conversation with General Crowder:

I pointed out to him—

meaning General Crowder—

that I represented neither Blair & Co. nor the Chase Securities, although both organizations were friendly with the Chase Bank; that any financial plans or discussions they may have had with the Cuban Government were matters which I was not in a position to discuss.

Do you think that that is a comprehensive statement of the fact?

Mr. MORGAN. I should say so, Mr. Pecora.

Mr. PECORA. Of Mr. Graves' knowledge that he professed to have in his conversation with General Crowder?

Mr. MORGAN. While the negotiations were being conducted by the Securities Corporation and he was there as a representative of the bank in the branch at Habana, I should say that was a fair and comprehensive statement.

Mr. PECORA. The Chase Securities Corporation and the Chase National Bank were owned and controlled by identically the same interests, were they not?

Mr. MORGAN. Quite true.

Mr. PECORA. And don't you think this statement was a bit disingenuous?

Mr. MORGAN. They were different corporations.

Mr. PECORA. We know that. Don't you think this statement to General Crowder by Mr. Graves was a bit disingenuous?

Mr. MORGAN. It seems to me it asserted the fact.

Mr. PECORA. It technically asserted the fact, but wasn't he as an officer of the Chase National Bank in its branch at Havana, Cuba, in a position to know fully all that was going on with regard to these proposed financing plans in behalf of the Chase Securities Corporation?

Mr. MORGAN. I think it entirely probable that he was not fully informed.

Mr. PECORA. Why did he then undertake to communicate on that very subject with Mr. Tinker, if he was not fully informed? Why wasn't that left to somebody who was more fully informed?

Mr. MORGAN. To tell Mr. Tinker what he was informed of.

Mr. PECORA. Was Mr. Tinker an officer of the Chase National Bank then?

Mr. MORGAN. No; he was an officer at that time of the Chase Securities Corporation.

Mr. PECORA. Was he also an officer of the Chase National Bank?

Mr. MORGAN. I think not at that time.

Mr. PECORA. What officer of the Chase Securities Corporation at that time in Cuba had charge of the negotiations for this proposed financing with the Cuban Government?

Mr. MORGAN. Mr. Tinker either was there or had recently been there at that time himself.

Mr. PECORA. What officer of the Chase Securities Corporation was there on March 22, 1926, the date of this memorandum that Mr. Graves gave to him?

Mr. MORGAN. Probably no one, Mr. Pecora.

Mr. PECORA. Well, who was on the ground looking after the interests of the Chase Securities Corporation with respect to this financing?

Mr. MORGAN. Mr. Graves was there looking after the interests of the Chase National Bank.

Mr. PECORA. And does that mean in substance that he was also there in position to look after the interests of the Chase Securities Corporation with regard to the same matter?

Mr. MORGAN. Not within his official obligation.

Mr. PECORA. Was he in a position to do that?

Mr. MORGAN. To give advice or to represent the Chase Securities Corporation?

Mr. PECORA. To look after the interests of it in the absence of any regular representative?

Mr. MORGAN. He could not sign for the Chase Securities Corporation nor carry on a definitive negotiation for the Chase Securities Corporation.

Mr. PECORA. In order for him to look after their interests was it necessary for him to have authority to sign anything? There was nothing to sign then, was there?

Mr. MORGAN. To carry on a definite negotiation, Mr. Pecora, it seems to me you have got to have your own man, haven't you?

Mr. PECORA. Then at this time the Chase Securities Corporation had nobody in Cuba looking after its interests with regard to this proposed financing?

Mr. MORGAN. I think that is correct.

Mr. PECORA. Well, do you think that Mr. Graves was pinch-hitting then for the Chase Securities Corporation in conferring with General Crowder about the interests of the Chase Securities?

Mr. MORGAN. He was reporting a conversation to Mr. Tinker.

Mr. PECORA. After Mr. Tinker received this communication from Mr. Graves do you know whether Mr. Tinker caused an immediate

representative of the Chase Securities company to go down to Cuba and continue the discussions with General Crowder on that subject?

Mr. MORGAN. No, I do not.

Mr. PECORA. What?

Mr. MORGAN. I do not.

Mr. PECORA. Your special study has not brought you any knowledge of any such thing, has it?

Mr. MORGAN. You probably can find the occasion of the next visit. I think you have it in the—

Mr. PECORA (interposing). No—will you confine yourself to the question before you?

Mr. MORGAN. Which was whether there was any representative of the Chase Securities Corporation at that time. No.

Mr. PECORA. I asked you, the Chase Securities Corporation then sent a special representative down there to resume these conversations with General Crowder on the subject of this financing. That is what I asked.

Mr. MORGAN. There was no one sent down immediately, I understand. As the record has amply shown and the testimony this morning, others went down later.

Mr. PECORA. What, if anything, was done by the Chase Securities Corporation when Mr. Graves called the attention of its president, Mr. Tinker, to the concern of General Crowder with respect to the illegality of this public works indebtedness?

Mr. MORGAN. Doesn't the record on that speak for itself?

Mr. PECORA. No; I am asking you.

Mr. MORGAN. All right.

Mr. PECORA. You are familiar with the record.

Mr. MORGAN. I would say that the record on that speaks for itself.

Mr. PECORA. What record are you now referring to which so speaks?

Mr. MORGAN. The record that on February 19, 1927, a totally different piece of financing was put through.

Mr. PECORA. That does not answer my question, Mr. Morgan, please. I did not ask you what financing eventually was done; I asked you what, if anything, Mr. Tinker, the president of the Chase Securities Corporation, did after Mr. Graves called to his attention in March 1926 General Crowder's concern over the legality of this public-works program.

Mr. MORGAN. Nothing appears in the record to my knowledge on that subject.

Mr. PECORA. Does that mean that nothing was done until February 19, 1927?

Mr. MORGAN. No; because you have ample record in the meantime of other operations undertaken.

Mr. PECORA. Well, now, you have those records, too, and you have made a special study of them for this examination, have you not?

Mr. MORGAN. Precisely.

Mr. PECORA. What was the thing that was first done by Mr. Tinker following the receipt by him of Graves' memorandum of March 22, 1926?

Mr. MORGAN. A continued study was made, Mr. Pecora.

Mr. PECORA. By whom and when?

Mr. MORGAN. By the officers of the Chase Securities Corporation, by their lawyers, by their representatives, of conditions which ultimately led to the financing of February 19, 1927.

Mr. PECORA. Who were the persons that made that continuous study in behalf of the Chase Securities Corporation?

Mr. MORGAN. You have in your files a letter dated May 6, 1928.

Mr. PECORA. Now, you are talking about 1928. I thought this financing was commenced in February 1927.

Mr. MORGAN. Excuse me. The letter may be misdated. Mr. Barr, who was the vice president of the Chase National Bank at that time in charge, Mr. Batchelder, Mr. Freeman, various other officers and representatives of the Chase Bank and the Chase Securities Corporation, went to Habana for a discussion of this program. Mr. Callahan, of the Chase Securities Corporation, also Mr. Williams, of Rushmore, Bisbee & Stern, Mr. Mudge, of Rushmore, Bisbee & Stern, I believe.

Mr. PECORA. Mr. Barr, whose name you mentioned, is now dead, is he not?

Mr. MORGAN. Yes.

Mr. PECORA. Mr. Callahan, whose name you mentioned, is now dead?

Mr. MORGAN. Yes.

Mr. PECORA. The other gentlemen whose names you mentioned—are Mr. Freeman, Mr. Batchelder, and Mr. Williams of the law firm of Rushmore, Bisbee & Stern?

Mr. MORGAN. Yes. And Mr. Mudge of Rushmore, Bisbee & Stern.

Mr. PECORA. Now let us take the first of those: What did Mr. Barr do so far as your personal study indicates?

Mr. MORGAN. I will have to answer that in a very general way. He investigated conditions to see what could be done.

Mr. PECORA. Have you any memoranda or records that show you that he did any such thing?

Mr. MORGAN. There exists so far as I know no memorandum from Mr. Barr showing the results of his study.

Mr. PECORA. Well, how do you know that he did anything at all?

Mr. MORGAN. I know he went there.

Mr. PECORA. How do you know that he did anything at all?

Mr. MORGAN. Counsel advises me that he did.

Mr. PECORA. When did counsel so advise you?

Mr. MORGAN. Then and now.

Mr. PECORA. What do you mean by then; back in 1926?

Mr. MORGAN. I was in Germany at that time, Mr. Pecora.

Mr. PECORA. Did they call you up in Germany and tell you that Barr had gone to Cuba in 1926?

Mr. MORGAN. That was several weeks ago, at the time my study of this started.

Mr. PECORA. And counsel advised you now, you said?

Mr. MORGAN. Yes.

Mr. PECORA. Then and now?

Mr. MORGAN. Yes.

Mr. PECORA. When you say "now" do you mean at the moment that I asked you the question or right thereafter?

Mr. MORGAN. At this moment.

Mr. PECORA. And what did counsel either then or now advise you Mr. Barr had done outside of having gone to Cuba?

Mr. MORGAN. Only in general terms to study the situation.

Mr. PECORA. Well, what? What did they advise you he had done?

Mr. MORGAN. Studied the situation to find out what could be done. These were preliminary explorations. They resulted in nothing until February 19, 1927.

Mr. PECORA. But they did result in this financing eventually, did they not? Did they not, these preliminary explorations, as you call them? They did result in this financing that was undertaken by the Chase National Bank eventually?

Senator COUZENS. The witness answered yes to that.

Mr. MORGAN. Yes.

Mr. PECORA. Is that the answer?

Mr. MORGAN. Yes.

Mr. PECORA. Now, can you tell this committee more specifically than you have what Mr. Barr did in those preliminary explorations that led to this financing?

Mr. MORGAN. I cannot.

Mr. PECORA. All right. Now, do you know what Mr. Freeman did in that respect?

Mr. MORGAN. The same general response, Mr. Pecora.

Mr. PECORA. Do you know what anybody specifically did in those preliminary explorations?

Mr. MORGAN. Mr. Pecora, various groups worked on this business, not simply our own bank, but other groups of bankers, during April or the early part of May of 1926. It then seemed that some form of agreement satisfactory to the Government had developed with another—

Mr. PECORA (interposing). Are you reading that answer from something before you?

Mr. MORGAN. Yes.

Mr. PECORA. What is the document from which you are reading this answer, which, by the way, does not answer the question I have put to you?

Mr. MORGAN. No. You have asked me for detailed information about this period.

Mr. PECORA. I have asked you what you know or what you learned.

Mr. MORGAN. Yes.

Mr. PECORA. Now, what are you reading that answer from?

Mr. MORGAN. I am reading this from a document which I have jointly prepared with my associates in order to refresh my memory at this stage.

Mr. PECORA. A document that you prepared with others?

Mr. MORGAN. Yes.

Mr. PECORA. I thought you said you knew nothing except what others told you concerning the activities of these representatives of the Chase Securities Corporation in these preliminary explorations?

Mr. MORGAN. From the record.

Mr. PECORA. What record did you consult that enabled you to join in the preparation of that statement from which you are reading?

Mr. MORGAN. Many of the photostats which you now have in your possession and from the other documents in the files of the Chase Bank.

Mr. PECORA. I will call on you now to produce any record to show what part Mr. Barr had or took in this preliminary exploration, as you call it.

Mr. MORGAN. I have not testified to Mr. Barr at this point. I have given you all I know about Mr. Barr.

