

Kansas City, Missouri
Saturday, October 9, 1954

DISCUSSION WITH THE HON. JOHN W. SNYDER,
SECRETARY OF THE TREASURY UNDER PRESIDENT TRUMAN*

Anything that I said last night, either as is or paraphrased, is yours. Have no question about it. And my statement is for such use as you want to make of it. Use it as yours. It's your material.

(Mr. Williams: We have sections...one on how the budget is made up, then a section on general policy, financial policy or the theory of financing during your time in office, and a section on tax structure... illustrating...that policy.)

The President and I had spent many years talking about budgeting government here in the state and as Senator. He was interested even back as far as when he was Judge budgeting Jackson County. As a Senator he kept an eye on the Missouri budget, and then he was plunged into the Appropriations Committee of the Senate. There was no Senator who took a more keen interest in understanding what he was doing in the handling of budget matters for the United States when he was in office. He did homework on it, and he knew what he was talking about, which very few of them did. When he became President, the first thing he did was to talk about

the plan we were going to use in approaching the budgeting of the post-war period. V-E Day came on immediately, shortly after that V-J Day, and he was plunged immediately into the heartbreaking job of financing the government in a reconstruction period and in a conversion from a wartime economy to peacetime, and, at the same time, with the objective of maintaining a high level of production and consumption in the country. We had built up a tremendous war economy - as near to an all-out war as there ever was in all history - only to be suddenly faced with a transition period converting our tremendous production plant, switching those plants along with the masses of people working in them, maintaining a high demand for goods and services....It was a gigantic task facing him almost immediately after becoming President. After V-E Day the President and I sat down together and starting measuring how far we could cut back on commitments for defense and still preserve the assurance of victory in Japan. We were starting to move troops across the country to the Pacific, and we ran up against the problem of balancing revenues against expenditures and trying to cut down the expenditures of an all-out war program. The President courageously said that we must cut out all contracts for

those types of materials not to be used in the Pacific but continue to maintain our position in occupied Europe.

(Mr. Heller: In reaching this particular decision, the point that will recur is that this decision was reached on a basis of setting up the financial equilibrium of....)

....of the country, of the government. We aimed towards the assurance of victory and towards success in our victory. We were trying to maintain the assurance of that...the necessity for maintaining our position to win victory in the Pacific and aiming at the same time towards an equalized budget position domestically.

(Mr. Heller: You define the goals of the government program then in terms of the necessary conquest of Japan, just as later it was defined in terms of the domestic....)

We did not put it down on paper or say that this was the program, as things were moving too rapidly. You must remember the timing of all this. The President took office in April 1945. V-E Day came shortly after that in May. He had to go to Potsdam to face the...unknown. He made the decision about the bomb. And then we had V-J Day and the rapid

movements of events then. There was no time to say this is our program.

It was a living, moving plan towards a certain goal. Even though the President had to leave after he became President...had to go to Potsdam, I was able to help carry through our policy by messages...and mutual understanding.

(The President: You met me at Newport when I got back, and we spent nearly the whole night on this subject.)

The plan was in our minds which we can show by the actions we followed out.

(Mr. Noyes: But what was the motivation? Wanting to balance the budget. I would like to go back to Senator Truman...in terms of his interest in the budget. What actuated the President as Senator to become interested in it?)

As Judge, Senator and President...all through it...he had in mind a pay-as-you-go program except when the welfare of the nation became involved and courageous action was needed to face facts as they were. There is nothing sacred about pay-as-you-go, except as a principle of sound financing. The President had the integrity of the credit of the United States always in mind even when, for the first time, President Truman and

I were faced in 1952 with our first deficit financing. We didn't do any until 1952.

(Mr. President: We would not have done it then but for our tax program.)

I communicated with the President at Potsdam, and I met him at Norfolk. A ... reappraisal looked inevitable. He had order^{ed} the dropping of the bomb, and we knew that that would bring on something salutary. I said what are we going to do when Japan collapses? How are we going to move? And the President, there on the train, said the objective is, as early as possible to start to bring the budget down to 35 billion dollars and keep our tax situation as it is in order that we may reduce the debt as low as we can while things are in a prosperous position. "If you will concede one point," I said to the President, "May we start in on a program to take out the inequities of it?" To meet the revenue demands for reconversion after the depression and at the beginning of the war, we had to seek out revenue where we could find it. As a result, it was a bulky tax structure, and I wanted to try to pick out the inequities, iron them out while maintaining the bulk of the revenue. We made that a policy.

Japan collapsed, and we started our program of retrenchment. The President cancelled \$6,700,000,000 in war contracts. We immediately started a program of trying to prepare...a program of financing, public and private, and assure ample working capital for the conversion of plants from war to peace, and we had the complete support of the banking fraternity of the country. We forced them to make a plan of their own. I laid it before the President to make sure we would have working capital in that transition period. The President then started a program of trying to reduce the debt, yet carry out other programs to maintain a high level of production and consumption....The war in Korea was a very small war....

The President in his first year, after the cessation of World War II hostilities, in the fiscal year 1947, had a surplus in the Treasury and an \$8,000,000,000 surplus in 1948. From June 30, 1946, to June 30, 1952, we had a net surplus of cash taken in over cash taken out. We actually did no deficit financing during that period. We did roll-overs, as you know, but the debt got down to 252 billion from 278 billion....In those six years we had a surplus for 3 years and a deficit for 3 years, but the net overall was a surplus. That is very significant. If we had not had

the 80th Congress, we could have gone through with the President's program of ironing out the inequities. But the across the board tax cuts of the 80th Congress were unjustified at that time. We could have taken half of that tax cut and ironed out the inequities of the tax program.

