

~~DIARY~~
DIARY

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JR

GRAY

London

Dated May 24, 1938

Rec'd 6:40 a.m.

Secretary of State,
Washington.

446, May 24, 10 a.m.

For the Secretary of the Treasury from Butterworth.

The death of my father-in-law necessitates departure
for Nice this morning for a few days.

KENNEDY

RR

RECEIVED
MAY 24 1938
TREASURY DEPARTMENT
WASHINGTON, D.C.

Tuesday
May 24, 1938
10:18 a.m.

HMJr: Hello.

Operator: Dr. Burgess. Go ahead.

HMJr: Hello.

R. Burgess: Hello, Henry.

HMJr: How are you?

B: Fine.

HMJr: Randolph, what are you thinking about these days on our next issue; have you given it a little thought?

B: Have you got my letter yet?

HMJr: No.

B: I wrote you last night - a memorandum on it.

HMJr: Oh.

B: I've been thinking about it a lot of course - working on it.

HMJr: I see.

B: Ah - well, I spelled it all out there.

HMJr: Yeah. I see. Well then I'll wait until I get it.

B: All right. Then if you have some questions why you can give me a ring, or ...

HMJr: Yeah. What does it boil down to - what -?

B: Well, I think the problem, Henry, is the long time problem of keeping this market orderly ...

HMJr: Yeah.

B: ...and making sure we don't run into a jam next Spring.

HMJr: Yeah.

B: And my hunch is the way to do it is to - to budget the whole thing...

HMJr: Yeah.

B: ...and then to take your cash each quarter day...

HMJr: Yeah.

B: ...and spread out the cash over the quarter days rather evenly.

HMJr: Yeah.

B: Otherwise I think you'll get some ups and downs and you'll starve the market at one time and stuff it at another.

HMJr: Well, you - you don't recommend taking additional cash in June do you?

B: I think I would, yes.

HMJr: For heaven sakes.

B: Now I don't know how much cash you need, but it's an awful good time to do it.

HMJr: Well, we - I know - we can't use it. My balance still is over two billion.

B: Ah - yes. Your balance for Reserve Banks of course is only a billion three - it'll be down under a billion by that time, won't it?

HMJr: No, but my working balance is over two billion.

B: Yeah. Yeah.

HMJr: My working balance.

B: Yeah. Well, from the long-term point of view - ah - from the economics of it I think the - ah - the market needs more bonds now and you'll save trouble later on if you take some cash now.

HMJr: Yeah.

B: Now I realize that there's a political problem there.

HMJr: Well.

B: But I'm talking about the economics of it. (Laughs)

HMJr: Yeah. Well, do you want to know what I'm thinking about?

B: Yes, very much, Henry.

HMJr: Well, ah - I'm thinking - whatever we offer to do we make the same offer for September.

B: Yeah.

HMJr: See?

B: Yeah.

HMJr: That's number one.

B: Well, ^{if} you don't take cash, you certainly ought to do that.

HMJr: What's that?

B: If you don't raise any new cash you certainly ought to do that.

HMJr: Yeah. Then that would leave September open...

B: Yeah.

HMJr: ...to take a good tidy sum of cash.

B: Yeah.

HMJr: Now, - then, I'm sort of leaning towards giving these fellows an offer - a choice between a bond and a five year note.

B: Yeah.

HMJr: See?

B: Yeah.

HMJr: I mean, that's the way - not make it all a bond.

B: Yeah.

HMJr: Hello.

B: One - ah - one alternative there, Henry...

HMJr: Yes.

B: Instead of giving an option into a note would be to give them an option into more of those forty-eights, that you put out in March.

HMJr: Forty-eights?

B: Yeah.

HMJr: Oh yeah.

B: Ten year bonds.

HMJr: Yeah.

B: To put out a 51 or 2 at $2\frac{1}{2}$ percent plus an option to take some of the - ah - that forty-eight at a premium.

HMJr: Yeah.

B: If they don't want to step out that long, you see.

HMJR: Uh huh. Well, I'm thinking of something a little bit different and I want to shoot this at you.

B: Yes. Go ahead.

HMJr: I mean, ah - I won't argue for a minute whether it's a 5 year or a 10 year, see?

B: Yes, I see.

HMJr: But I was thinking of the possibilities of a 2 and $\frac{3}{4}$ fifteen twenty-five.

B: Yes.

HMJr: And get something to the insurance companies and not the banks.

B: Yeah. Well, I think that has a good deal of merit.

HMJr: See?

B: Yeah.

HMJr: Now a 2 3/4 fifteen twenty-five would go definitely to the insurance companies - I mean if it didn't go it I wouldn't want to offer it. You see?

B: That's right.