Mr. PECORA. Have you given us practically all you know about what Mr. Freeman did?

Mr. MORGAN. Yes.

Mr. PECORA. And what Mr. Batchelder did?

Mr. MORGAN. No.

Mr. PECORA. What did Mr. Batchelder do to your knowledge or so far as you have been informed by anybody?

Mr. MORGAN. That is what I was engaged in producing. (Referring to memorandum.) It was contemplated, as was developed this morning, in the middle of 1926, that expenditures aggregating 125 to 130 million dollars upon the works provided for by the Public Works law during a 4-year period would be involved. The Chase Securities Corporation sent Mr. Batchelder and Mr. A. M. Williams and Mr. Strahan of Messrs. Rushmore, Bisbee & Stern to work upon the business. Mr. Batchelder and Mr. Williams talked with the Secretary of the Treasury and learned that no concrete plan had been developed by the Government, but the Government would be interested to have a group arrange a credit of up to \$30,000,000.

By the end of June, that is to say 1926, the Chase Securities Corporation concluded that a satisfactory financing plan could not be devised under the existing law, and Mr. Freeman reported that the Government ought to return to the institute plan which had been discussed earlier in the year.

Mr. Batchelder reported that on July 23 bids had been called for to be filed on September 1. By decree of the President no. 1338 of August 23 this date was extended to September 20, and the date was later extended to September 27.

Our best information is that on September 27 Messrs. Warren Brothers Co. of Cambridge, Mass., George A. Fuller Co. of Jersey City, N.J., Mellon-Stewart & Co. of Pittsburgh, Pa., and Messrs. Dwight Robinson & Co. of New York, working in conjunction with the National City Bank of New York, bid for the highway work and financing to be handled through a private corporation to be known as the Institute of Public Works for the Republic of Cuba.

The Foundation Co. of New York, together with two local contractors and Ulen & Co. of New York, submitted a bid for highway construction, and Messrs. James Stewart & Co. submitted a bid for all construction work. No definite action was taken on these bids, and on October 17, Dr. Enrique Hernandez y Cartaya of the Treasury, reported that the proposals were not satisfactory and advanced a plan which he had developed.

Would you like me to outline the plan that Cartaya had in mind at that time?

Mr. PECORA. Did you read that answer from some prepared statement before you?

Mr. MORGAN. Yes.

Mr. PECORA. And that is the document you say you prepared jointly with others?

Mr. MORGAN. Yes.

Mr. PECORA. Who were the others that participated with you in the preparation of that statement?

Mr. MORGAN. Mr. Geiger and Mr. Williams.

Mr. PECORA. Is the institute that you have just referred to, in reading from that prepared statement, the same institute that you mentioned just prior to the taking of recess this morning?

Mr. MORGAN. Not the same one, Mr. Pecora, because Mr. Freeman himself, quite independently of this group that was working in conjunction with the National City Bank, had the idea of the Institute of Public Works.

Mr. PECORA. What was the institute to which you referred during the forenoon session?

Mr. MORGAN. That was Mr. Freeman's idea.

Mr. PECORA. What was it?

Mr. MORGAN. It was an institute, as I then testified, which would be owned wholly by the Republic of Cuba. It would have as its board of directors leading Cuban citizens, together with certain Americans. This institute would be qualified to issue bonds on the security of the public-works revenues. At the same time, it would be the agency through which contracts would be let for the prosecution of the public-works program.

Mr. PECORA. Do you know what the purpose was of creating that institute?

Mr. MORGAN. It was on the parallel of similar successful institutions in Italy, Brazil, and this country.

Mr. PECORA. You are telling us what it was similar to, not what its purpose was. I want to know what its purpose was.

Mr. MORGAN. To issue bonds for the prosecution of the highway and the other public improvements, and to handle the contracts.

Mr. PECORA. To issue bonds in behalf of whom?

Mr. MORGAN. For the public works program.

Mr. PECORA. In behalf of whom?

Mr. MORGAN. On its own faith and credit, supported by the revenue—

Mr. PECORA. And the bonds to be paid by whom?

Mr. MORGAN. Out of the proceeds of the revenue.

Mr. PECORA. By whom?

Mr. MORGAN. You mean physically by whom? By the trustee.

Mr. PECORA. No. I mean whose responsibility lay back of the bonds to be issued.

Mr. MORGAN. The institute.

Mr. PECORA. How about the Cuban Government's responsibility?

Mr. MORGAN. I am not informed whether the Cuban Government was to guarantee the bonds or not, but the taxes which would otherwise have inured to the Cuban Government were, under this plan, to be diverted to the institute.

Mr. PECORA. Do you know what occasion there was for the creation of such an institute to enable the Cuban Government to go ahead with its public works program?

Mr. MORGAN. The occasion, I think, was General Machado's insistence upon a pay-as-you-go policy.

Mr. PECORA. Upon what?

Mr. MORGAN. A pay-as-you-go policy.

Mr. PECORA. And could not the Cuban Government undertake such a policy without the intervention of such an institute?

Mr. MORGAN. Mr. Williams was on the spot at that time. Do you want him to explain?

Mr. PECORA. I know, but you put yourself on the spot this morning with regard to this examination after you had made a special study.

Mr. MORGAN. Quite true.

Mr. PECORA. Was your special study exclusive of this particular feature of the question?

Mr. MORGAN. No; certainly not.

Mr. PECORA. Do you feel that you cannot answer this question about the purpose for the creation of this institute?

Mr. MORGAN. No.

Mr. PECORA. Then go ahead and answer the question.

Mr. MORGAN. All right. Repeat the question.

Senator ADAMS. May I ask a question? As I understand, this institute was a private corporation, to be governed by a board of directors of Cuban citizens.

Mr. MORGAN. Quite true.

Senator ADAMS. At the same time, a private corporation was to issue its bonds, these bonds to be secured by the pledge of Cuban revenues.

Mr. MORGAN. Yes.

Senator ADAMS. And this private corporation was to construct public works in Cuba.

Mr. MORGAN. But, Senator, the corporation was owned by the Cuban Government, in the same way the Farm Board here was owned by the United States, and issued its own bonds.

Senator ADAMS. That leads right back to the question Mr. Pecora has been asking you.

Mr. PECORA. Then it was not a private corporation?

Mr. MORGAN. I did not say it was a private corporation.

Mr. PECORA. You just said so, in answer to Senator Adam's question.

Mr. MORGAN. I am sorry; I misspoke if I said it was a private corporation. I had testified this morning and this afternoon both that it was a corporation to be owned by the Cuban Government.

Mr. PECORA. What occasion was there, Mr. Morgan, for the creation of this institute in order to enable the Cuban Government to carry out the public-works program that was authorized by the enactment of July 15, 1925, and for which special revenues were authorized by that law?

Mr. MORGAN. I can give you the answer as a banker. Whether it is an answer as a lawyer, I will leave it to you to decide.

Mr. PECORA. I want the answer, whatever it be.

Senator ADAMS. It ought to be the same in either event, ought it not?

Mr. PECORA. I should think so. The purpose was the same, whether you are going to answer from the standpoint of the banker or the standpoint of the lawyer.

Mr. MORGAN. Very good. We agree. The Secretary of Public Works, Carlos Miguel de Cespedes, was very ambitious to carry on this public-works program at maximum speed. This involved an expenditure annually in an amount greater than the revenues of the public-works taxes.

Mr. PECORA. What revenues do you now mean?

Mr. MORGAN. \$18,000,000 a year.

Mr. PECORA. Those are the special revenues authorized by the public-works law of 1925.

Mr. MORGAN. Just so. Those revenues, by the way, were merely segregated revenues. They were all, for the most part, in existence prior to the law of 1925.

Mr. PECORA. Then why were they referred to as special revenues created by the law of 1925?

Mr. MORGAN. Earmarked for the purpose. I described them this morning as earmarked for this purpose.

Mr. PECORA. Were they kept apart as a fund?

Mr. MORGAN. Yes.

Mr. PECORA. Are you sure of that?

Mr. MORGAN. On the books of the Cuban Government, yes.

Mr. PECORA. Were they actually segregated and kept apart, or were they commingled with the National funds generally?

Mr. MORGAN. You are asking me something that lies in the archives of the Cuban Government. So far as our records go, they were paid to us punctually when due.

Mr. PECORA. Go ahead and continue your answer. You are trying to tell us what the reason was for the creation of this institute in order to enable the Cuban Government to carry out this public-works program under the special act of 1925.

Mr. MORGAN. I have indicated the ambitious program of the secretary of public works.

Mr. PECORA. Yes; to spend \$325,000,000.

Mr. MORGAN. Not at that time. It had already become somewhat more delimited.

Mr. PECORA. All right.

Mr. MORGAN. Obviously that program could not be carried through to that ambitious scale without financing, as promptly as he desired, and it was in order to meet that desire to prosecute more rapidly the public-works program that the bankers devised this method. Does that answer your question?

The CHAIRMAN. Who furnished the capital for it? Didn't it have some capital?

Mr. MORGAN. It never went through, Senator. This is a purely exploratory program, which never went through.

The CHAIRMAN. The institute never was established?

Mr. MORGAN. It never went through. It is one of the numerous ideas that was proposed from time to time for dealing with the public-works program.

The CHAIRMAN. Who was to furnish the capital in case it did go through?

Mr. MORGAN. The Government of Cuba.

Mr. PECORA. What, if anything, was done in behalf of or at the instance of the Chase Securities Corporation, or any of its associates on this plan to advance the public-works program, toward meeting

the concern that had been expressed in the early part of 1926 by General Crowder, the American Ambassador to Cuba, with respect to the validity of this public-works program, under the Platt amendment and the Cuban Constitution?

Mr. MORGAN. The program to which you referred, and to which Ambassador Crowder referred, was abandoned. It seems to me that is pretty explicit.

Mr. PECORA. What was done with respect to meeting General Crowder's concern as to whether or not any indebtedness could be contracted for this public-works program without violating the Platt amendment?

Senator COUZENS. I think the witness testified that they got opinions from both New York and Cuban lawyers.

Mr. MORGAN. What actually was done—

Mr. PECORA. Before that—

Mr. MORGAN. May I just make a record of this, so that I think this thing can go to sleep?

Mr. PECORA. I do not know whether it will go to sleep, Mr. Morgan, after you are through telling us about it.

Mr. MORGAN. This is a matter of record.

Mr. PECORA. I might go to sleep.

Mr. MORGAN. The credit of February, 1927—

Mr. PECORA. February 19.

Mr. MORGAN. The credit of February 19, 1927, was reported in full to Ambassador Crowder and to the State Department. The State Department consulted Ambassador Crowder, and ultimately gave to the Chase National Bank a letter stating that it took no exception to the operation.

Mr. PECORA. What documents can you produce in substantiation of that?

Senator ADAMS. That was the \$10,000,000 loan that you were referring to?

Mr. MORGAN. Yes, sir.

Senator ADAMS. That is figured in American dollars?

Mr. MORGAN. American dollars. It is identical. Cuba uses American currency.

I read a copy of a letter dated February 15, 1927, addressed to the State Department, State Department Building, Washington, D.C., attention of Dr. Young.

DEAR SIR: On December 6, 1926, I submitted to you on behalf of my client a copy of the proposal made to the Cuban Government in connection with the financing of the construction of the central highway. At that time I was reminded that inasmuch as this matter might involve a public offering, it would be advisable to give your department further notice before the definite agreement was concluded in case the preliminary proposal was accepted by the Cuban Government.