(Did these surpluses occur as a result of sound tax structure, plus government agencies bearing in mind basic economies?)

Let's say a sound concept, rather than a sound tax base. It was not sound because of the inequities involved. The first necessity was to bring in the revenue required to run the government. The President had many obligations to meet, commitments of the Democratic Party in the elections of 1940 and 1944, and later in 1948. He always had those in mind. He had to measure what his pledged program was, against the desire to do it within the framework of sound financing and government credit. Then your tax program became important. Our objective was that our tax program was for revenue purposes only, not for social reforms. We would place the latter before Congress for legislation. We wanted concrete legislation for such things as the minimum wage, social security and so forth, but our tax program aimed at revenue only, and we were not going

slip social reforms into a tax program. In arriving at our tax program, we had to measure the capability of the taxpayer to pay. We didn't want to destroy incentives, yet at the same time we had those requirements for a big revenue program; we measured, with much counsel and advice, how much the traffic would bear...that's an unfortunate phrase...how much we could impose on the various levels during that period.

(The President: We were endeavoring to have a tax structure on which there would be no evasion by those who were supposed to pay....)

...All it would bear and yet maintain the high level of our economy. We did not go to the limit of the capability of the country to pay, but only as far as we could impose it on a broad base to bring in the required revenue. Everyone was a citizen and should contribute to the welfare of the country, even though small. As we got the program better in hand, and if it had not been for Korea, we could have done good things - raising the exemption, spreading out a broader incentive, while still keeping the level of production and consumption high. The President and I just lived this program.

(Mr. Williams: Is there any logical accounting for the fact that

this surplus, this record was not more widely publicized, in addition to an antagonistic press?)

The Congressional Record is replete with this, these figures. It just would not be published. It was highly publicized in the President's messages where it was laid right on the line. And I made speeches... I have a stack of speeches this high in which I never failed to tell of it, yet surprising as it is, there was always a great lifting of the eyebrows every time.

(The President: It was the result of a slogan that I was a taxer and a spender...entirely a misrepresentation.)

The people just can't believe that he had no deficit financing until 1952. When we first started talking about this book, we agreed that it was to be a factual representation, and when he editorialized, it was to be shown as such. The facts must be kept clear. This is going to be historically and factually correct. His views should be put in as his own views. This book cannot be attacked from a factual side. It will be translated into every language of the world. It is going to be the basic document of this period, so we must. We are awfully pleased

with the way it is going.

(The President: We have your views on finances; Marshall's on China are on record, and others; and we will have Dean Acheson's on foreign policy and the way it was worked out. The financial end of it hit every policy under question. John was in all of them. We will have had everything on hand in every instance, except in the office of the Attorney General. I don't suppose we ever will have that.)

(Mr. Noyes: There are many misconceptions which have to be corrected. There's the misconception that we have a lot of social sense but not too much business sense. What business sense is there behind a balanced budget and maintaining a healthy economy?)

In the pay-as-you-go program there was always the idea that it must be tempered towards realities, towards maintaining the economy on a high level. That was essential to the well-being of our nation. We did not attempt to do a lot of sledge hammer, pile driver actions in order to obtain an unreality. We were faced with a situation that we knew very well if we started in ~~tying~~ tidying up our fiscal policy too rapidly and too far that we could very easily...There is such a delicate balance, you

could throw it into retrogression....

(The President: That was proved in early 1953.)

....unless we measured the steps we took...in shaping our monetary policy we had to measure a whole course of effects that could easily throw part of our economy out of kilter. It was with great care that when we had any financing or anything in which the monetary policy of the nation was involved we did a tremendous amount of planning and thinking ahead. We didn't just say, while riding in a car, let's make a rate, or let's put out an issue. Of course, we did take calculated risks in certain situations which we anticipated early, much earlier than we were ever given credit for. For instance, that the population growth is a good thing for the ^{continued} high level of our economy. I wrote an article for Colliers...in which I set that out—I pointed out, for the first time, that the growth of our population of two and a half million people a year was the same as adding a whole new state as large as Florida, Iowa and Louisiana combined each year to our market, as having that many more streetcars, shoe laces and other items sold and added to our present market annually. A growing population is vital to the economy; if the

translated into good citizens and the growth and magnificence of our country. We encouraged a continued high level economy because we knew we could absorb it with the new population. But a sudden cavalier step and a tightening up, simply to show that we were going to balance the budget, could have chipped one of the cogs which would have developed into a bad break in the whole gear. We spent a great deal of time in checking up all the way across, and I think we ended up with a rich reward for all the time and energy we put into the planning of our monetary program.

(How did you encourage...a continued high level economy...? What were some of the acts of encouragement?)

Well, I would have to study that. Remember that there has been no change in the saving bond program I patterned back in the Treasury. Yet then it was awful, no incentive, the dollar was falling to pieces, if we sold a saving bond we were dishonest and leading them to believe they were buying something of worth. Our debt is now bigger, our unemployment is greater, and.....is that specific?