HMJr: And then - ah - I mean - then to balance that, I mean so they wouldn't say I'm paying too much interest I was thinking well, - ah - a five year they tell me - 1 and 1/8th or something like that.

B: That's right. Yes.

HMJr: So - ah - and that would give the banks something...

B: Yeah.

HMJr: And it would be something which, in case things got worse - the bond market, well, it wouldn't be apt to go down very much.

B: That's right. Yes.

HMJr: And then, if the banks were smart they wouldn't take this 2 3/4 fifteen twenty-five.

B: They'd take the other.

HMJr: They'd take the other.

B: Yeah.

HMJr: And then we wouldn't be put out something which maybe 6 months or 9 months or a year from now would look awful sick.

B: Yeah. Yeah.

HMJr: See?

B: Well, that's right.

HMJr: And then the average coupon on that we'll say - with a 5 year now would be 1 and 1/8th, wouldn't it?

B: That's right. Yes.

HMJr: That and a 2 3/4 would give us some awful cheap money.

B: Yeah. That's right.

HMJr: And it would get us away from - ah - oh, doing the usual thing, say a 2 1/2 or a twelve fifteen and then load up the banks with that and then it goes to a point - point and a half premium and then the first time we have a little sinking spell, damn it she'll go below par.

B: Yeah. Yeah.

HMJr: Then we all hustle around - who's going to buy them?

B: Yeah.

HMJr: See? Now I am thinking just a little bit beyond this.

B: Well, I'm very glad to hear that. I think that's^a very interesting idea.

HMJr: See?

B: Yeah.

HMJr: Well, young Harris gets a lot of credit for that.

B: Yeah. Well, I think it's - ah - ...

HMJr: He sent me a memo last night and I read it.

B: Yeah.

HMJr: I mean he had a lot of suggestions but of that I sort of picked up that one.

B: Yeah. I'm not sure how well they like the 10 year spread on the call date, but that's a detail - that's - ah -

HMJr: Well, the Farm Credit got away with it nicely.

B: Yeah. Yeah. Yeah.

HMJr: And if you're going to give them 2 3/4 then I think the Government's entitled to run it out twenty-five years.

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B: Oh, I agree. I think that - ah - with that length - and then you really want to have on your own account a chance to call before that - within fifteen years.

HMJr: Well...

B: Yeah.

HMJr: Of course I mean it - it's just - yes, I mean I'm just - (laughs) you'd argue make it twenty twenty-five. What?

B: Well, I think that would be a little more in the market, but - ah

HMJr: Well, I....

B: It's - ah....

HMJr: What I'm pointing out is something which I didn't think you'd expect and that's why I wanted you to think about it.

B: Yes. Well, I'm very glad to get the thought on it. I - ah - I have a good deal of sympathy with it right off the bat, Henry.

HMJr: Because that thing - if - if we did something along that line I think that would look still good six months from now.

B: I think it - I think it would stand up better than the other stuff.

HMJr: And the other thing - I mean if those damn - ah - what are the 2½'s that are always going below par?

B: Forty-nine fifty-three.

HMJr: Yeah.

B: That's right. Yes.

HMJr: I mean the least - the least excuse and they have a sinking spell.

B: That's right. Yes.

HMJr: Now this stuff ought to be as near shock proof as possible.

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B: Yeah. Yeah.

HMJr: And - the main thing would be to find out whether the insurance companies would buy it.

B: Yeah.

HMJr: The long one.

B: Yeah. Uh huh.

HMJr: Isn't that right?

B: That's right. Yes.

HMJr: And then the banks couldn't kick because - ah - "Well, all right, what kick have you got; we're offering you a five year note - if you want something there it is."

B: That's right. Yes. Yeah.

HMJr: And - ah - that five year - well, if it did go below par a little bit no one would get terribly excited about it and we wouldn't have to buy anything.

B: That's correct. Yeah.

HMJr: Now I - my inclination is to keep away from what you might call the orthodox conser- - what people would call the orthodox conservative thing which would be their 2½ fifty fifty-three.

B: Yeah.

HMJr: I mean that's most likely what the fellows would say.

B: That's what they'd say, yeah.

HMJr: But, I'm just afraid that the first time we get a blow that that thing would go below par.

B: Well, I have a lot of sympathy with that. As a matter of fact I had a paragraph in the memo I sent you last night on this long bond - the last minute I took it out to simplify things - look at it.

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HMJr: The reason - I mean - I knew you wouldn't expect this from me and that's why I'm calling you.

B: (Laughs) Yes.

HMJr: See?

B: Yeah. Yeah.

HMJr: And I could check it as far as the profits are concerned because I can add the two up and - a 1-1/8th and 2 3/4 would give me what - an average of - ah - two

B: Near, - around two and an eighth.

HMJr: It would be less than 2 per cent.

B: Yeah. A little less than 2.

HMJr: Yeah.