I am therefore enclosing herewith, on behalf of my client, the Chase National Bank of the City of New York, a copy of the proposed definitive agreement (revise of Feb. 9, 1927) which has been negotiated with representatives of the Cuban Government to give effect to the preliminary proposal, a copy of which is already on file with you. It is expected that the definitive agreement, in substantially the form submitted herewith, will be approved by the Cuban Government for execution by the end of this week, and I shall therefore appreciate if you will advise my client, at their principal office, No. 57 Broadway, New York City, as to whether your department sees any objection to the making of the credit arrangement outlined in the proposed contract.

Very truly yours,

A. E. MUDGE.

Mr. PECORA. He is a member of the firm of Rushmore, Bisbee & Stern, attorneys for the bank?

Mr. MORGAN. Yes.

I now read from a copy of a letter dated February 21, 1927, from the Department of State, Washington, D.C., addressed to the Chase National Bank, 57 Broadway, New York:

Sirs: The Department is in receipt of a letter from Messrs. Rushmore, Bisbee & Stern, dated February 15, 1927, stating that your firm is interested in the proposed loan to the Cuban Government of a sum not to exceed \$10,000,000 for the purpose of facilitating the carrying out of the construction of the proposed central highway of Cuba.

I beg to state that in the light of the information before it the State Department offers no objection to this financing.

You, of course, appreciate that, as pointed out in the Department's announcement of March 3, 1922, the Department of State does not pass upon the merits of foreign loans as business propositions, nor assume any responsibility in connection with such transactions. Also that no reference to the attitude of this Government should be made in any prospectus or otherwise.

I am, sirs,

Your obedient servant,  
For the Secretary of State:

LELAND HARRISON,  
*Assistant Secretary.*

Mr. PECORA. Will you let me look at those two documents, please? [Mr. Morgan hands papers to Mr. Pecora.]

Mr. PECORA (after examining papers). Now, Mr. Morgan, I note that in the letter of Mr. Mudge to the State Department dated February 15, 1927, reference is made by Mr. Mudge to the fact that on December 6, 1926, he had submitted to the State Department, on behalf of the Chase National Bank, a copy of the proposal made to the Cuban Government in connection with the financing of the construction of the central highway.

Mr. MORGAN. That also——

Mr. PECORA. Have you got that letter?

Mr. MORGAN. That also was supplied to General Crowder.

Mr. PECORA. Have you got a copy of it?

Mr. WILLIAMS. Mr. Pecora, Mr. Mudge stopped at Washington on his return from Habana and delivered that proposal personally to the representative in the State Department.

Mr. PECORA. Then there was no correspondence on the subject?

Mr. WILLIAMS. No. There was no letter transmitting the proposal. He delivered it in person.

Mr. PECORA. Have you a copy of the proposal that he delivered to the State Department at that time in person?

Mr. MORGAN. I have the text of it here, Mr. Pecora. [Handing paper to Mr. Pecora.]

Mr. PECORA (after examining paper). Mr. Morgan, I have very hastily glanced through the document that you have just handed to me, and which purports to be the proposal that was submitted to the State Department by Mr. Mudge on December 6, 1926. I see in it no reference whatsoever to any consideration of the question as to whether or not this public-works program would be in violation of the Platt amendment and the Cuban Constitution.

Mr. MORGAN. This was addressed to the secretary of public works, Mr. Pecora, of Cuba. This is a proposal of the Chase National Bank.

Mr. PECORA. Well, I specifically asked you, Mr. Morgan, if you could tell the committee what if anything was done on behalf of the Chase Securities Corporation or the Chase National Bank, or any of its associates in this financing of the public-works program to meet the concern expressed by General Crowder in March 1926.

Mr. MORGAN. The legality—that is to say, the legality within the Platt amendment of this financing—

Mr. PECORA. Yes; now that is the question that I thought you were answering.

Mr. MORGAN. It was passed upon in detail by the lawyers in New York, and by Antonio S. De Bustamente in Habana, who, as I testified this morning, was once president of the World Court, and is now a member of the World Court, and therefore amply qualified to pass upon a question of international law.

Mr. PECORA. Simply because he is a member of the World Court he is amply qualified to pass upon a question of international law, is he?

Mr. MORGAN. He is absolutely the leading lawyer in Cuba; at the top of the Cuban bar.

Mr. PECORA. Well, let us see the opinions that these lawyers rendered, will you?

Senator COUZENS. You said this morning that you did not have them here, did you not?

Mr. MORGAN. Yes; I do not.

Mr. PECORA. Have you ever read those opinions before, Mr. Morgan?

Mr. MORGAN. I am not a lawyer.

Mr. PECORA. Well, have you ever read them?

Mr. MORGAN. No; I never have.

Mr. PECORA. So that your special study of this whole subject did not include a reading even of the opinions upon which the legality of these loans, so far as any provision of the Platt amendment was concerned, dealt with?

Mr. MORGAN. The question of legality of that sort is preferably left in the hands of the lawyers, Mr. Pecora.

Mr. PECORA. Can you produce their opinions now?

Mr. MORGAN. We are looking for the opinion, Mr. Pecora, if you want to proceed with the examination.

Mr. PECORA. I will proceed, and will you let me know when they have been found, please?

Mr. MORGAN. Yes.

The CHAIRMAN. May I ask you, do you know whether that proposal conforms to or complies with the agreement which was finally made on the 19th day of February 1927 which is recorded at page 1978 of part 4 of the Hearings before the Finance Committee, held in January and February 1932?

Mr. MORGAN. It is substantially the same. It was clarified in certain respects, and in one important respect, for instance, the commission was reduced in the final agreement.

Mr. PECORA. After the sending of this letter by Mr. Mudge to the State Department, dated February 15, 1927, the agreement with respect to the \$10,000,000 credit was entered into, was it not?

Mr. MORGAN. Yes.

Mr. PECORA. And when was it entered into?

Mr. MORGAN. February 19, 1927.

Mr. PECORA. Apparently the official advices you got from the State Department were not dated until February 21, 1927. Did your people go ahead on the 19th on the assumption that the State Department was going to say, "Amen"?

Mr. MORGAN. I notice the discrepancy in dates, and I cannot explain it except on the ground that the State Department had notified us by telegram or by telephone beforehand.

Mr. PECORA. What did you say?

Mr. MORGAN. I can only explain the discrepancy of dates on the assumption that the State Department notified by telegram or telephone that its written approval was forthcoming.

Mr. PECORA. Why do you assume any such thing, Mr. Morgan?

Mr. MORGAN. Because of the dates.

Mr. PECORA. What is that?

Mr. MORGAN. Because of the discrepancy of dates. Mr. Williams tells me that during this period the State Department made an examination of this whole question with General Crowder in Habana.

Mr. PECORA. Why do you assume that the State Department in advance of writing its letter of February 21, 1927 had communicated its judgment to your people?

Mr. MORGAN. Because we are looking for the telegram, Mr. Pecora.

Mr. PECORA. I hope you find it.

The CHAIRMAN. Did you find the opinion, Mr. Morgan?

Mr. MORGAN. I hold in my hands the opinion of Doctor De Bustamente on this financing, giving his complete approval of legal details.

Mr. PECORA. In what language is it?

Mr. MORGAN. Spanish and English.

Mr. PECORA. Is there an English translation of it with the Spanish text there?

Mr. MORGAN. Yes; both.

Mr. PECORA. Have you got the opinion that was given by Rushmore, Bisbee & Stern?

Mr. MORGAN. We are still looking for that one.

Mr. PECORA. Have you found the telegram that you assumed was sent by the State Department?

Mr. MORGAN. No; not yet.

Mr. PECORA. While they are looking for that telegram and for the opinion of Rushmore, Bisbee & Stern, I will proceed to something else. May we see that opinion?

Mr. MORGAN. Yes. [Handing paper to Mr. Pecora.]

Mr. PECORA. I see it is rather voluminous. I will ask that it be marked for identification, and then I will look it over at the conclusion of this session, and probably put it in the record tomorrow.

Mr. WILLIAMS. We would like to get that back Mr. Pecora.

Mr. PECORA. Oh, yes. That is why I am having it marked for identification, so it will be identified and you will get it back. Have you a copy of that here?

Mr. MORGAN. We have a copy in New York. We have no copies here.

Mr. PECORA. We will take good care of it, and I will see that it gets back to you.

(Opinion of Dr. Antonio Sanchez de Bustamante was marked "Committee Exhibit No. 32" for identification of Oct. 3, 1933.)

Mr. PECORA. Mr. Morgan, perhaps it would shorten your examination if I read to you part of the testimony given by Mr. Grosvenor Jones before the Senate Finance Committee, the Seventy-second Congress, at the hearings which it held pursuant to Senate Resolution 19, as that testimony is shown on pages 739 and 740, 741, and 742 of part II of the printed minutes of those hearings. Part of question put by Senator Johnson to Mr. Jones:

Do you know of any connection between the loans granted to Cuba, and the contracts granted simultaneously for the construction of roads in Cuba?

Mr. JONES. It happens that I spent about 10 months in Cuba as economic advisor to Ambassador Guggenheim. It was during that time that a \$40,000,000 special public-works loan came to the attention of the Embassy and State Department. I do not know anything about the earlier arrangements. Apparently Warren Bros., of Boston, got the contract for building the central highway, and I think they got that quite independently of the banking house that did the financing of the special public works. It looked for a time as though the National City Co. had the inside track on the financing. There was quite a little competition among American bankers to place that financing for the Cuban Government, but the Chase National Bank, or the Chase Securities Co., really won out, and I do not know that there is any connection between Warren Bros. and the Chase Securities Co.

Then followed some colloquy, and then these questions and the answers which I will read from pages 740, 741, and 742. Question by the chairman:

The CHAIRMAN. Do you know, in the case of the loan which is mentioned, whether the State Department was requested to approve it or not?

Mr. JONES. I am not altogether clear.

The CHAIRMAN. Was not that a commercial loan?

Mr. JONES. President Machado was elected to office on the pledge that during his term of office Cuba would not increase her public debt. His predecessor, Dr. Zayas, had had to issue \$50,000,000 of bonds to clear up a lot of debt incurred under his predecessor's regime. That was the regime of Menocal. But Machado said solemnly that he was not going to increase the public debt of Cuba.

There came along this grand project for building a highway from one end of the island to the other, at a time when all Latin America was stirred up by the possibilities of economic development through highway construction. General Machado was in a rather awkward position. He wanted the highway. He felt it would relieve unemployment in Cuba, and yet he did not want to increase the public debt. So, they conceived an original plan down there. They first created a lot of special revenues which they said should be set aside for public-works construction. "It will not go through the regular budget", they said. "We will call it the special public-works fund. In fact, we will make a contribution to that fund from our regular budget, and we will pay as we go in the the construction of this highway."

Well, they were a little slow in getting their plans drawn and the revenue assigned to this fund amounted up much more rapidly than anybody anticipated, and in a short time—in a year's time—they had a great fund; a great balance to the credit of this fund. So, then, they began to build this central highway. For political reasons, they had to build it in each of the five Provinces. Each Province felt that it had to have its part started, and the result was that you had the highway started at five different points, getting nowhere. Then there came the agitation, "Let us link up these various portions, so that we will get some use out of them." The only way they could do that was to speed up construction, and the only way they could speed up construction was to arrange for some temporary financing, and yet they did not want to issue bonds, so they conceived the brilliant idea of having the public works department issue to the contractors, as bits of work were completed, public-works certificates saying that the Government owes the contractor so much for such and such a job.