....I thought I would go on to the mechanics of the budget....I had bankers in, business people, labor people, to go over and over what

all segments of our economy to find out what is good and bad in a tax bill. We studied them all with meticulous care. It is the overall program you have to bear in mind. You have to have realism and give and take to carry through a program of so many divergent interests. And I had college professors in time after time. The petition (?) to the Patman Committee, the Treasury's contribution to the Truman Library, is magnificent, if you ever find it. We got a task force of top economists, university people and lawyers who spent weeks studying that Federal Reserve....But let's jump back not to the budget:

There was a Mr. Harold Smith, Director of the Budget. He immediately started...The Treasury had no views in the budget operation. Roosevelt moved it into the Executive Office. The President said to Smith, "I want this to be a tripod, with the Secretary of the Treasury assisting you and me in building up the budget." Smith was not there very long. He had a lot of rather positive ideas about certain things, and the President and I ran into certain problems...but he didn't stay too long. Then we put Jim Webb in there as Budget Director. The President and I would sit down with Jim and we'd go over the broad concept of

our plan. It was started early in the spring...the budget for the next year. More than a year's advance planning is put into the building up of the budget. The President, after calling in his Cabinet members and agency heads and discussing their requirements - first the Defense Department which was the biggest spender, then the State Department with foreign aid, and on down the line, were taken under consideration. We built up a composite picture of what the gross would be in revenue requirements to cover all necessities of the expenditure program. The Budget Director then started to work. He was in my office practically every day in the formation period and in the President's office twice a week. The President gave abundantly of his limited time to him. He was very liberal, and the director had free access at all times. Many times the President and I would sit up all night so that I could take the burden off him with the Budget Director the next day. Both of us went to the President to clear up everything. The President spent more time on budgetary matters than any other President in our history. He was keenly interested in the long-range integrity of our debt management and yet so conscious of his obligations to the people of the United States. As a

result, we were able to come up with less friction between departments because they all felt they had a fair hearing. We would have all-day hearings in my office trying to get at the real needs. The President was very positive about his direction to his departments - no doubt about that. He did what he conscientiously thought was right and he stuck to it. All sorts of things were brought to bear on him in the Defense budget. He would come out with a salutary victory, but they were trying to force him to adjust the program we had figured out to be best suited to the whole economy. One thing we had to face, if the Defense was given 9 billion dollars, then the Army and Navy had to 3 billion each, no matter what their needs. That distribution of the appropriation was un-called for. The President said, "You have to show me why they have to have it." And it was through his direction that we began to break away from that concept of the Defense budget that everything had to be divided three ways. (The President:
I made them come up specifically with what was considered necessary by the Secretary of Defense and by the Chiefs of Staff. Every single item in the Defense budget had to be justified to me and to the Secretary of the Treasury. That began in 1947 after I started the recision program and

knocked off 64 billions from the 1946 appropriations....I used to cross question them as to why they had to have this and that. The Navy was the worst offender. At one time they had all the copper in the nation...and steel plate the same way. We had to put a stop to that. They had to state specifically what they needed for the next fiscal year, and in that way we got the Defense budget into shape. If it had not been for Korea, we would have had it so that the budget would have been balanced.)

And the balance of past emergencies, such things as soldiers' pension funds, all were in the Defense budget, charged as a part of the Defense budget.

(The President: The...Johnson Cut...had to do with carriers. The Navy was going to have super carriers and move the Air Force out to sea. We cut it out, but they put it back after I left the White House.)

It was necessary to close a great many military posts after the emergency. We now had only 3 million men to accommodate instead of $12\frac{1}{2}$ million.....

(The President: I authorized Johnson to knock out 100 million dollars from the appropriation for the super carrier. There was trouble

between the admirals and the Air Force, and as always it was necessary for the President to make the final decision.)

(Mr. Heller: How do you know that...a department...is doing what it should within the limits of its budget?)

There is a continuing audit on the part of the Budget director in all departments. We have people going in to see that the programs are shaping up within the concepts set up. The budget man is there constantly to see that what is left from various programs is sufficient to take care of others. If they don't, they have to explain to the President why they put up such a fight into something they were now ignoring and why they didn't tell him so that he could have ignored it at the beginning....The main thing was that the Budget was continually following through to see that appropriations as made and budgeted were carried out in accordance with a projected plan or else a reasonable reason was given why it wasn't done. The President had to keep track of what he had approved.

(The President:
...The attitude of Congressmen and Senators...they are interested locally and sectionally. You have to watch them all the time. They make amendments that have a legislative effect on appropriations bills. They

get a favorite thing in the appropriation, not in the budget, for the benefit of their local situations. That's the biggest thing we are faced with in making a budget.)

And after he has put time and study into the preparation of a budget, then the Congress does with it what they see fit unless you have the leadership the President did. He got his appropriations through in excellent fashion. Never has a President been able in the face of danger to, in advance of the fact, get three tax bills put through. Always before it was after the expense had developed that they went to Congress for bills to meet the situation....In one year he got three revenue bills passed to prevent a disbalance of our budget...

(Mr. Heller: Would you say no previous President had been able to obtain a tax bill prior to the need actually arising, or was it the first time a President had gone and asked for it in advance?)

It was the first time he ever obtained a tax bill. I don't think any President had ever asked for such a thing, because the political conception was that you don't dare to ask for something until you can show them what it's for. It's an excellent point because if (and this is off

the record) the previous administration had in 1940 followed the same plan that Mr. Truman did at the beginning of Korea we would have had a lot less left to do in 1942, but he was fearful of going to the people for a stiff tax at the beginning of the conflict.

(The President: That was a result of our long study of an attempted pay-as-you-go plan.)

....We didn't push in the excess profits tax; the Congress took the burden to get votes. They said we'll come back after the election and pass an excess profits tax bill. We believe it is a most inequitable tax bill. We think there are better ways of seeking out the same revenues. What it is actually doing is penalizing good management and good operation because, doing the same job, if one management makes no profit at all and another a comfortable profit, the latter should not be penalized for it. Then in order to correct the inequities, they set up a relief program - the 722 business - which is impossible to administer. And I was advertised as meddling with the Internal Revenue. I reduced 30,000 claims under 722 to 200 by insisting that they reach decisions....