B: Depending upon the quantities of course.

HMJr: Yes. Well think that over.

B: Well, I like that idea pretty well.

HMJr: Well, tell...

B: I'll turn it over.

HMJr: Tell George about it.

B: Very good. I will.

HMJr: Thank you.

B: Fine, Henry.

HMJr: Goodbye.

B: Goodbye.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: May 24, 1938, noon

NO.: 822

RUSH FROM COCHRAN.

At eleven o'clock this morning I had a talk with the Bank of France, and was told the control had not done anything, and the rate had moved back to 178.20 to .30 on a very narrow market; my friend believes that for some time there will be continued franc nervousness.

I had a talk with the Netherlands Bank at Amsterdam at half-past eleven, where conditions are calm. The florin was barometrical for a half hour yesterday morning, but by yielding only \$150,000 the Dutch control completely repelled this. For the next few weeks, my Dutch contact looks for uneasiness in currencies even if the trend may be toward peaceful solution of the difficulties between Germany and Czechoslovakia.

BULLITT.

EA:LWW

JR

GRAY

Paris

Dated May 24, 1938

Rec'd 2:35 p.m.

Secretary of State,
Washington.

823, May 24, 5 p.m.

FROM COCHRAN.

Paris exchange market much quieter today than yesterday. Sterling rate moved as far as 178 but has now returned to 178.30. Between those rates French control apparently recovered considerable amount sterling lost yesterday buying through three French banks. Paris American Bank which was asked to buy dollars for the control did not (*) any available at the price offered. Paris banks close Wednesday noon through Thursday.

Mitzakis, now a manager in Louis Dreyfus bank, formerly with Bank of France and BIS, called this afternoon. He thinks recent depreciation of franc has given a wide margin for basis of trade and economic recovery in France. He thought 160 francs to the pound rate justified by actual economic factors. To achieve success with a franc worth 179 to the pound Mitzakis emphasized

-2- #823, May 34, 5 p.m., from Paris.

emphasized that work is the essential factor. He is unhappy over the failure of Daladier Government so far to be bold enough to modify the 40 hour week in a manner that would give the country the right psychological shock. He thinks a price rise to offset advantages of recent currency depreciation is not likely to develop so abruptly as following alignment of September 1936. Purchasing power in France has so considerably declined since then that merchants are aware buying will diminish as prices go up.

BULLITT

WWC:SMS

(*) Apparent omission.

RECEIVED

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INTERNATIONAL YOUTH CENTER
 2011
 1000 1000 1000 1000 1000

RE SURPLUS CROPS AND RELIEF

May 24, 1938.

10:30 a.m.

Present: Mr. Baas
Miss Lonigan
Mr. Myers
Mr. Babcock

H.M.Jr: Well, what I wanted to get your help on was this. I don't know whether I got a chance or not.

Incidentally, there's only one copy of that. That goes in my safe. But I can't keep track of what I'm doing. There's only one copy, and I never read the thing. I may look at it ten years from now. I mean we're shooting so fast, and that's all

But what I'm trying to get at is this. Looking at this thing in a big way for the President - he didn't ask me to do it; I'm doing it on my own - I'd just like to look back five years at what we've done to and for the farmer, and then look forward - well, just as many years as we can, intelligently, and see where we're going to get out on this thing.

And then - I mean the thing was sort of brought to a head when I had to sign that request to Congress for 94 million dollars to make up the deficiency in Commodity Credit. I wanted to send the President a memorandum on that, but I don't like to send - shoot until I know what I'm talking about.

and there's the farmer angle in it. I mean, in other words, if those of us who can think clearly and without - independently of benefit payments hanging over our head and all the rest of that stuff - I mean just where are we going? In other words, I'd like to take an inventory if I can, see, and then - that's one thing.

But hooked up to it - and it comes as a possible one of - a solution - is this question - I mean does Mr. Roosevelt want to continue to think the way he does that the only way to solve the farm problem is to pay the farmers to grow less? I mean that's - I think if anybody wanted to boil it down - maybe that's oversimplifying the proposition, but that's the way - he and Mr. Wallace are constantly

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thinking of

Babcock: Restricting.

H.M.Jr: ... constant restriction. And this administration never thinks of the consumer. Well, I wouldn't - you know, I'm over - I mean to make it They don't think of the consumer. And we've got this big unemployment problem. I tried my best to put on a sales campaign last fall - Bill knows about it - in connection with cotton, taking the attitude 17, 18 million bales was a blessing, we should be happy about it, and then go ahead and try to market the thing. We went so far as to engage N.W.A., made plans for cottonballs all over the country, a big program to cost a million or million and a half dollars. But I just couldn't get it across because Wallace killed it.