Senator **SHORTRIDGE**. Rather clever, wasn't it?

Mr. **JONES**. Yes. Then they said, "We will have to arrange with the bankers to discount these." So, that is where the financing of the public works in Cuba originated.

Then came a question. The bankers wondered, I believe, whether the Platt amendment applied, because the Platt amendment requires that Cuba shall float no loan, or issue no obligation the interest and service of which cannot be met out of the ordinary revenues. Well, this was not the ordinary budget. This was a special fund.

There is a little question whether the public-works fund was considered a part of the ordinary budget, but I think their idea, as I learned from talking with Cuban officials afterward, was that that was something apart from the ordinary budget.

In any case the Cuban Government succeeded in getting bankers to discount for the contractors these deferred public-works certificates.

The **CHAIRMAN**. American bankers?

Mr. **JONES**. American bankers. First it was started in a modest way, only \$10,000,000, and with these revenues coming in the way they were, it looked as though those could be paid off very easily. The Chase Securities Co., after some competition, got that business. Then, of course, like all those things, once you start it you are in for it. The Cuban Government began to spend more and more money on these projects. They thought they ought to complete the capitol. The result is that they have a \$20,000,000 capitol with a gilt dome, and all that sort of thing. Then they ought to build that fine sea wall, which General Wood restored. That ought to be extended a few miles further. Money was coming easy. But they neglected the public highway, a bit, you see. In order to get the money to make the central highway worth anything, it had to be completed. There were all these different links started, and not joined together. So that credit had to be extended to \$60,000,000. They had asked Chase for another credit of \$50,000,000, bringing up the total credit to \$60,000,000. That got a little large for Chase to swing, although they had a syndicate to handle it, so it was arranged with the Cuban Government that a part of those public-works certificates should be sold to the public in this country, and so there were two issues of \$10,000,000 each of these public works certificates sold on a serial basis to the American public.

As far as I have read this testimony of Mr. Jones to you, Mr. **Morgan**, do you think that he had a fairly comprehensive grasp of the situation or the facts with regard to this financing?

Mr. **MORGAN**. I cannot certify to the detailed accuracy of Mr. Jones' statement. It seems to me to be rather a general and cursory description.

Mr. **PECORA**. Does it in any way conflict with any information that you acquired or any conclusions which you reached as the result of your special study of this whole situation?

Mr. **MORGAN**. As a general and cursory and very casual description of what occurred, I think it is fair enough.

Mr. **PECORA**. The opinion rendered by this great lawyer, Mr. **Bustamante**, which you have submitted to us, has been read by one of our associates while I was examining you, and he informs me that the opinion in no way refers even to the Platt amendment.

Mr. **MORGAN**. That is correct. It certifies to all the legal aspects.

Mr. **PECORA**. It merely states a conclusion without setting forth the grounds upon which the conclusion is based; is that it?

Mr. **MORGAN**. Yes.

Mr. **PECORA**. Do you know whether any special consideration was given by any lawyer—whether or not he is a member of the World Court—on the question of whether or not this whole public-works program and the expenditures it would entail would be in violation of the Platt amendment to the Cuban constitution?

Mr. **MORGAN**. It was examined in detail by **Rushmore, Bisbee & Stern** and orally with Dr. **Bustamante**.

Mr. PECORA. What do you mean when you say, "examined orally by Dr. Bustamante"? Just a conversation with him, and then he wrote that opinion?

Mr. MORGAN. Repeated conferences with him.

Mr. PECORA. By whom?

Mr. MORGAN. The lawyers, Rushmore, Bisbee & Stearn, Mr. Williams, and Mr. Mudge.

Mr. PECORA. Have you yet found the opinion rendered by Rushmore, Bisbee & Stearn on this question?

Mr. MORGAN. We will produce it. We apparently do not have it in Washington. We are still looking for it; but apparently it is not here.

Mr. PECORA. Were any statements made by Mr. Jones in his testimony before the Senate Finance Committee in the early part of 1932, which I have just read to you, which are in any way in conflict with your conception or knowledge of what the facts were?

Mr. MORGAN. I would have to examine that statement in detail myself.

Mr. PECORA. I just read it to you.

Mr. MORGAN. Yes; you did.

Mr. PECORA. It is wholly understandable, is it not?

Mr. MORGAN. It was a general and very casual conversational exposé of the whole matter, and as for its general approach I take no particular exception to it; but I will not certify to its accuracy.

Mr. PECORA. As you heard me read it—and I hope you followed me with some care—as you heard me read it, was there anything to be testified to which is in conflict with anything you have learned concerning the facts of this financing as a result of your special study of it?

Mr. MORGAN. Mr. Pecora, I must ask you not to ask me to certify to something which I have heard orally across the table and which I have had no opportunity to examine in detail. I do not certify to anybody else's work.

Mr. PECORA. Do you recall a single statement made by Mr. Jones in his testimony before the Senate Finance Committee which I read to you which is in conflict with anything in your mind, based upon either personal knowledge on your part or examination of records or hearsay from any source?

Mr. MORGAN. In answering that question I would give a negative assent to the accuracy of his statement.

Mr. PECORA. What does that mean—a negative assent?

Mr. MORGAN. It means that if I take no exception to it I approve it in toto. I do no such thing. I cannot approve anybody else's work read to me casually like that. If you would like a memorandum prepared carefully in response to that, I would be glad to do it.

Mr. PECORA. No; I do not.

The CHAIRMAN. You can go as far as the statement and say you see no occasion to raise any objection to it.

Mr. PECORA. Whether you read it or not, did you ever see the opinion rendered by Rushmore, Bisbee & Stern on the question of the Platt amendment applying to the expenditure for the public-works program?

Mr. MORGAN. No.

Mr. PECORA. When did you first learn, or when were you first informed by anybody, that such an opinion had actually been rendered?

Mr. MORGAN. I cannot fix whether it was 2 years ago or more recently, but at the time I read the form of the contract and saw it was approved by Rushmore, Bisbee & Stern and by Dr. Bustamante.

Mr. PECORA. That approval of the contract may have related only to the form of the contract, may it not?

Mr. MORGAN. All of its legal aspects.

Mr. PECORA. In the opinion rendered by Dr. Bustamante which I have already called to your attention, there was no discussion whatsoever of the applicability of the Platt amendment to the expenditures called for by this public works program, was there?

Mr. MORGAN. It was not necessary to do so, because he approved it in toto, all of its legal aspects.

Mr. PECORA. How do you know that he considered that particular question?

Mr. MORGAN. I have been so informed today by our lawyers.

Mr. PECORA. When were you so informed?

Mr. MORGAN. Today.

Mr. PECORA. You mean, this afternoon?

Mr. MORGAN. Today.

Mr. PECORA. Well, this afternoon is part of today.

Mr. MORGAN. This morning and this afternoon—several times.

Mr. PECORA. You were informed twice on that?

Mr. MORGAN. Several times.

Mr. PECORA. Was your mind in any doubt about it after you first got the information this morning, so that you had to be informed about it several times?

Mr. MORGAN. I have not been in doubt on this question at any time.

Mr. PECORA. At this time I will offer in evidence for the record a copy of the so-called proposal referred to in Mr. Mudge's letter to the State Department of February 15, 1927, as a proposal submitted on September 6, 1926.

The CHAIRMAN. Let it be admitted and entered on the record.

(Copy of document headed "Financing Proposition" referred to was received in evidence as Committee's Exhibit No. 33, of October 23, 1933, and will be found on page 2610.)

The CHAIRMAN. Mr. Morgan, let me ask you this. In January and February 1927, who were the officers in charge of the branch of the Chase Bank in Cuba?

Mr. MORGAN. William Ignatius Quealley and Jose Obregon.

The CHAIRMAN. What positions did they hold?

Mr. MORGAN. They were joint managers.

The CHAIRMAN. Mr. Obregon was the son-in-law of President Machado, was he not?

Mr. MORGAN. Excuse me, Senator. I have got to correct that. Obregon did not come into the bank until May 1927.

The CHAIRMAN. Before that you only had one man?

Mr. MORGAN. Mario Seiglie.

The CHAIRMAN. Obregon was the son-in-law of President Machado?

Mr. MORGAN. He came in as new-business man in the Habana branch in May 1927, 4 or 5 months after this.

The CHAIRMAN. What was his relation to President Machado?

Mr. MORGAN. Son-in-law.

The CHAIRMAN. Did the other manager go down from New York, then?

Mr. MORGAN. He lived there, Senator; Quealley lived there.

Mr. PECORA. Now, Mr. Morgan, have you succeeded as yet in finding either the opinion of Rushmore, Bisbee & Stern or the telegram that you think was received from the State Department?

Mr. MORGAN. No, Mr. Pecora.

Mr. PECORA. This forenoon in the course of your testimony you made some reference to General Crowder, as I recall it, as having been interested at that time in some other company. What did you mean by that?

Mr. MORGAN. I attempted to explain that at the time, Mr. Pecora. If you will remember the situation in 1923 in Cuba, there was a very large refunding operation put through under the Crowder regime, soon after General Crowder got down there. The house that put that financing through did a piece of public service, I might say.

Mr. PECORA. And what was that house?

Mr. MORGAN. J. P. Morgan & Co. And I have been told that General Crowder felt a certain sense of obligation toward this other house with respect to any further financing that was to come through. That is the sole extent of the interest, and I used the word "interest", as I explained at that time, in the most laudatory way with respect to General Crowder.

Mr. PECORA. Do you mean by that, among other things, that General Crowder felt that the bankers that had done that financing in 1923 should have been permitted to do all the external financing subsequently for the Cuban Government?

Mr. MORGAN. That was the impression that our people then derived. And yet the field was open. It was a government with financing in prospect, and the field was open to anyone who could do the business in the most satisfactory way for the debtor. General Crowder consistently—well, I should say that there were innumerable conversations with General Crowder during this whole period, and many of them very frank.

Mr. Williams tells me that he probably lunched with General Crowder a hundred times—

Mr. WILLIAMS (interposing). Not lunched but discussed.

Mr. MORGAN. Well, that it was discussed a hundred times with General Crowder, I mean these various questions. So that there was nothing secretive at all so far as the relations between our counsel and General Crowder were concerned.

The CHAIRMAN. J. P. Morgan & Co. were not one of the competitors for this 10 million dollar business, were they?

Mr. MORGAN. They did not put in a bid.

Mr. PECORA. Didn't Mr. Batchelder in his communication which has been placed in evidence and marked "Committee Exhibit No. 31, October 23, 1933", in July of 1926, refer to J. P. Morgan & Co.'s interest in securing this financing as an interest that was being promulgated through the National City Co.?

Mr. MORGAN. Well, now, let me see—

Mr. PECORA (continuing). For instance, let me refer to these two paragraphs in Mr. Batchelder's letter, on the last page of it:

The City Co. people are doing nothing more than to keep an eye on the business, inquiring once or twice a week if there is any progress. I feel that their activity stopped about 3 weeks before we got down there, they having then reached about the same conclusion as ours. The Morgan people, if they have any interest in the indirect loan, have it through the City Co.; but if a direct loan does come out of all this they probably expect to get it in their own name.

Don't you think that was what Mr. Batchelder had in mind when he wrote that?