(The President: These excess profits claims had to balance up, all 30,000 of them. All the Secretary of the Treasury did was to force the

people who had to make the decisions to make the decisions, not to make a certain decision - just make a decision.)

There is not way of knowing how much money was involved in these ~~many~~ 30,000 claims. If a man did not pay a tax because the law didn't say he had to pay it, then the government has lost no revenue because you made ~~the~~ ^{the} decision and didn't make him pay it. He may have been assessed that, but he showed you it was erroneously assessed, then the government lost no money....There was a board set up in the Internal Revenue. You don't get unanimous ~~XX~~ decisions, you know that. It's just like the Supreme Court. You don't get decisions, you get opinions. The board was set up to get decisions, and the majority ruled. We don't give away anything unless the taxpayer is due to pay it by law.....Everyone of those Williams exposés had to go to the Finance Committee of the Senate, a joint committee on taxation. They had the whole story on all of them. They had nothing that the Secretary of the Treasury didn't give them.

(The President: It was just like McCarthy digging up records that were already known.)

Have you ever seen one reversal of Williams' exposés? All he was

doing was reviewing. He said, "I want all settlements over \$5,000, or \$50,000," and all he was doing was showing that the government didn't get as much money by this settlement. None was reversed, because it was wrong...but he's gone and we don't want to review him. The Finance Committee didn't take any action. They had all this information from which he pilfered and made speeches. The Republicans said, "Stop that because that is what we are doing ourselves." You can't run a revenue service without making compromises.

(The President: Williams did another ~~outrageous thing~~ outrageous thing due to the fact that the net salary of the President of the United States is \$4,200 a year. The Congress decided it should be remedied, and it was increased from \$75,000 a year to \$100,000 with an additional ~~\$75,000~~ ^{\$50,000} a year expense account, which made a net salary of from \$60 to \$70,000 a year. Williams eliminated the \$50,000 expense account and increased the salary to \$150,000. He just cut Eisenhower's salary....There is not a head of state in the world with the responsibility of the President of the United States. And his salary now will not help him when he gets through. That's not the case with Attlee, who draws the same salary now

as he did when he was Prime Minister, and no one kicks about that.....)

The British gave Churchill his book tax free...

(The President: They tried to take it all away from me. I got Ike a settlement on his book, but he didn't take a hand in this one. We got it straightened out to pay expenses and have something left over. Churchill got all of his and the income from the United States tax free in England.)

Three or four of us were in the President's study when Churchill came in as a last farewell. Churchill asked Dean and me what we would do, stay in public life? Neither of us were. He said, "Isn't it a shame that all of this experience will be wasted. We have a better system, you have to admit. We keep those people in office, They may not be effective but they can sit and make faces at the others when they make mistakes." There you had a going machine, accommodated with a lot of experience, by trial and error, and they had learned some things. And all of that is pitched out of the window by one "I do." The President said something to me after that luncheon. It's a complete description of our process. We were standing visiting just after, or maybe just before luncheon, "John,

do you realize that a few minutes ago, I couldn't have said three words that would not be heard in every crack and cranny of the earth. Now I could say something, and no one would care." All the experience in the body and mind of that man was just dropped....

....Immediately after the election I went to see the President and told him we have two courses we can follow in the next two or three months before the inauguration. We can drain the Treasury's cash position to rock bottom. We can apply the balance in a reduction of the debt and leave a lot better picture as to the size of the debt when we go out of office. Or we can do an intelligent job for the country by leaving a comfortable balance in the Treasury and arrange it so that there will be no necessity for financing for at least six months to give them a chance to get their feet on the ground and not have to do a harum-scarum job until they find their bearings. On the other hand we can walk out of here on January 20th and say, "Come in and get it," or we can carefully set down a briefing program so that the financing and management of the government will move along smoothly. We can do things of political advantage in other areas but maintain the economy for the people, not for the Repub-

licans. We'll give the people some consideration and see to it that the monetary operation is a smooth one. The President said, "Go ahead and do the right thing." "You mean by the right thing that the people are to have a smooth transition?" "That's what I mean," he said. I followed through. When the successors came in, we gave them office space so there would be no interruption in the management of the monetary government.

(The President: In every department the same procedure was followed. Never before in the history of the country was that done.)

The Treasury is the business end of the government. That is what we all thought it was...The Department of Commerce is the businessman's end of the Government. Every dime spent in the government has to flow through the Treasury. There wasn't a thing happened in the government that didn't flow - gush - through to the Treasury. There has to be a stable, sound credit base or else the rest of the government would crack ~~explode~~ up. The Treasury and the Budget are what makes the government run. It's the practical operation of the government. All these other things - State, Defense, Commerce and Labor and Interior - are the trim-

mings for the President's operation of the disbursement of funds....

(On the 27½% depletion of the oil industry, have any special studies been made on the legitimacy of depletion allowances?)

It is too technical to get into. It was to encourage wild-catters to go out and seek out reserves of minerals and oil. As the tremendous petroleum industry developed, we became scientific and with new instruments we remove 40% of the doubt in exploration. This idea of depletion became less necessary to assure us reserves. That was the initial concept of the depletion idea and the reason it became less important...but I would have to get the record on it; the equities were what we were interested in. It was figured that there was so much oil in sight to last 15 or 20 years. If further discoveries of oil and fuels were not made, the wild-catters had to be made to go to work....Just a minute, this depletion thing...we were going to cut it back. We had had nothing to do with it. It had all happened before. We looked to see if it was fair and to make more equitable the tax structure, and we found at that time it was not necessary to furnish this subsidy...

(The President: That thing was put through while I was in the

Senate, wasn't it? ...No, it must have gone through in the 20s. There was plenty of oil when I was in the Senate.)

