

PERSONAL AND  
CONFIDENTIAL

May 6, 1944.

Honorable Kenneth D. McKellar,  
United States Senate,  
Washington 25, D. C.

My dear Senator McKellar:

Chairman Lillienthal, of the Tennessee Valley Authority, thought it appropriate to send to me a copy of your letter to him under date of April 25 and a copy of his reply to you under date of April 29 inasmuch as those letters include references to me. Because of your interest in the TVA contract let to the Utah Construction Company and because of your reference to my connection with that construction company, I am sending you a copy of my reply to Chairman Lillienthal.

Sincerely yours,

M. S. Eccles.

Enclosures 2

MSE:VE:b

TENNESSEE VALLEY AUTHORITY

Knoxville, Tennessee  
April 29, 1944

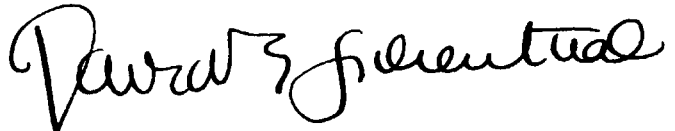
OFFICE OF THE CHAIRMAN

Dear Chairman Eccles:

I enclose copy of a letter addressed to me by Senator K. D. McKellar and our reply.

In view of the fact that the Senator's letter and our response include references to you, it seems appropriate that I send you these copies.

Sincerely,

A handwritten signature in cursive script that reads "David E. Lilienthal".

David E. Lilienthal  
Chairman

Hon. Marriner S. Eccles  
Chairman, Federal Reserve Board  
Washington, D. C.

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UNITED STATES SENATE  
COMMITTEE ON POST OFFICES AND POST ROADS

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April 25, 1944

Mr. David E. Lilienthal,  
Tennessee Valley Authority,  
Knoxville, Tennessee.

Dear Sir:

I am advised that prior to work being done by the TVA on the Watauga and South Holston or one or both of them the contract was let to the Utah Construction Company of which Marriner S. Eccles, Chairman of the Federal Reserve Board, is a director and part owner; that the contract was let privately and not by public bidding and that the prices paid for such work as was done were very large.

Please send me copy of the contract; state whether the contract was let after bidding; why it was let to a company in which a well known official of the Government was interested; what has been paid out on the contract; what, if anything, was paid when the contract was stopped and such other facts concerning these contracts as may be within your possession.

Include any correspondence between the WPB and the TVA with reference to the stoppage of those two dams.

A week or two ago I wrote you for information about other matters and have not had a reply. I want these letters answered. I am asking you for information regarding the conduct of the TVA and I have a right to ask it and I have a right to have them answered.

Yours truly,

/s/ Kenneth McKellar

Division of Inspection  
Office of the Inspector General

APR 25 1944

sent to  
Director of Inspection

through the Inspector General

# TENNESSEE VALLEY AUTHORITY

KNOXVILLE, TENNESSEE

DAVID E. LILIENTHAL  
CHAIRMAN  
HARCOURT A. MORGAN  
DIRECTOR  
JAMES P. POPE  
DIRECTOR

April 29, 1944

Honorable Kenneth D. McKellar  
Senate Office Building  
Washington, D. C.

Dear Senator McKellar:

This will acknowledge receipt of your letter of April 25 requesting information concerning the contract between the Authority and The Utah Construction Company covering tunnel construction work on the Watauga and South Holston projects. You have apparently overlooked previous correspondence on this same matter. On May 29, 1942, you wrote to us requesting information on this contract and copies of documents. Under date of June 11, 1942, our general manager, Mr. Clapp, responded to your letter by giving detailed information concerning the circumstances and by forwarding copies of all of the relevant documents. You acknowledged the receipt of that material under date of June 13, 1942. We are enclosing copies of this correspondence.

The following statement covers the facts that were before the TVA Board of Directors at the time the contract was approved by the Board. The facts and details were prepared for the Board by the General Manager and staff.

The contract was not solely with the Utah Construction Company but was a joint bid, submitted by that Company and the Morrison-Knudsen Company. The contract was let after inviting bids from three companies known to have equipment immediately available with which to do the work. One company declined to bid. The other two submitted a joint bid and a contract was thereafter entered into.