Mr. MORGAN. That is what he said.

Mr. PECORA. Now, while I am on this subject of Mr. Batchelder's letter—

Mr. MORGAN (continuing). Mr. Batchelder didn't say they had an interest, but he said if they had any interest. That is what I understood you to say.

Mr. PECORA. While I am on the question of this letter of Mr. Batchelder's I want to ask you specifically about this statement in it, on the second page, last paragraph:

The secretary of public works, who has all the money he wants, is apparently out to make a record for himself by making the best trade possible for the Government on all construction work and purchases.

What do you think Mr. Batchelder had in mind when he said, in referring to the secretary of public works: "He has all the money he wants"?

Mr. MORGAN. It means, as you have already read in the testimony of Grosvenor Jones, that the proceeds from taxation had accumulated rather rapidly and that he therefore had funds with which to prosecute the work then in process, such as the making of plans and surveys.

Mr. PECORA. You do not mean that the secretary of public works, having all the money he wanted, was out to make a record of public service, then?

Mr. MORGAN. I did not interpret it that way.

Mr. PECORA. Now, were any instrumentalities or intermediaries used by the Chase people for the purpose of securing this financing from the Cuban Government?

Mr. MORGAN. Are you referring to the word "intermediaries" in Mr. Batchelder's letter?

Mr. PECORA. I am referring to it in its ordinary meaning.

Mr. MORGAN. No. We went after it directly.

Mr. PECORA. You went after it directly?

Mr. MORGAN. Yes.

Mr. PECORA. Well, did you employ or use any intermediaries, any other agencies, than the immediate representatives or officers of Chase Securities Corporation?

Mr. MORGAN. The intermediaries referred to in the letter of Mr. Batchelder are the secretary of public works and the Secretary of the Treasury. He complained, if you recall, that he was unable to go directly to the President.

Mr. PECORA. Now, in your special study of the history of these Cuban loans, did you come across a memorandum addressed to Mr.

Callahan and Mr. McKee by Mr. A. K. Geiger, dated January 21, 1932? In connection with this question I invite your attention to a document which you will probably find in your files bearing the number 56-69 in the upper right-hand corner.

Mr. MORGAN. Yes.

Mr. PECORA. Do you find such a memorandum?

Mr. MORGAN. Yes.

Mr. PECORA. I show you what purports to be a photostatic copy of it and will ask you to kindly look at it and tell us if it is a true and correct copy of such a memorandum.

Mr. MORGAN. That is correct.

Mr. PECORA. I now offer it in evidence, Mr. Chairman, and ask that it may be spread on the record of our hearings.

The CHAIRMAN. Let it be admitted, and the committee reporter will make it a part of the record.

(A memorandum dated January 21, 1932, addressed to Mr. Callahan and Mr. McKee was marked "Committee Exhibit No. 34, October 23, 1933," and will be found in full below where read by Mr. Pecora.)

Mr. PECORA. Now, the memorandum in question, marked "Committee Exhibit No. 34" in evidence as of this date, reads as follows:

MEMORANDUM

JANUARY 21, 1932.

TO MR. CALLAHAN and MR. MCKEE:

As you know references to the Cuban public-works financing have on at least two occasions been made in the recent Senate testimony. While there is no intimation as yet that we may be called before the committee on this transaction, I have drafted roughly my ideas of a statement which we might use in event we are called. I would very much appreciate it if at your convenience you would go over this statement from the point of view of—

- (a) Whether or not I have approached the subject in the proper way, and
- (b) Whether the statement should contain a flat denial that we made any commission payment.

Now, the Senate testimony referred to in this memorandum was testimony that had recently, theretofore, been elicited before the Senate Finance Committee, in the early part of 1932, under Senate Resolution No. 19 of the Seventy-second Congress, wasn't it?

Mr. MORGAN. Yes.

Mr. PECORA. And that is the committee which after the date of this memorandum actually did call Mr. Carl Schmidlapp, one of the officers of Chase, before it, and examined him with regard to these loans. Is that right?

Mr. MORGAN. That is true.

Mr. PECORA. Do you know whether Mr. Schmidlapp in the testimony which he gave after the date of that memorandum before the Senate Finance Committee read a statement which corresponded to the rough draft which had been prepared by Mr. Geiger and submitted by him, with this memorandum which has been just marked in evidence, to Mr. Callahan and Mr. McKee for their possible approval?

Mr. MORGAN. I do not know whether that statement as given by Mr. Schmidlapp was the direct outgrowth of this memorandum or not.

Mr. PECORA. Have you seen the statement which Mr. Geiger apparently forwarded to Mr. Callahan and Mr. McKee with this memorandum of his dated January 21, 1932?

Mr. MORGAN. I have no recollection of it.

Mr. PECORA. Do you find any copy of it in the records or files?

Mr. MORGAN. No.

Mr. PECORA. Do you know anything at all about the contents of such a statement?

Mr. MORGAN. None other than appears from the memorandum as you have read it.

Mr. PECORA. Well, the memorandum which has been read into the record does not give the substance of the statement, does it?

Mr. MORGAN. No.

Mr. PECORA. Or make any allusion to those contents, does it?

Mr. MORGAN. No.

Mr. PECORA. Well, now, in view of the fact that you undertook either 3 or 4 or 5 or 6 weeks ago to make a special study of this subject in order to testify before this committee thereon, did you come across this memorandum of Mr. Geiger's and see the reference therein to a statement which he prepared for possible use before the Senate Finance Committee in behalf of your bank or of the Chase Securities Corporation; did you speak to Mr. Geiger about it?

Mr. MORGAN. I did not. I knew the subject that was under discussion, and the answer to it is so palpable, so complete, that it seemed to me that there was no sense in pursuing the question further.

Mr. PECORA. You would rather, then, that I would not pursue it further?

Mr. MORGAN. Indeed no. I am prepared to answer any question along that line that you may ask.

Mr. PECORA. How can you answer any question about a statement that you have never seen and the contents of which you are not informed about?

Mr. MORGAN. I am talking about the subject. I am talking about the alleged commission paid by the Chase Bank, and no commission of that sort was ever paid.

Mr. PECORA. I asked you whether you ever discussed the memorandum with the other gentlemen.

Mr. MORGAN. The photostat which you have just placed in the record refers to a commission. I can answer to that commission matter, and I know how silly the whole canard was in the beginning, and I would be glad to explain it to you in whatever way you may wish. That is what has already been done before the Senate Finance Committee.

Mr. PECORA. What are the sources of your information about it?

Mr. MORGAN. The records of the Chase National Bank.

Mr. PECORA. What specific records?

Mr. MORGAN. The accounting records of the Chase National Bank; the statements uniformly of the officers who had to do with it, and the correspondence from beginning to end.

Mr. PECORA. Well now, Mr. Chairman, I think in view of the fact that Mr. Geiger is actually present here and has been sitting alongside Mr. Morgan throughout all the testimony that Mr. Morgan has

given today, that this is one point where we might temporarily suspend the examination of Mr. Morgan and take up the examination of Mr. Geiger. So I ask that he now be sworn.

The CHAIRMAN. Mr. Geiger, will you stand up and hold up your right hand: You solemnly swear that the testimony you will give in the proceeding now before this committee will be the truth, the whole truth, and nothing but the truth. So help you God.

Mr. GEIGER. I do.

**TESTIMONY OF A. K. GEIGER, A SECOND VICE PRESIDENT OF THE CHASE NATIONAL BANK, SCARSDALE, N.Y.**

Mr. PECORA. Mr. Geiger, are you connected with the Chase National Bank?

Mr. GEIGER. I am.

Mr. PECORA. In what capacity?

Mr. GEIGER. As a second vice president.

Mr. PECORA. Will you please give your residence for the record?

Mr. GEIGER. Scarsdale, N.Y. My business address is 18 Pine Street.

Mr. PECORA. Mr. Geiger, how long have you been connected with the Chase National Bank in any capacity?

Mr. GEIGER. Since June 1, 1930.

Mr. PECORA. Prior to that were you connected with Chase Securities Corporation?

Mr. GEIGER. No, sir. I was connected with the Equitable Trust Co. of New York.

Mr. PECORA. And the Equitable Trust Co. of New York was merged with the Chase National Bank some time in 1930?

Mr. GEIGER. Yes.

Mr. PECORA. How long prior to the merger had you been connected with the Equitable Trust Co., and in what capacities?

Mr. GEIGER. I believe I went with the Equitable around 1919, or it may have been 1920.

Mr. PECORA. Did you continue in its service continuously until it was merged with the Chase National Bank?

Mr. GEIGER. Yes, sir.

Mr. PECORA. And upon such merger you became a second vice president?

Mr. GEIGER. No, sir; I did not. I was taken into Chase Securities Corporation as an assistant manager. I became a second vice president of the Chase National Bank in September of 1931.

Mr. PECORA. Who was the Mr. Callahan and who was the Mr. McKee whom your memorandum marked in evidence here as "Committee's Exhibit No. 34" of this date, was addressed?

Mr. GEIGER. Mr. Callahan was a vice president of Chase Securities Corporation at the time that memorandum was addressed—or the Chase Company—no, it was still Chase Securities Corporation. He is dead. Mr. McKee was likewise a vice president of that corporation.

Senator COUZENS. Where is he now?

Mr. PECORA. He is here.

What prompted you, Mr. Geiger, to write this memorandum and submit it to Mr. Callahan and Mr. McKee?

Mr. GEIGER. I wanted to be prepared for any testimony that might be called for before the Senate committee.

Mr. PECORA. That is, the Senate Finance Committee that was conducting an inquiry under Senate Resolution 19 of the Seventy-second Congress?

Mr. GEIGER. Correct.

Mr. PECORA. You knew at that time that there was actually under way before that committee an investigation or inquiry into these Cuban loans among other foreign loans?

Mr. GEIGER. I knew there was an inquiry into foreign loans.

Mr. PECORA. And had the public-works financing been referred to as yet in the testimony adduced before the Senate Finance Committee up to January 21, 1932?

Mr. GEIGER. I do not recall whether it was a reference to the public-works financing, but certainly it was a reference either to Cuba or the public-works financing.

Mr. PECORA. And was it upon your initiative that you prepared a statement and submitted it to Mr. Callahan and Mr. McKee with this memorandum?

Mr. GEIGER. Entirely.

Mr. PECORA. What did you mean when you in this memorandum asked those gentlemen to advise you, first, whether or not in the preparation of that statement you had approached the subject in the proper way?

Mr. GEIGER. Whether or not it was logical to develop the situation step by step or to attempt just a flat statement as to what the total of the financing was.

Mr. PECORA. And what did you have in mind when you asked these gentlemen to advise you in connection with your statement whether that statement should contain a flat denial that you made any commission payment?

Mr. GEIGER. Whether it was more advisable to come out through questioning or to give voice to it in the very beginning.

Mr. PECORA. What if anything had been said up to that time on the matter of whether or not the Chase Securities Corporation or the Chase Bank had paid any commissions to anybody in connection with its obtaining of the Cuban public financing business?

Mr. GEIGER. Not one thing, but the inquiry before the Senate committee seemed to be directed at that one particular point.

Mr. PECORA. And, although nothing had yet been said before that committee by anyone with regard to whether or not any commissions had been paid by your institutions in connection with this Cuban public-works financing, you felt it necessary or wise or proper as a precautionary measure to be prepared to meet questioning in advance of your being called upon, is that right?