You were thinking about sand and gravel...they wanted a similar depletion. Just think of a whole ocean front depleted....But that is such a technical problem; it's difficult to discuss.

(Mr. Hillman: Would you tell us about the meeting of the President with the Federal Reserve Board?)

.....We were all over at ~~XXX~~ Blair House where he was living and were coming back over to the White House. We were about in the middle of the street when the President stopped and said, "Oh my goodness, I left my pass home."

....They say there is a blank spot in the meeting you had with the Federal Reserve Board. There are no minutes or any other record. Now, I am going to talk a little freely. I wasn't at the meeting but may I state from what you told me what I think the reason was for calling the meeting and the end result?The President felt that as head of state in a crisis of impending war he had every right and duty to bring to bear every possible force to make successful his defense program and economic program. As a result of that conviction and because of a growing

newspaper buildup of a schism between the Treasury and the Federal Reserve the President invited the Federal Reserve Board to the White House for the purpose of laying his problem before them and asking for their cooperation. Not one time did the President tell the Federal Reserve what to do or order or instruct them. He simply, man to man, as head of state said to the Reserve Board, "Here is my problem. I would like to have your cooperation with the Treasury in carrying out our debt management and fiscal policy." The President left with the impression that we had the assurance of complete cooperation from that group, and he felt good about it. He felt he had done the proper thing not to dictate to them but to lay the matter before them for their decision. He felt that they had made that decision, that they had said, "Mr. President, you can rely on us," and he thanked them on that basis. He told them he had wanted them to see the problem in its true perspective and said, "I appreciate your coming over and your assurance of support."

(What was the question at issue?)

Whether or not the Federal Reserve would support the financial ~~back~~ ~~from~~ operation of a Treasury offering to the public, as they had been

In World War II
doing all along. ~~THEY WERE THE ONLY PEOPLE WHO...~~...Eccles of the Federal Reserve Board had an idea of price supports of government bonds. He proposed to Morgenthau that the Federal Reserve Board put a base under government securities. Mr. Morgenthau, thinking that Mr. Eccles was trying to pull a fast one, said, "I don't want any part of it." But it was agreed, and the Federal Reserve put supports under government securities. The Federal Reserve had decided, after Mr. Eccles was not named chairman of the board, that this was a terrible thing and they were going to cut off the Treasury's backing and let it stand on market acceptance. All we asked was that they give a certain amount of support and not drop it suddenly and disrupt the whole financing program when we were faced with a defense unknown. The President's whole purpose in asking them there was to help us keep it in equilibrium...

(The President: I had known the same situation after World War I on the $4\frac{1}{4}$ bonds when Mellon pulled supports from them and increased interest rates and brought the price down to 82. Many of our boys had paid \$25 a month, and these bonds were sold on the same basis to everyone in the country.)

Let's don't get...

(Mr. President: And I didn't want that kind of Mellon proposition to take place again...)

The bonds that the soldiers bought were savings bonds which had a frozen base and could not go down. It was the other financing...a great many people had them but they were the issues for the big financing of the government. Out of 250 billions the savings bond was only 1/5th of the government's debt.

(What is the Federal Reserve Board's position in relation to the Treasury that the President cannot order them to...?)

It is a quasi-public operation to keep the dictation of the Federal Government from using the monetary system for political purposes. That was the initial concept. It was a quasi-government/^{operation too,}one to protect the other, an instrument of neither. If the Federal Reserve didn't support the issue, it would be just like General Motors trying to sell a \$100 million of stock with no syndicate behind it to protect it on the initial offering. The Treasury didn't have to get Federal Reserve approval, but having made a decision, the Federal Reserve had to tide it over the initial phase of a bond or note offering. In government securities you must be

assured of takers. We had to rely on them; they are the underwriters, or the syndicate.

(The President: It was customary all the way through. In the $3\frac{1}{4}$ issue in 1953 without that step they went down to 98. Now they are 110 or 112.)

That is proof of my statement that $2\frac{1}{2}$ for a long term defense program was good. They forced it down. The President and I never forced a lower interest rate. We maintained only, what was a fair interest rate. When I was asked at a meeting what I thought of the way the government financing was being run now, I said...that I knew no more disheartening experience that to find the ~~doctrine~~ ^{doctrine} of a low interest rate ~~doctrine~~ ^{patterns} being established in government today. They asked, "What do you think of the present debt management program and economic situation under this administration?" "Gentlemen," I said - and this was in January - "I have just studied the three most important messages of this year, the State of the Union, the economic and the budget messages. I have listened to all the comments, read all the comments, and I have come to one very fundamental and deep conviction: Politics is a lot like religion. It just sounds better when our preacher's saying it.

(Why, at this time, did the Federal Reserve wish to withdraw from the support of the government?)

Well...it goes back into personalities. A man by the name of Strong was the head of the Federal Reserve in the Mellon days. Mr. Strong with the control in New York set the pattern of what the financing would be so far as rates, maturity and timing were concerned. Mr. Strong went out and Mr. Allan Sproul, who all during the Morgenthau period and as I came in was constantly needled and ~~was~~ jibed by the New York bankers. "Why don't you act like Strong did? You let them take all this away from you. The financial center of the country used to be in New York, but now it's moved to Washington." During the war period and the campaign of 1948 they decided that it was time to recapture control of government financing and bring it to New York where the decisions would be made. That was why, without consultation, they changed the rediscount rate and increased it to make it tougher for the Treasury to borrow money. The decision was made by Sproul and the Federal Reserve Bank in 1950. That is what set off the ruckus. I didn't walk off and leave the President with the sack to hold. I thought no action would be taken until I got back from the