The details are as follows: In view of the priorities situation existing at the time that this work was commenced it was necessary to ascertain what construction companies with experience in this type of work had available the necessary equipment to undertake tunnel projects of this magnitude without unnecessary delay. This was an important point because it would have been futile to let a contract to a contractor who did not have the equipment available and who could not have obtained it under the priorities available for this job. Accordingly, the purchasing officials

Honorable Kenneth D. McKellar

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of the Authority made inquiry throughout the trade and ascertained that three companies, the Morrison-Knudsen Company, The Utah Construction Company, and the Pleasantville Constructors were the only concerns in a position to undertake this work. These three companies were contacted by telephone. Pleasantville Constructors declined to bid. Morrison-Knudsen Company and The Utah Construction Company submitted a joint bid for both the Watauga and South Holston jobs. Both of these companies are nationally recognized as thoroughly reliable contractors on important construction work.

At the time that this contract was let the Morrison-Knudsen Company had just finished construction of the Anderson Flat Dam for the Bureau of Reclamation in Idaho. This same company had previously constructed the Glenville Power Project for the Aluminum Company of America and was under contract with us on the construction of the Ocoee tunnel at Ocoee Project No. 3. The Utah Construction Company at the time of the letting of this contract was just finishing the Nantahala Dam and tunnel for the Aluminum Company of America and had recently completed contracts with the New York Board of Water Supply for tunnel work at Croton Falls, New York. This same company was also constructing the Norfolk Dam in Arkansas, involving expenditures of approximately \$11,000,000, and important works at Pearl Harbor, Samoa, Palmyra, and Johnson Islands, involving the expenditure of approximately \$12,000,000 per month. The awarding of this contract on informal bidding without advertising was authorized by statutory provisions in effect at the time. This procedure permitted the construction of these dams to proceed with speed not possible otherwise.

You ask why the contract was let to a company in which "a well-known official of the Government was interested" and state further that Marriner S. Eccles, Chairman of the Federal Reserve Board, is a director and part owner of one of the contracting companies, The Utah Construction Company. The contract was let for the reasons above stated, reasons related to necessity for obtaining a qualified contractor who had the special equipment and could do the job at a fair price and under conditions of speedy entrance on the undertaking.

The statement in your letter is the first suggestion that we have received that Mr. Eccles has any interest in this company. Even if that be a fact, we are not clear whether it is your position that before letting this contract we should have undertaken an investigation of the personnel of the board of directors and stockholders of this company and if the fact which you now state had been revealed should have refused to contract with a company otherwise qualified, at a price otherwise reasonable, because of Mr. Eccles' relationship to the company. It should be noted that this same company has in recent years contracted not only with the TVA but also with the Corps of Engineers, the Bureau of Reclamation, and other

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Honorable Kenneth D. McKellar

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federal agencies engaged in construction work. So far as we know there is no principle of law or policy supporting the exclusion from government contracts of an otherwise qualified contractor.

You ask about the price. This contract was on what is known as a unit price basis. Those unit prices were \$9.70 per cubic yard for tunnel excavation at Watauga and \$18.80 per cubic yard for spillway excavation at the same project. The corresponding prices at South Holston were \$10.70 per cubic yard for tunnel excavation and \$18.80 per cubic yard for spillway excavation. These unit prices reflect the fact that TVA agreed to furnish power to the contractors to operate their electrically driven construction equipment.

At the time that these two projects, along with many others, were stopped by the general stop order of the War Production Board on October 20, 1942, the tunnel work was not entirely completed. We appeared before the War Production Board and urged an extension of time to permit the tunnels to be finished. An amendment to the original stop order was granted to permit us to continue work to December 1, 1942, in the case of the South Holston project, and to March 1, 1943, in the case of the Watauga project. These extensions of time permitted us to complete the tunnels. We paid to the joint contractors under the contract the amount to which they were entitled on the unit price basis for the work actually done. The total paid on the Watauga job to the two joint contractors was \$1,667,337.35. The total on the South Holston job, also paid to the two joint contractors, was \$2,195,313.18. No cancellation or termination charge was paid.

In accordance with your request, we are enclosing herewith another copy of the principal contract between the Authority and the two contractors, together with copies of the supplemental contracts relating to details of performance. Also, in accordance with your request, we are forwarding copies of all the correspondence between the Authority and the War Production Board relating to the stoppage of work on these two projects.

We note the last paragraph of your letter. The previous request for information to which you refer was dated April 19 and was received by us on April 21. The reply containing all the information requested was mailed on April 25.

Received

Chairman's Office

Copy to Honorable Marriner S. Eccles

Chairman YAM  
Federal Reserve Board  
Washington, D. C.

Sincerely yours,

David E. Lillienthal  
Chairman

PERSONAL AND CONFIDENTIAL

May 6, 1944.