Mr. GEIGER. Yes, sir.

Mr. PECORA. Now, do you know that Mr. Carl Schmidlapp, at that time an officer of the bank, testified 6 days after the date of this memorandum before the Senate Finance Committee?

Mr. GEIGER. I know it now.

Mr. PECORA. And do you know that he read a statement to the committee at the outset of his testimony?

Mr. GEIGER. I do.

Mr. PECORA. Do you know what statement it was that he read?

Mr. GEIGER. I could not repeat it. I know it in general terms.

Mr. PECORA. Was it in words or substance the statement that you submitted to Mr. Callahan and Mr. McKee on January 21, 1932, with this memorandum?

Mr. GEIGER. In general form I think it was. I could not make the specific answer without a comparison.

Mr. PECORA. Did you help Mr. Schmidlapp or anyone else in the preparation of the statement which Mr. Schmidlapp actually read to the committee 6 days later?

Mr. GEIGER. Only in a general way.

Mr. PECORA. Did you see the statement which he read?

Mr. GEIGER. I did.

Mr. PECORA. And you helped to prepare it?

Mr. GEIGER. Only in a general way.

Mr. PECORA. Well, you helped to prepare it, didn't you, whether in a general way or any other way, you helped to prepare it?

Mr. GEIGER. Yes.

Mr. PECORA. Did that statement contain any flat denial that the Chase interests had made any commission payments to anyone for the purpose of securing this Cuban public-works financing?

Mr. GEIGER. My recollection is it did.

Mr. PECORA. Did that statement also contain an averment that the Chase interests had not used any intermediaries whatsoever in getting that financing?

Mr. GEIGER. It is my recollection that it did, Mr. Pecora.

Mr. PECORA. Is that statement true?

Mr. GEIGER. To the best of my knowledge it is absolutely true.

Mr. PECORA. Now, when you assisted in the preparation of that statement had you had access to the letter which Mr. Batchelder wrote under date of July 29, 1926, a copy of which has been received in evidence here today marked "Committee's Exhibit 31"?

Mr. GEIGER. I do not recall that letter specifically, but undoubtedly I must have had access to it. I had access to the files.

Mr. PECORA. Let me read to you from the testimony of Mr. Schmidlapp given before the Senate Finance Committee on January 27, 1932, the following: Immediately after he was sworn Mr. Schmidlapp said, reading from page 1945 of part IV of the printed minutes of that hearing. [Reading:]

Mr. SCHMIDLAPP. Mr. Chairman, if permitted, I have a brief statement which has been prepared in regard to Cuban Government finance that I would like to read if you will bear with me.

The CHAIRMAN. There are no objections to that, Mr. Schmidlapp.

Mr. SCHMIDLAPP. The financing by The Chase National Bank and its associates for the Cuban Government was in connection with the construction of public works, pursuant to the Public Works Law of July 15, 1925, effective originally until 1935 and later extended to 1945. This financing consisted of three operations, each of which was negotiated directly with the Cuban Government, and no intermediaries were used and no commissions paid.

Do you find that statement?

Mr. GEIGER. I do.

Mr. PECORA. Let me now refer you to the following extract from the letter of Mr. Batchelder to Mr. Tinker, whom he addressed as

“Dear Ned”, dated July 29, 1926, being Committee’s Exhibit No. 31 of this date, reading from the second page thereof:

Regarding our position, it seems to me that we are as well situated as any of our competitors. In order to have had two strings to our bow I should like to have been allowed to impress our own individuality upon the president rather than relying entirely upon intermediaries.

Now doesn’t it appear to you, Mr. Geiger, that Mr. Batchelder at that time had some knowledge of the fact that the Chase interests were at that time or had been prior to that time relying upon intermediaries?

Mr. GEIGER. No, sir.

Mr. PECORA. What do you think was the reason for that statement of his in his letter to Mr. Tinker?

Mr. GEIGER. Mr. Batchelder says here very clearly that he would like to have impressed his individuality upon the president.

Mr. PECORA. But he also said that he wanted to have that in order to have two strings to the bow.

Mr. GEIGER. Yes, sir.

Mr. PECORA. The other string being intermediaries?

Mr. GEIGER. No; the Secretary of Public Works and Secretary of the Treasury, with whom he dealt.

Mr. PECORA. Who?

Mr. GEIGER. The secretary of public works and the Secretary of the Treasury.

Mr. PECORA. Were not being used as intermediaries?

Mr. GEIGER. By no means. He was dealing with them.

Mr. PECORA. Who were the intermediaries that Mr. Batchelder had in mind when he made this statement in his letter?

Mr. GEIGER. There are no intermediaries that I read from this letter.

Mr. PECORA. Well, now, you do read it clearly, don’t you, that Mr. Batchelder in July 1926, through the medium of this letter, was trying to impress upon Mr. Tinker, the president of the Chase Securities Corporation at that time, the advisability of the Chase Securities Corporation having two strings to their bow in their competition with other banking interests and that one of those two strings would consist of impressing his own or the Chase’s own individuality upon the president, and the other one was the reliance upon intermediaries?

Mr. GEIGER. I read that very clearly.

Mr. PECORA. Well.

Mr. GEIGER. But “intermediaries” there refers to Machado’s ministers, who were his intermediaries.

Mr. PECORA. Was the Chase Corporation relying upon two other officers of the Machado Government for the purpose of impressing the President?

Mr. GEIGER. No; he was dealing with those. He could not go direct to the president.

Mr. PECORA. They were not intermediaries; they were principals, were they not? If he was dealing with them, he was dealing with them as principals, not as intermediaries for the Chase?

Mr. GEIGER. I believe that financing was all accepted by decree of the President himself.

Mr. PECORA. What is that?

Mr. GEIGER. I believe that this financing of Cuba was accepted by decree of the President himself, after being advised by his board of awards, and in this letter it is quite consistent that Mr. Batchelder was referring to the ministers of public works and of finance.

Mr. PECORA. You believe that they were the persons he had in mind when he made this reference to intermediaries in this letter?

Mr. GEIGER. I firmly believe that, Mr. Pecora.

Mr. PECORA. Well, now; these two gentlemen whom you mentioned were part of the Cuban Government at that time, were they not?

Mr. GEIGER. Yes.

Mr. PECORA. Officially connected with it?

Mr. GEIGER. Yes.

Senator ADAMS. To carry out your idea he would have more appropriately used the word "subordinates", would he not?

Mr. GEIGER. He certainly would have, Senator.

Senator ADAMS. And he is pretty accurate in his use of language, isn't he, Mr. Geiger?

Mr. GEIGER. Well now, I don't know.

Mr. PECORA. Do you recall, Mr. Geiger, a Mr. Catlin, whose name has already been referred to in testimony here given by Mr. Morgan, the preceding witness?

Mr. GEIGER. I recall that name in the records.

Mr. PECORA. Did Mr. Catlin receive any compensation for any services he rendered to Chase in connection with its attempt to get this financing business?

Mr. GEIGER. He received compensation from the Chase.

Mr. PECORA. In what amount?

Mr. GEIGER. In three payments.

Mr. PECORA. What was the aggregate?

Mr. GEIGER. The aggregate was \$55,000.

Mr. PECORA. \$55,000. What did he receive that compensation for?

Mr. GEIGER. That compensation, pardon me, Mr. Pecora, was received over a period I believe of about 5 years.

Mr. PECORA. It was charged against expenses in connection with the acquisition of this financing, was it not?

Mr. GEIGER. Over that period.

Mr. PECORA. I say it was charged against expenses in connection with this financing, which was not commenced until February 1927?

Mr. GEIGER. Precisely.

Mr. PECORA. What was the first payment that he received for his services in connection with this financing?

Senator COUZENS. While he is looking that up, what was his connection at that time?

Mr. PECORA. Mr. Morgan has already testified that he was connected with the Electric Bond & Share and was also connected with the branch of the Chase National Bank in Havana, Cuba, at that time.

Mr. GEIGER. His first payment, Mr. Pecora, was \$15,000 in connection with the February 19, 1927, agreement.

Mr. PECORA. Did not the Chase also pay Rushmore, Bisbee & Stern and Dr. Bustamante for their legal services in connection with this financing?

Mr. GEIGER. They did.

Mr. PECORA. Catlin at that time was an officer of the Chase National Bank or manager of its Havana, Cuba, branch?

Mr. GEIGER. No, sir.

Mr. PECORA. What was he at that time?

Mr. GEIGER. He was a member of the advisory committee, not an officer.

Mr. PECORA. Member of the advisory committee of the Chase branch in Habana. Did he receive any compensation for any service he rendered as a member of its advisory committee?

Mr. GEIGER. I do not know, sir.

Mr. PECORA. He was also connected actively with the Electric Bond & Share Co., I believe?

Mr. GEIGER. A lawyer.

Mr. PECORA. A lawyer connected with the Electric Bond & Share. Did he render any legal services in connection with the obtaining of this financing by the Chase?

Mr. GEIGER. Not in obtaining it.

Mr. PECORA. Did he render any legal services in any way relating to the obtaining of this financing business by the Chase interests?

Mr. GEIGER. When the bank first entered on the negotiations for the public works financing in 1926 New York counsel suggested to Mr. Barr, vice president in charge of the Habana office, that it would be advisable and desirable to have available in Habana an American with a thorough understanding of Spanish with whom they could consult on Spanish documents, translations, and conditions in Cuba and the personalities with whom they had to deal.

Mr. PECORA. Are you reading that from a prepared statement?

Mr. GEIGER. I am, sir.

Mr. PECORA. Who prepared it?

Mr. GEIGER. We prepared it jointly, Mr. Morgan, Mr. Williams, and myself, from the records.

Mr. PECORA. When?

Mr. GEIGER. In connection with the study which Mr. Morgan has made.

Mr. PECORA. When; within the last 3 or 4 weeks?

Mr. GEIGER. Within the last 4 to 5 weeks.

Mr. PECORA. All right. Apparently that refers to activities of Mr. Catlin long prior to the time that you became connected with the Chase?

Mr. GEIGER. Yes, sir.

Mr. PECORA. So that all the knowledge you have about it is purely hearsay, is it not?

Mr. GEIGER. It is from study.

Mr. PECORA. I say it is purely hearsay, is it not?

Mr. GEIGER. Study. If study is hearsay, yes.

Mr. PECORA. Yes; study is hearsay. Mr. Williams will agree to that, will you not, Mr. Williams?

Mr. WILLIAMS. It depends on what you are studying, Mr. Pecora.

Mr. PECORA. That is a lawyer's answer.

How were you in a position to join in the preparation of a statement concerning what Mr. Catlin did or was supposed to do back in 1926 for the Chase interests?

Mr. GEIGER. I studied these Cuban records very thoroughly; sir.

Mr. PECORA. Did you find anything in the records which, apart from what you may have heard from anybody, informed you what Mr. Catlin did?

Mr. GEIGER. It is hard to differentiate, Mr. Pecora, between what I found in the files and what I was informed by those with whom I am working.

Mr. PECORA. You can easily tell us what you found in the files by looking at your files and calling our attention to anything you found in the files bearing on that.

Mr. GEIGER. Specifically I did not find statements that New York counsel suggested that. I was informed of that.

Mr. PECORA. Did you find anything in the files that gave you any information concerning what Mr. Catlin did for the \$55,000?

Senator GOLDSBOROUGH. Mr. Geiger, do you know whether it is commonly reported that Mr. Catlin was really a promoter in the ordinary sense of that word?