hospital....Maybank thought we had that understanding, and so did O'Mahoney and Patman of the Banking and Currency Committee. They thought we had an agreement on the part of McCabe and Sproul that no action would be taken until I got back from the hospital. But after my operation, the damage was done. They called Ed Foley and said Monday morning we'll pull the rug out. They said economic forces were driving them to remove their support from government bonds. With me in the hospital the President called them to come to his office and asked their continued support, and he thought he got it. He was disillusioned when Eccles released his letter giving the contrary view of the conference. Eccles was joined by McCabe and Sproul. But no sooner than this was over he is right back now finding fault with this administration; he's back among the critics. We never had any difficulty as long as he was chairman. But for some reason he didn't fully appreciate the thinking and personal views of the man in the President's chair. He thought someone had been in and persuaded the President ^{that} ~~AND~~ he wasn't the great Eccles. He thought some nefarious scheme had been set up to unseat him from the chairmanship. That was the President's idea, according to him. He thought he was under-

mined with the President.

(The President: I didn't like the way Eccles first spoke in the Senate. He talked one way to them and another way to the President. I didn't want a chairman like that. I got one just as bad however.)

Well, the motivation was sound and good. We said, let's pick a good Republican, one we can work with. McCabe had done a good job in public relations up to that time. He was doing really a good job in bringing people together. But all of a sudden, once the mantle fell on him, he just swelled up and busted his buttons off...Oh no, he didn't have an idea about how to handle the job.

(Mr. Hillman: At the meeting you felt that they had given their assurance to back to government bonds...)

Within the same day almost, they breached the agreement. Eccles put up his letter the same day to give a contrary impression...

(Mr. President: Mr. McCabe was informed that his services were no longer satisfactory, and he quit. He wanted to quit anyway. I could not...fire...him until his term ran out - it was a four-year term - unless for considerations. He left of his own accord, resigned, and I appointed

Bill Martin in his place.)

...Charley Wilson was interested in the situation. He was in the stabilization outfit, and it was necessary for his job that government securities be secure. If they went to pot, the whole economy would blow up. When we got a new chairman of the board, then they went back to business.

(The President: But I finally had to do to Wilson what I did to McCabe. I fired him. He made an agreement with me and then broke it. I called the Governor of Georgia, Ellis Arnall, and that fellow from Massachusetts, the stabilization director under Wilson...I stated the case as it was put up to Wilson, and he had issued an order contrary to that agreement. It was in the steel strike. Then he quit; he couldn't do anything else. But when we had people to depend on, I ~~was~~ always backed them up. It was an agreement that there would be a settlement of the steel strike. I had gotten management and labor all together, and then Wilson said I had told him to give the unions anything they wanted. I had not done anything of the kind.)

(The afternoon session begins on the next page.)

(Mr. Heller: We need to include the position of Mr. Truman's administration towards the international monetary situation.)

Well, this is six hours' of conversation....The International ^{Monetary Fund and the} ~~Bank~~ World Bank for Reconstruction and Development began before the President and I were on the scene. The President was in the Senate then and took an active interest in this development from the early discussions at Bretton Woods. My immediate predecessor, Mr. Vinson, spent considerable time in the Bretton Woods meetings, but it so happened that he left to go to the Supreme Court before these organizations actually started operation. It fell to my lot to face the chairman of both boards of both institutions... in the fall of 1946. These were two financial institutions born in the postwar period in which great expansions were projected. The President and I had considerable talk about what we would do with them. As a result of those conversations we agreed that we should give them a chance to prove their worth. The President felt that this was a special situation when for the first time in the history of the world in excess of fifty nations got together to discuss fiscal operations and submit their internal financial data to an international body. We felt that if that was the ultimate goal alone, it was worthwhile. The International Monetary

Fund had as a goal a free exchange in world markets of their exchange balances, a free convertibility from one currency to another. In the concept of the Monetary Fund we had expected we would have before us at the end of World War II a reasonable period of peace in which to work out peaceful relations with other nations. We hoped to find a pattern of international trade to help each nation to blossom under that joint worldwide operation and exchange one commodity for another to keep the balance of trade commensurate with buying and selling in international commerce. The Monetary Fund was to cure temporary imbalances of trade. If Ethiopia was buying more from the United States than she was selling to the United States, then Ethiopia could go to the Monetary Fund and have a credit established to borrow sufficient dollars to balance it. With the developments that immediately succeeded World War II, with the encroachments and unsettling disturbances that the Communists' influence brought to bear and we felt, which caused the President to move with courage and determination in earlier financing - France, Italy, Greece and Turkey, we felt that we had been too hopeful about these goals and that the fulfillment of these early hopes would be postponed for some

years. Then the question came up of whether or not we had made a mistake. Should we withdraw the several millions in the Monetary Fund and give it all up. After studying the position of our foreign policy, etc., The President and I decided it was well worth the keeping and stimulating a longer life for the Monetary Fund, provided we did not permit United States dollars to be dissipated until we saw a clear road to our ~~the~~ objective. We would keep it alive...for the very usefulness of a growing international organization. Today there are fifty-six members, with a free interchange of financial data. We still feel it to be worthwhile. Once a year to have delegations from fifty-six nations getting together is very much like a Rotary Club, and you find that your competitive members are not so dangerous as you thought. And it's the same with foreign countries. They get together to talk about their problems. It has been of salient importance....