Mr. David E. Lilienthal, Chairman,  
Tennessee Valley Authority,  
Knoxville, Tennessee.

Dear Chairman Lilienthal:

I wish to thank you for your letter of April 29 enclosing copy of a letter addressed to you by Senator K. D. McKellar and a copy of your reply. I have read them with a great deal of interest.

Inasmuch as Senator McKellar questions the propriety of the TVA letting a contract to the Utah Construction Company because of my connection with that company, I feel that in defense of my own position as well as that of the company, my connection with it should be more fully understood. I am the president of the Eccles Investment Company, a family corporation organized twenty-eight years ago for the purpose of taking over the various interests of myself and eight brothers and sisters from my father's estate. The family company owns ten per cent of the Utah Construction Company, which was acquired through my father's estate. I own one-ninth of the stock of the Eccles Investment Company. Thus, I have an indirect interest in the Utah Construction Company of just slightly more than one per cent. [I became a director of the company in 1920 and while I remain nominally as Chairman of the Board, I represent stockholders' interests only and am not active in the management of the company's affairs. The active management of the company is in the hands of men who have little or no stock interest in the company.]

I have devoted my full time to the affairs of the Federal Reserve System since I became a member of the Board more than nine years ago. My relationship with the Eccles Investment Company and the Utah Construction Company became a matter of public record before the Senate Banking and Currency Committee when my nomination as a member of the Board was presented to the Committee in April, 1935. You may be interested in the restrictions imposed by law upon the political and financial connections of members of the Federal Reserve Board, and for that purpose I am enclosing a copy. I have fully complied with these requirements.

Mr. David E. Lilienthal - (2)

May 6, 1944

The contract referred to in Senator McKellar's letter was entered into without any knowledge whatever on my part. I have taken no part in the securing of any contracts, either directly or indirectly, for the Utah Construction or for any other company. Nor have I ever been asked to intercede in any way on behalf of any company in connection with the securing of contracts.

A company with which I have nominal connection, such as is the case with the Utah Construction Company, should not be penalized because of that connection when there is no legal prohibition against it. As you know, there are many people in every branch of the Government service who have both private business and professional connections and whose firms do a good deal of business with the Government. It would be difficult, if not impossible, to get many of the best qualified men to take public office if they had to sever all of their private connections for an uncertain public position.

I am sending Senator McKellar a copy of this letter, and for your information I am enclosing a copy of my letter to Senator McKellar.

Sincerely yours,

M. S. Eccles.

Enclosures 2

MSE:VE:b



RESTRICTIONS IMPOSED BY LAW UPON POLITICAL AND FINANCIAL CONNECTIONS OF  
APPOINTIVE MEMBERS OF THE FEDERAL RESERVE BOARD

The following restrictions are imposed by law upon appointive members of the Federal Reserve Board:

1. Appointive members shall devote their entire time to the business of the Federal Reserve Board. (F. R. Act, Section 10)
2. They shall be ineligible during the time that they are in office to hold any office, position, or employment in any member bank. (Section 10)
3. They shall be ineligible for two years after the time they are in office to hold any office, position, or employment in any member bank, except that this restriction shall not apply to a member who has served the full term for which he was appointed. (Section 10)
4. No member of the Federal Reserve Board shall be an officer or director of any bank, banking institution, trust company, or Federal Reserve Bank, and before entering upon his duties as a member of the Federal Reserve Board, he shall certify, under oath, that he has complied with this requirement and such certification shall be filed with the Secretary of the Board. (Section 10)
5. No member of the Federal Reserve Board shall hold stock in any bank, banking institution, or trust company, and before entering upon his duties, he shall certify under oath that he has complied with this requirement, and such certification shall be filed with the Secretary of the Board. (Section 10)
6. No Senator or Representative in Congress shall be a member of the Federal Reserve Board. (Section 4)
7. No member of the Federal Reserve Board shall be an officer or director of any international or foreign banking or financial corporation organized under the provisions of section 25(a) of the Federal Reserve Act, or of any corporation engaged in a similar business organized under the laws of any State, nor hold stock in any such corporation, and before entering upon his duties as member of the Federal Reserve Board, he shall certify, under oath, to the Secretary of the Treasury, that he has complied with this requirement. (Section 25(a))

(Section 25(a) of the Federal Reserve Act provides for "corporations to be organized for the purpose of engaging in international or foreign banking or other international or foreign financial operations, or in banking or other financial operations in a dependency or insular possession of the United States, either directly or through the agency, ownership, or control of local institutions in foreign countries, or in such dependencies or insular possessions as provided by this section.")