Mr. GEIGER. I have never heard him referred to as such.

Mr. PECORA. Did you answer Senator Goldsborough's question?

Mr. GEIGER. Yes; I did.

Mr. PECORA. In the study which you made, or helped Mr. Morgan make, on these Cuban loans for the purpose of informing this committee about them, did you come across a letter dated February 25, 1931, addressed to Mr. Joseph Rovensky, vice president of the Chase National Bank in New York City? Let me refer you to your files by exhibit no. 55-81-A.

Mr. GEIGER. I have that letter.

Mr. PECORA. Will you turn to page 4 of it? Do you find this statement in that letter? [Reading:]

I think that at the moment the President is so hard up that he will jump at anything that looks like additional cash.

Mr. GEIGER. What part of that page, Mr. Pecora? The copy I have is very bad. [After a pause.] I have it now.

Mr. PECORA. While you are looking for that particular portion of the letter—

Mr. GEIGER. I have it now.

Mr. PECORA. Let me ask you who wrote this letter to Mr. Rovensky.

Mr. GEIGER. It is not signed, but I believe it was written by Mr. James Bruce.

Mr. PECORA. What relationship did Mr. James Bruce bear at that time to the Chase interests?

Mr. GEIGER. He was a vice president of the Chase National Bank.

Mr. PECORA. Was he down in Cuba at the time this letter was written, namely, February 25, 1931?

Mr. GEIGER. He was either there or had been there recently. My impression is that he was not there at the time this letter was written, sir.

Mr. PECORA. Now, if you have found the portion of the letter from which I started to read, will you please follow me while I resume the reading of the portion I want to bring to your attention? [Continuing reading:]

I think that at the moment the President is so hard up that he will jump at anything that looks like additional cash. In this regard, Henry Catlin arrived on the scene just two days before I left, and although I have no

particular objection to Henry personally, he would have complicated my position very much had I remained, because he runs in and out of the palace every little while, and is trying to get his own taxes reduced, and would be delighted to play Lady Bountiful with the funds of the Chase Bank.

Do you find that?

Mr. GEIGER. I have that.

Mr. PECORA. Do you find also that Mr. Bruce, in this letter to Mr. Rovensky, said as follows (reading):

Another thing that although Henry is on our advisory committee, it is impossible to talk frankly with him, as you know what you say will be repeated in the palace.

Mr. GEIGER. I have that.

Mr. PECORA (continuing reading):

He told me—which I think is entirely true—that the President is desperately in need of the money for the Government, and that it was most important for us to put up \$1,500,000. In fact, he had at least 10 very good reasons why we should do this. He stated, among other things, the \$30,000 which the President borrowed from us in his private account, he loaned to the Government.

Do you find that in that letter?

Mr. GEIGER. I do, Mr. Pecora.

Mr. PECORA. Did you have that letter before you when you helped prepare the statement which Mr. Schmidlapp read to the Senate Finance Committee on January 27, 1932?

Mr. GEIGER. I do not recall that I had it before me.

Mr. PECORA. When, for the first time, was your attention ever called to that letter of Mr. Bruce?

Mr. GEIGER. I do not recall the specific date. I have been in and out of the files relating to Cuban matters many times. I have, within the last 5 weeks, seen this letter.

Mr. PECORA. Did you see it for the first time within the last 5 weeks?

Mr. GEIGER. I cannot testify yes or no to that.

Mr. PECORA. Have you any recollection at all of ever having seen it prior to the time, within the last 5 weeks or so, that you assisted Mr. Shepard Morgan in making this special study?

Mr. GEIGER. I have no special recollection of it.

Mr. PECORA. I think that is all for today.

Mr. MORGAN. May I interject at this point, before the hearing is closed?

Mr. PECORA. It is not closed. It is going to be resumed tomorrow morning.

Mr. MORGAN. But before this session is closed. You have been good enough to ask me certain questions during the day, and I would like to clarify this point before we leave it.

Point 1: The date of this letter of Mr. Bruce's is February 23, 1931.

Senator COUZENS. That is in the record.

Mr. PECORA. That needs no clarification, does it?

Mr. MORGAN. Yes, because the reference is to Henry Catlin, and the prior discussion was with respect to Henry Catlin's activities in and about the year 1927, some 4 years previous.

Mr. PECORA. Are you through clarifying that?

Mr. MORGAN. The reference to Machado's shortness of cash is perfectly clear from the subsequent reference in Mr. Bruce's own letter,

where he speaks of the Government being short of money. I can not allow anybody to have any misapprehensions that Mr. Bruce had in mind, or that anybody dealing with this financing had in mind, the Chase Bank acting as Lady Bountiful in a private way.

Mr. PECORA. I do not know what they had in mind. Mr. Bruce might tell us, or Mr. Catlin might.

Mr. MORGAN. That is precisely what I want to make clear at this date.

Mr. PECORA. Apparently what Mr. Bruce had in mind he expressed in plain words in this letter.

Mr. MORGAN. Yes; but—

Mr. PECORA. Do you want to attempt to explain his language?

Mr. MORGAN. I have done so.

Mr. PECORA. This morning you preferred to let certain statements in another document which was put in evidence speak for themselves, without any elaboration or explanation or interpretation.

Mr. MORGAN. You see, Mr. Pecora, I think that improper inferences might be drawn from the reading of this letter, and the two or three isolated passages in this letter, and I must correct them before the testimony is cleared for the day. The Chase Bank has not acted through intermediaries. It has not paid commissions in any respect, in the whole course of this financing.

Mr. PECORA. That is what you believe—not what you know, but what you believe, because you have no personal knowledge, have you?

Mr. MORGAN. Neither I nor anyone else has any evidence to the contrary.

Mr. PECORA. I say, you have no personal knowledge to support what you say.

Mr. MORGAN. I have the knowledge from men whom I believe, from records which I believe, and I can not let any false inferences pass out before the public.

Mr. PECORA. Perhaps you will tell this committee what you think Mr. Bruce meant when he referred to Henry Catlin in this letter in the way in which he referred to him.

Mr. MORGAN. With reference to Mr. Catlin—I do not want to be unkind to a man who is dead, but he refers to Henry Catlin here as a nuisance, and I am afraid that is precisely the fact, at this stage.

Mr. PECORA. At the time he wrote this letter—

Mr. MORGAN. Prior to that time he was very useful, as Mr. Geiger has already indicated, in advising the Chase Bank with respect to Latin customs in Habana, as a lawyer.

Mr. PECORA. Do you think you knew more about Mr. Catlin's activities and relationship to this whole question than Mr. Bruce did when he wrote this letter and was in contact with Mr. Catlin right on the ground there?

Mr. MORGAN. I have not altered in any sense Mr. Bruce's utterances here in this letter. I have simply pointed out the facts which were not, I think, amply clear, that is, that this letter was written 4 years after the financing which has been previously in discussion, and second, that the reference was with respect to loans to be granted to the Cuban Government, which Machado then desired, and which he did not receive.

Mr. PECORA. Do you know anything about any relationship between Mr. Catlin and President Machado?

Mr. MORGAN. I know that they were both interested in an electrical concern in Santiago.

Mr. PECORA. What was the name of that concern?

Mr. MORGAN. I cannot give it in Spanish, but I think it was the Santiago Electric Co.

Mr. PECORA. What relationship did Mr. Catlin have to that company?

Mr. MORGAN. This was long before Mr. Machado became President.

Mr. PECORA. I know; but what relationship did he have to it?

Mr. MORGAN. I want to get the dates completely straight.

Mr. PECORA. What relation did he have to it?

Mr. MORGAN. Mr. Catlin was president and Machado was vice president.

Mr. PECORA. What relationship did General Machado have to it at that time?

Mr. MORGAN. He was vice president.

Mr. PECORA. That was when?

Mr. MORGAN. Prior to the time General Machado became President.

Mr. PECORA. That was in 1925, was it not?

Mr. MORGAN. Or prior to that date.

Mr. PECORA. It was in 1925 that General Machado became President, was it not?

Mr. MORGAN. On May 20.

Mr. PECORA. Yes; and Mr. Catlin, according to the testimony which you have given before this committee today, and according to the testimony which Mr. Geiger has given before this committee this afternoon, received \$55,000 by way of compensation for legal services from the Chase interests in connection with services rendered by him in relation to this financing.

Mr. MORGAN. Over a period of 5 years.

Mr. PECORA. Beginning when?

Mr. MORGAN. And——

Mr. PECORA. Beginning when?

Mr. MORGAN. Three years.

Mr. PECORA. Beginning when?

Mr. MORGAN. 1927, concluding in 1930. His services began in 1926—a period of 4 years.

Mr. PECORA. He was the same Catlin to whom Mr. Bruce referred in this letter of February 23, 1931, as the man who was always running in and out of the palace, as the man whom the Chase people should not trust because everything that was said to him was repeated by him in the palace? He is that same man?

Mr. MORGAN. Mr. Catlin was not physically the same man in 1931 that he was in 1926 and 1927.

Mr. PECORA. He was the same personality, the same individual, was he not? I have not asked you about the condition of his health.

Mr. MORGAN. In the eyes of the Almighty, yes; but physically and mentally, no. And you must not overlook, in this whole connection, that this financing was all awarded on public letting, fully known to everyone, open to public examination.

Mr. PECORA. You had better not give your testimony on that now, because I am going to ask you about it in detail tomorrow.

Mr. MORGAN. All right. We will be glad to come in.

Mr. PECORA. May I ask if there is any officer or representative of the Chase National Bank who can give this committee all the salaries and bonuses that are now being paid by the Chase Bank to its officers—vice presidents and other officers? I think we put in a tabular statement last week. That is in the record as committee's Exhibit No. 7, of October 17, 1933. All right.

The CHAIRMAN. We will adjourn until 10 o'clock tomorrow morning.

(Whereupon at 4.30 p.m. Monday, Oct. 23, 1933, the subcommittee adjourned until 10 o'clock the following morning.)

COMMITTEE EXHIBIT No. 30

CUBA—MEMORANDUM TO MR. TINKER

MARCH 22, 1926.

On Saturday, March 20, Mr. Benard suggested that I see Tarafa promptly on Monday and point out the convenience to him, in an indirect way, of a prompt decision on the part of the Cuban Government as to this matter of financing. He called attention to the present unsatisfactory state of the security market and stated that whereas a substantial amount of securities could be absorbed at this time without difficulty, that a sudden change in market conditions is not improbable, in which case this financing might be rendered much more expensive, if not impossible. I stated that I would get in touch with Tarafa today.

On Sunday, March 21, about 3 o'clock in the afternoon, General Crowder approached Mrs. Graves at the Jockey Club, stating he was very anxious to see me at once. Upon learning that I was at the Country club, he immediately came there and sent for me on the golf links. He seemed to be much exercised. He stated that he had heard persistent rumors that Blair & Co. and the Chase Securities Corporation were attempting to negotiate a loan to the Cuban Government of 100 million dollars, and that in view of the fact that their indebtedness was already 98 million and the financial and economic condition of the country was in such a deplorable state, he found it very difficult to credit the above statement. He stated that the character of his information was such, however, that he could not disregard it and, as a matter of fact, Cespedes was supposed to present to him the proposed project today, Monday, March 22; that, as he understood it, they were attempting to make a loan to the Government but under another name, and that we all knew if any difficulty arose, the United States Government would be appealed to, to make Cuba comply with her engagements.