The bank was set up for the purpose of providing a source of funds to build up industries that were self-liquidating in these countries...reconstruction and development loans to expand or create self-liquidating projects in member countries. Our first president of the bank was a failure. He sat tight, made no progress. It was stagnant

under his regime. A new man was brought into the picture who did a remarkable job in unlimbering the situation, but he succumbed to...an outside invitation...and left. Then we brought in a man named Eugene Black, who gave it intelligent, understanding guidance. He understood the Truman policy and started to do international financing in these countries. Every member country has had something fine done for it... railroads, military construction, power plants, chemical plants, lumber... Those are scattered throughout the world. And they are paying us because they are self-liquidating. We have over ~~\$1,600,000,000~~ ^{\$1,600,000,000} in loans to member nations. These two projects had the care and participation of the Truman administration. We had great pressure to dissolve both of them, all kinds of pressures to dissipate the Monetary Fund into incompetent loans. They are two fine organizations that the present administration has inherited....

....At...our...ninth annual meeting last week great tribute was paid to the Truman administration. Gene Black pointed out that if it had not been for the constant encouragement from me and the President that he would have gone home.

The Marshall Plan would never have come into existence if it were not for distress. These two organizations were for an expanding world economy. The Marshall Plan was purely an emergency plan for distress, to help countries get back on their feet. The bank and the fund were never intended as gifts in terms of a progressive expansion¹⁹⁴⁷...The three chairmen were (1) Meyer, (2) McCloy, and (3) Black.

Then as one of the earliest of the President's problems in international finance was an abortive endeavor on the part of the Secretary of State to buy our way into the Balkan states. He believed that with lavish loans from the Import-Export Bank to the Balkan states, they could have been prevented (in 1945-46) from falling behind the Iron Curtain. This was in the fall of 1945. We sat down and had a pretty serious conversation, the President and I, and decided that that was not the approach, because they would take your dollars and unless you had another bundle ready...it took something else besides. It was just a matter of, "Let's get together. Here's a ten and you be quiet for a couple of hours..."

(Mr. Heller: We hadn't noted that this was one of Byrnes' approaches...)

That was the first international problem. Then comes the British loan....That, of course, was designed for the purpose of stabilizing the pound and to help put the British economy back on its feet...and the sterling area finances, too. This is delicate because I'm talking about a friend....the utter stupidity of the British Hugh Dalton. He failed to meet the problem square on. The sterling balances in Egypt, Australia, South Africa and other places, instead of freezing those to create balances... he opens up free convertibility and they jerked the carpet out from under him and started a run on the Bank of England. But regardless of that, the British were living up to the terms of the agreement and had paid one of the amortization payments. The next international transaction of interim finance was when we found Italy and France ready to topple over into Communist influence. The President stepped out and did an amazing thing. He gave these countries advances....This initial step turned the whole course of events in that period. It arrested Communism in its tracks. Then the British said they would withdraw from Greece and there were the problems in Turkey. We did the Greek and Turkish financing. Following that was the creation of the Marshall Plan. I don't know whether

the President has already briefed you on this, but the Marshall Plan started in an unusual way. It was first intimated to the public in a speech of Dean Acheson's in Cleveland, Mississippi. It was dressed up and redone and lace edges put on, and Secretary Marshall delivered it at Harvard. No man was more surprised than Marshall when he found out what the people thought he had said. The reaction was spontaneous, and out of that grew the ECA program. Ernest Bevin grabbed it and....he was a great man. I trusted him, even though I got ~~BEVIN~~ mad at him a number of times....Jimmy Byrnes was trying to sell him a bill of goods in his office in London. Bevin was buying none of it. When Bevin was pressed as far as he was willing to go, he said, "You know, Secretary, you see that picture right back of me?" And Byrnes said, "I guess I do. It's George III." "Well," Bevin said, "Every morning when I come in here, I bow to that picture." Then Byrnes said, "Why, do you know what George III did to our country?" And Bevin answered, "If he had not done that, you would not be able to be over here helping us." Bevin told me that; Byrnes didn't. Our next international financing was in connection with NATO and our sharing in various armament programs. The President and I had diffi-

cult times. We were giving emphasis and backing to NATO and we didn't want to discourage it, but one day we found the eager boys running away with the ball. Instead of staying within the appropriations, our boys were practically offering to foreign countries that we would pick up the tab for any deficits in their armament programs, if they would go along with the European armament idea. The office of the Secretary of State, not the Secretary, was making the offer. I was going to one of the meetings in Ottawa, and I said to the President, "Mr. President, I want to be frank. We just have to put a stop to this. It will create more friction with our allies than if we tell them frankly this is where we have to stop, within the framework of the appropriations that have been made. He and I called Dean Acheson and the President told him what he had told me that we were to stay within the confines of the appropriation capability. Dean tried to stop it, but in an international meetingwell. I called the President and said, "I am going to have to make a speech in the meeting here and lay the thing on the table. Is that all right?" "Why do you call me," the President said. "I already told you our policy." I went before the meeting and laid it on the table, "I don't

want to disillusion or illusion you. We mean to go ahead to our full capability, but we are limited to our appropriations. It would be unfair to lead you to believe that we would assume something we could not do. It was a sobering effect. Later we had to repeat the same thing in Rome, Lisbon and Paris. But the President with a plan agreed on never wavered from that plan. It was his belief to stay within the framework of ability in foreign policy. And we constantly kept a checkrein on those operations. I am pointing out that it was not a free-wheeling sort of thing, and it was of some embarrassment to us, but I will say this in spite of the delicateness of the thing, Dean Acheson and I resolved our differences and never came back to have the President resolve the ~~XXXX~~ differences for us...

(The President: Always with Byrnes, but never with Acheson...)

(What was the situation between you and State and how did you resolve it?)

The worst one was the Ottawa conference. The State Department was so eager to carry a point and get NATO across, that they were anxious to fudge a little, and I said, "Now Dean, you and I both have power only

from one source. You can't make a decision; neither can I. We have the same instructions. Unless we can resolve them here, we will have to go back like little boys to find out how to..." And Acheson said, "Damn your military training."

