

April 11, 1955

Internal Memorandum

Final Interview with Mr. Earhart - San Francisco

Mr. Earhart developed the story of the Philippine incident in more detail. He said that the submarine was loaded chiefly with assets from banks and loans companies. The inventory which the Bank had to make when the cargo was landed had only the lists of the various companies to go by. The inventory seemed to show that they were one small gold bar short. Later on in the war, High Commissioner Francis Sayre, checking over the inventory with Mr. Earhart, was told about the shortage and reached into his briefcase and brought out a small bar in a dirty bag. "Could this be it?" he asked. It seems that the small bar in the dirty bag had been left on the pier when the submarine was loaded, and someone had picked it up and returned it eventually to the High Commissioner.

The Bank held this material through the war and for several years afterwards. Owners were asked to come and take delivery or to send agents who might act for them. The entire operation proceeded without any claim of shortage or mishandling of any kind. In spite of the informality of the process, there was apparently no loss, but it took the Bank years to get all of this material back to its owners.

Reverting to the 1920's, Mr. Earhart said that in that period the Federal Reserve Bank of San Francisco had to go out and collect loans which had gone bad for its member banks, whereas in 1930, the Federal Reserve bankers did not come in contact with the people. In the 1920's, the people had balances in the bank which they could not get out and were presented with papers which they could not pay. Conditions were worst in inter-mountain country. Between the San Francisco Federal Reserve Bank and member banks in that district special codes were set up in order to guard the banks and the customers from town knowledge of their difficulties.

The fall was caused by the fact that in the first place all reserves had been put out through the discount window, and all the money that banks had to loan was on

loan. Second, at that point, prices abruptly fell. Farmers had bought land which they thought was needed for the apparent expansion in crop demands. Then the expansion in crop demands fell off, and they could not pay for the land which they had bought, nor could the banks pay their loans at the Federal Reserve Bank. The bottom fell out of prices. The Federal Reserve Bank, up to that time, had had only limited experience, six years in all, and they knew they had no legal right to go on loaning past the reserve point. Values had faded so fast, so much paper was "not collectable" that they were in a quandry.

Asked what got them out of this morass, Mr. Earhart said it was chiefly the workings of the law of supply and demand. Production of crops needed in the war but not after the war was cut. Marginal lands which had been plowed and planted were not replanted. Farmers who had been so rich that they hired hands and were known as "fence-rail farmers" found they had to go to work again. The Reconstruction Finance Corporation helped to tide over the period until men could get part way back from the hard bottom to which they had fallen, but Mr. Earhart clearly did not believe that they were solely responsible for the recovery, nor that any other government agency or activity had that sole responsibility.

Speaking of the present situation in the twelfth district, Mr. Earhart said that they were very short of water and that the south was already in difficult straits. This water shortage affects not only water for drinking, industrial and agricultural purposes, but also for power purposes. The southern California Edison Company has not been as provident in setting up steam plants (steam power plants) as has the Pacific Gas and Electric which operates in the north. They have already ordered power for the summer season from the PG&E.

The difficulty is that the rains which California usually has in January and February did not come. In March they had a little rain, enough to turn the country green, but not enough to refill the reservoirs. Unless, in the month of April, they

get rain, they will be in a very difficult situation.

This shortage of water is, of course, one of the prevailing characteristics of the coastal regions. It was felt long before the 1950's, and it has been exaggerated by the increasing population which has threaded into the coast. The attempts to take care of it have taken two forms, first the bringing in of water from other states (chiefly Colorado and Arizona thus far, but the south is now negotiating for water all the way from Oregon), and second attempts to find an economical process of taking water from the sea and rendering it fit for consumption in industry, agriculture, and by human beings. The city of San Francisco has recently put aside several hundred thousand dollars for experiments in this latter direction.

Speaking of the twelfth district as compared with other districts in the System, Mr. Earhart thinks there is more autonomy there and less communication with the Board. He says also that this is partly because they are so far away, there are no private tie-lines between Washington and San Francisco, and the telephoning is so expensive that it is not done lightly.

In the second place, he says that the district lines define a natural trade area which is not always the case in other districts. The Rocky Mountains make a sharp dividing line, and the desert on the other side to a certain extent is more of a dividing line than the mountains.

On the other hand, the deserts are seeing new uses. There are spreading oases in the MohaMi Desert created by digging for deep wells, and there is of course military, chemical and aviation use of desert areas. All this has added to the prosperity of the district.

Mr. Earhart is anxious that we talk with Mr. Leisner, now manager of the Seattle branch and the only man who was with the San Francisco from the day it opened. Mr. Leisner comes frequently to Washington and sometimes to New York and could be seen in the east. He also spoke of Mr. N. A. Davis of Walla Walla.

The other side of the autonomy characteristic is that California is, to a certain extent, less autonomous than it used to be years ago because transportation and communication are welding it more and more into the entire American economic picture.

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