General Crowder stated that he and I had been friends for a long time and he thought it was only fair to tell me of the situation because as he saw it, it placed upon him the responsibility of making an immediate protest to the State Department in Washington. He called my attention to article 2 of the Platt amendment and further said that he supposed these people had secured advice from American lawyers who really were insufficiently acquainted with the proper construction of the Constitution of Cuba of which the Platt amendment was a part.

I pointed out to him that I represented neither Blair & Co. nor the Chase Securities, although both organizations were friendly with the Chase Bank; that any financial plans or discussions they may have had with the Cuban Government, were matters which I was not in a position to discuss. I told him that I would assume, however, the first thing any group of bankers would be sure of was that any plans they had would not run counter to the provisions of the Cuban constitution or the Platt amendment, and that I would presume that any such groups would not only have the best legal

advice from American lawyers but from the most outstanding legal talent in Cuba as well.

General Crowder said, you know, I believe in treating all American interests alike, to which I replied that I was well aware of this. He said that 2 or 3 years ago, representatives of Blair & Co. came to Cuba in an attempt to loan the Cuban Government \$40,000,000 but they did not call on him and they had not even had the courtesy of calling on him this time either.

I made no comment on these statements but told him that I would attempt to find out something about the situation that night and if I were successful, I would communicate with him as soon as I was in position to do so.

It was impossible to communicate with Mr. Benard as he had not returned from his fishing trip either Sunday night or Monday morning. I left word at the Hotel Sevilla that he should call me as soon as he arrived.

I communicated with Bustamante this morning regarding the whole situation and he was present during my conversation by long distance telephone with Mr. Freeman, at about 10 o'clock.

In view of the fact that General Crowder was to have the plans submitted to him today and he knows that Mr. Tinker and Mr. Benard had been here and that I had been with them, it would be foolish to pretend utter lack of knowledge of their interest in the public-works program, and in view of the fact that General Crowder expected to hear from me in some form, it was better I should communicate with him and tell him that Mr. Benard had not returned but I would get in touch with him immediately upon his arrival in Habana, so that he might explain to General Crowder any ideas they might have on the financing plan. Failing to do so, I expected to get into communication with Mr. Tinker during the course of the day and would let him know whatever Mr. Tinker wished to communicate to him.

In the presence of Dr. Bustamante, I called General Crowder this morning and told him I was unable to get in touch with Mr. Benard but would do so immediately on his arrival in Habana and would ask him to communicate with the general; failing this, I would talk with Mr. Tinker upon his arrival in New York and would tell him what Mr. Tinker had to say. The general expressed himself as extremely appreciative of my activities in the matter and his attitude showed distinctly less concern than it did yesterday and he appeared much more friendly and appreciative.

Pursuant to my arrangement with Mr. Benard, I had an interview with Colonel Tarafa today and explained to him the attitude of General Crowder. Tarafa said at once that, in his opinion, Cespedes would not submit the matter to Crowder and Crowder had tried to deceive me in this respect; that Cespedes was the last man in the Cabinet to submit anything to the American Government and if he were obliged to do so, he would certainly have it done by some other member of the Cabinet.

When I suggested to Tarafa the possibility that Crowder had secured his information from Field, former secret-service agent of the United States, a friend of Cespedes and who now does secret-service errands for Crowder, he stated that he was sure this was what had happened when Field had learned from Cespedes, in a general way, of the plan, and that he had given Crowder his own digest of the matter.

Tarafa stated that General Machado, Cespedes, and Cartaya were at this very moment (1:30 p.m.) in conference about the plan and that he had heard rumors that they were favorably impressed with it.

He again suggested that any information we wished to convey to Cespedes, or any discussions that might be had as to the plan, should go through Cortina rather than anybody else.

As to the probability of a change in the status of the security market which might hinder the contemplated flotation of these securities, Tarafa, in common with almost everybody in Cuba, is very greatly discouraged and felt that a change in the security market in the United States was a possibility, if not a probability, and that the Cuban Government ought to act quickly. Tarafa further stated that Powell had left for the United States on the boat this morning.

I talked with Mr. Tinker about 3:15 p.m., setting forth the above facts. He said that I should not communicate with Crowder again unless he called me,

in which case I was to tell him that Mr. Tinker had left for Florida last Thursday, and I was not sufficiently informed of his plans to be able to discuss them—that I should get in touch with Mr. Benard as soon as possible and turn the whole matter over to him, giving Mr. Tinker's opinion that it was not necessary to communicate our plans at the present time to Crowder, but to say that when the proper moment arrived a discussion would be had.

Although I have not kept a copy of this memorandum, I have given a copy to Mr. Benard and preserved a copy for Mr. Panthen, in order that he may know all I do in view of my contemplated absence from Cuba shortly.

I saw Mr. Benard about 4 p.m. He stated that he had talked with Mr. Tinker and agreed that I should not call Crowder, but in case I ran into him anywhere I should talk to him along the lines suggested by Mr. Tinker to me, and we agreed that I should say practically the same thing in regard to Mr. Benard, stating that Mr. Benard was a French subject and a French banker, and that he would be very glad indeed to pay his respects to General Crowder, but that he had not even called as yet on the French Minister.

I ran into Crowder about 9:30 p.m. at the country club. I told him exactly what had been agreed on by Mr. Tinker and Mr. Benard. Crowder seemed entirely satisfied and conveyed to me again that as yet he had not communicated with the State Department regarding this matter.

It is clear that the bank should preserve cordial relations with the United States Ambassador but, while not telling him anything that would damage our interests in Cuba, to be careful not to make any statements which, he might easily learn, were contrary to facts.

#### COMMITTEE'S EXHIBIT No. 33 OF OCTOBER 23, 1933

##### FINANCING PROPOSITION

HON. CARLOS MIGUEL DE CESPEDES,  
*Secretary of Public Works, City.*

SIR: The undersigned, a representative of the Chase National Bank of the City of New York, duly authorized as evidenced by the accompanying power of attorney executed before the notary of this city, Dr. Ramon J. Martinez Pedro, on September 24, 1925, under no. 199, states:

"That in accordance with the invitation extended by the Government for proposals to finance payments to contractors under agreements entered into pursuant to the Public Works Law up to a maximum aggregate limit of \$10,000,000, in accordance with the conditions set forth in the official statement of November 19, 1926, I take pleasure in submitting for your consideration the proposal set forth below, which is designed to meet the conditions of your Government as set forth in the official statement referred to."

##### PROPOSAL

The general terms and conditions of this proposal are as follows:

1. This proposal is not conditioned upon the acceptance by the Government of any particular construction contractor or contractors, the Government being entirely free thereunder to select such contractors for the work as it may consider proper. We assume, however, that the detailed provisions of the construction contracts will be made to harmonize and coordinate with the provisions of this proposal which are designed to effect the prompt payment to the contractors of the amounts due for the completion of the work.

2. The Government will, to such extent as it deems advisable, but not exceeding the maximum aggregate face amount below specified, from time to time during the 4-year period ending June 30, 1930, issue under such construction contracts entered into under the public-works law as it may determine, deferred-payment certificates covering work completed under such contracts. Such deferred-payment certificates shall certify that the Government will pay to the Chase National Bank of the city of New York as registered assignee or on its order, at the maturity date or dates therein specified which shall not be earlier than July 1, 1930, nor later than June 30, 1931, the face amount of such certificates not exceeding in the aggregate \$10,000,000, with interest at the rate of 6 percent per annum, calculated from the date of payment to the contractor,

as provided in paragraph 5 hereof, to the date of payment by the Government payable semiannually on such dates as the Government may determine and fix in the definitive agreement. The interest payable on such certificates is fixed at the rate aforesaid to cover all customary discounts. The principal and interest of such deferred-payment certificates are to be payable by the Government at its option either at our principal office, No. 57 Broadway, New York City, or at our Habana branch, in official gold dollars of the present standard, but if paid at our Habana branch the Government will add to the amount then payable the amount of any Cuban taxes payable by us in respect of the transfer of said funds to New York City.

3. The deferred-payment certificates are to be the irrevocable and incontestable contract obligations of the Government to pay the face amount thereof with interest at the respective due dates subject to no offsets or counter claims and are to constitute a first lien or charge upon the public-works fund created under the public-works law for the payment of the amounts due for principal and interest at the dates when the same shall become payable pursuant to the terms thereof.

4. All deferred-payment certificates issued under any construction contract entered into under the public-works law shall be issued in our name and shall be payable, principal and interest, to us or upon our order in place of the contractor under such contract and shall be registered as so payable at the Treasury Department of the Government. As we shall pay the face amount of any such deferred-payment certificates to the contractor entitled to receive the same, as provided in paragraph 5 of this proposal, the amount and date of such payment will be registered at the Treasury Department and the department of public works will likewise deliver to us, in duplicate, the corresponding works certificates as issued during construction.

5. We agree that upon presentation to us within the period of 4 fiscal years before mentioned, which end June 30, 1930, of deferred-payment certificates issued in accordance with this proposal and the definitive agreement to be entered into to give effect thereto, we will pay at our Habana branch to the contractor or contractors specified in such certificates the face amount thereof up to the maximum aggregate amount of \$10,000,000, such payment to be made at such time after receipt of any of such certificates as the Government may order.

6. As compensation for our commitment and services in this matter we are to receive for each fiscal year of the 4-year period above mentioned the following amounts:

For the first year an amount equal to  $1\frac{1}{2}$  percent of the maximum aggregate face amount of the deferred-payment certificates contemplated to be issued under this proposal payable upon the execution of the definitive agreement, and for each of the remaining 3 fiscal years of the said 4-year period an amount equal to 1 percent of said face amount of certificates payable on July 1 of each of said years.

7. In case the foregoing proposal should meet with the approval of the Government, we are to be notified of the Government's acceptance and approval before December 15, 1926.

8. If this proposal is accepted by your Government, the definitive agreement in form and substance satisfactory to your Government and to ourselves will be entered into by not later than January 15, 1927, for the purpose of proceeding to increase the requisite continuing security and giving effect to the detailed provisions essential to carry out the proposal.

9. All legal details in connection with said definitive agreement are to be carried out under the supervision and subject to the approval of our counsel, Dr. Antonio S. de Bustamante. In case this proposal is not accepted and such definitive arrangement is not entered into by the dates above mentioned or by such later dates as we may agree upon, all our obligations hereunder shall terminate and the security which we have deposited in order to comply with the conditions established, shall be returned to us.

10. In accordance with condition 10, for the financing of work, we accompany herewith our certified cashier's check for \$500,000 as well as a certificate from the secretary of the Habana clearing house showing us to be members of the same, and we agree to increase this amount to \$1,000,000 if we are awarded the financing on the closing of the definitive contract utilizing for

the total any of the forms of finance permitted under the conditions of this subasta.

11. Also, in compliance with the provisions of article II of the general conditions for all the contractors of the State, we submit herewith the receipt which shows our having paid the opening tax on industry chargeable to us.

Wherefore we ask you to please have this proposal presented with the accompanying documents and the declarations and offers which it contains to all legal effects.

Habana, the 30th of November, 1926.

THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK,  
MARIO SEIGLIE, *Representative*.

Post office address: Aguilar no. 86, Habana.

Attached:

1. Power of attorney of bank.
2. Municipal tax receipt.
3. Receipt for profits tax.
4. Certified check for \$500,000.
5. Certification of the clearing house.