(The President: What about Vinson's Savannah meeting? I never had that straight.)

The reaction of all the member countries was that Vinson ruled the organization through the meeting, that he and Mr.White....had set up the organization as they thought it ought to be. And that's the way it was going to be willy-nilly. That was the show. It was a very unhappy meeting, but that fall we had a meeting in Washington and it was all patched up. I had foreigners sit in as chairmen, and I would withdraw. We just did a great big patch-up job. In the Savannah meeting they had all felt they were being clubbed into submission by parliamentary arrogance. We were the big nation paying the bill, and therefore it was set up accordingly....of course, it would have crumbled. But at the fall meeting when we stepped into the background, it was electrical the way the faith in the organization was restored. It was immediately

apparent. We let the other serve as chairmen of the sessions and as deputy chairmen. It was a partnership.

(Mr. Hillman: This whole phase, how would you characterize it?

A financing made necessary by emergencies economical, political...?)

The international financing of Greece and Turkey, the Marshall Plan, were jointly political and economical. We we got into NATO it got to be military as well as political and economical....I hope that today's conversations have clarified the point that these decisions were not idylls floating through our minds, that we were picking decisions out of the air. The President used to take home with him a ~~big~~ big briefcase, and ~~many~~ many times we have sat there and plowed through these things. He would read until dawn trying to familiarize himself with it. Eisenhower doesn't do any homework. When he closes his desk he closes it entirely and until the next day.

(Mr. Noyes: Were things in order when you took over? You had an interim situation with Vinson. When the Truman administration took over in April 1945, did he have a mess on his hands, or was it in good shape?)

It does no good trying to pass the buck. We tried to face the problem as best we could. And I'm getting a little tired of hearing them

talk about what was inherited from the Truman administration. It's like the young man who killed his rich uncle only to find when he got through that the old uncle had been working awfully hard to support him as he had been and was a little shocked at the smallness of his inheritance. He was very angry that his uncle hadn't left a lot...But name some of our troubles. Who put them in? We did keep them in, but not in the Internal Revenue. We cleaned that up. The reorganization of the Treasury...the Customs Department...We used to get an average of 25 to 50 complaint letters a week. We reorganized the concept of the Customs organization. There was a new appraisal of the situation. Now we are getting a flood of letters from people who feel that they are getting wonderful treatment. Then there's the Coast Guard. We had a great big shambling organization which was at lost ends. We got an outside engineering firm in to ~~XXXXXXXX~~ straighten it all out. The personnel was reduced from 185,000 to 30,000 and there was the problem of the disposal of all that extra equipment of the bigger organization. In addition, we had all those new responsibilities placed on the Coast Guard, such as weather control. All that had to be assimilated into the smaller organization. The Internal Revenue - a great

big sprawling organization. During the war, they hired whatever they could get, incompetents. We streamlined it and built up an efficient organization. We started this system whereby we simply told a man we would teach him how to do his job. That aroused his dander and fire, and of course the expert was himself. "For two weeks," we said, "you decide whether the moves you make are necessary. You check yourself." And as a result in a year's time one million man hours were saved in the bureau alone. We got to working better and had a better relationship with the public. Refunds were functioned within 60 days which saved us millions in interest that would have been paid out for over 90 days. One of the big jobs the GAO, the Budget and the Treasury worked out was the most accounting amazing ~~XXXXXXXXXX~~ procedures that the government ever had. We did it by making a uniform accounting procedure throughout the whole government. It used to take from three to six months to get a composite statement. Now you can get it in two or three weeks' time. They all have a uniform type of accounting now....

....The ~~XXX~~ rollover - that is refinancing, instead of new financing, an extension of a loan, but you may sell it to different people.

(Heller: If the same changes had been made in 1951 and 1952 that were made by the Eisenhower administration in 1953, the overall picture of the financial transactions of Truman's administration would have looked ten billion dollars more favorable...)

....Yes, because they did some more fancy business. The 80th Congress passed a bill saying that three billion dollars should be put into next year, because it would look better. It was the surplus. They passed a law but we never paid any attention to it. The books reflect the Treasury business. They were setting trust funds aside. It's like saying, I am going to publish a financial statement but I won't show the bills to be paid because they don't have to be paid until next year. Those trust funds...the Social Security, old age pensions, workmens compensation, railroad retirement, they are in the Treasury. Their funds are invested in government bonds. It is a part of the liability of the government and should be shown, but they are not showing them now.

(The President: If we had made an inventory of the assets of the Federal Government like the TVA, dams, harbors, that we own, it would have exceeded by far the national debt. If you had drawn up a balance sheet, it would have been extremely favorable. When the income of the

people is from $1\frac{1}{2}$ times to twice as much as the national debt, you needn't worry about that debt.)

I have dug my heels in on that...without an educational program to go along with it, it would have been disturbing rather than reassuring. Take the public lands. What are they worth? A dollar an acre? But when we show that the Federal Government owns more combined area than several of our states, then there might have been a great turmoil. We might have destroyed your whole power program. It would have added ammunition. People would have had qualms about it.

(The President: You take the Post Office down here. It's worth about four times what it cost. In every city there is something of that sort.)

We were pressured to sell those assets. But it gives you something to chew on...

(The President: That Republican Senator from Missouri...Kim...one thing he did was to get a bill through Congress to turn this building over to the real estate people here in Kansas City for just what it cost, \$3,200,000. It was worth then about \$8,000,000. I vetoed it and sent it

back. When they handed it to him, he almost had a heart attack. He was getting a big fee for it...)