But the thought is, here's - I mean they've never used any - they've never put their brains as to how to put this thing in the people's stomachs or to put it on their backs, see? And I - I think we're just getting in deeper and deeper. When you (Babcock) came down to help me out in '33, why, that was just a peanut vendor stand compared to what we've got now. I mean you sold a hundred million dollars worth of merchandise in about three months for us and cleaned up. I don't know what the Farm Board really cost the administration. George, find out how much out of pocket, will you - how much out of pocket - I'd just be interested - the last administration was on the Farm Board.

And then - I mean I don't want to - we've got an immediate thing which bothers me terribly, and that's - but I don't want to shoot on that and then be wrong, although I'm doing everything that I can. I mean this situation in Detroit and Cleveland and Chicago, and - did you get this copy of this thing that came over from Jesse Tapp this morning?

Myers: No.

H.M.Jr: I mean, well, here's what they're feeding per month...

Babcock: Yes, I saw that.

H.M.Jr: ... to the family, and it's just Did you (Lonigan)

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get a copy of that?

Lonigan: No, sir.

(H.M.Jr hands copy to Miss Lonigan)

H.M.Jr: George. (Hands copy to Haas)

I asked them last night. They came through. But as I say, I don't want to do the - get bogged down by doing the thing that is so pressing and then lose sight of the big thing.

Babcock: Oh-huh.

H.M.Jr: But the thing - if you notice, there's only six pounds of dried skim milk to a family of three to four persons for one month.

Bill, is there much surplus milk in the country?

Myers: I don't know. Price has been down.

Babcock: Lower.

H.M.Jr: I don't know how it affects you, but this thing just shocks me terribly.

Lonigan: They didn't give that much milk, Mr. Secretary.

H.M.Jr: Excuse me?

Lonigan: They didn't give that much milk?

H.M.Jr: Do you believe this is faked?

Lonigan: I don't know. They didn't give that much milk. Gave about two thousand pounds of milk in March, none in April.

H.M.Jr: I don't hear.

Lonigan: They gave out something like two thousand pounds of milk in April - in March, I think, and almost none in April - less than this, I'm sure. The figures are way behind anyhow.

H.M.Jr: You think it's faked?

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Lonigan: I think it's what I call statistical abstractions. Somebody sits in an office and works it out from what he has.

H.M.Jr: Well, Mr. Myers is a director of this corporation and checks these figures. (Winks at Babcock)
All right, I'm serious. You're (Myers) not just here for scenery. (To Babcock) He isn't here just for scenery. Bill?

Myers: We're buying five million bushels of wheat, my friend. Wilcox told me this morning; going to mill it on a toll basis.

H.M.Jr: On a what?

Babcock: Mill it on a toll basis.

H.M.Jr: Wait, I'll close these windows and turn on the ventilation.

Myers: We're buying five million bushels of soft wheat; going to have it milled on a toll basis and have it in flour.

H.M.Jr: What's that mean, toll basis?

Myers: Give them a share of wheat.

H.M.Jr: They are? Well, is that the first time they've started

Myers: Except they bought a little flour when you asked the other day.

H.M.Jr: Well, as I say, I - I do want to hit this, but I don't want to look at the picture too

Babcock: Well, Henry

H.M.Jr: I mean I think we can do both, can't we, Ed? We've got brains enough to do both.

Babcock: Well, I think you've got to turn your line of philosophy and line of thought. Now, once you turn in the line of thought and put as much thought on a constructive angle, I think you can get amazing

-5-

results. As long as you're governed by the other philosophy, you can't. Now, I worked on this idea of this 150 million bushels of wheat.

H.L.Jr: Not it up to 200 now.

Haasbeck: Yes. And I checked a few minutes ago with a figure that Mr. Haas had which checks in very closely with our own observation. You can take G.L.F. (Grange League Federation) and you can double its wheat use by having wheat at a comparable price with corn.

Now, here's the way I figured you might get at this thing: that this whole wheat is a most valuable human food and the nutrition of the nation could be set ahead by recognition and exploitation of this fact. More wheat can be fed livestock, and it is probably one of the best places to store in surplus grain - is in a little heavier animal through the nation.

The Surplus Commodities Corporation might buy wheat, doing its buying in surplus areas and leaning toward the selection of feed grades, not getting into the higher grades of milling wheat. And, having accumulated an inventory of wheat, the Corporation might earmark it as feed wheat. That could be simply done by use of dyes; it's done in clover seed right along - shoot a few dyed kernels through it. This feed wheat then might be treated as money, traded in on rather liberal terms for approved whole wheat human foods. In other words, you swap this wheat which has been earmarked as feed wheat to Ralston Purina Company for a whole wheat cereal, or to G.L.F. for nutritive cereal, or to Pratt's for steam-cooked wheat; if traded on liberal enough terms, for human foods and prepared poultry and cattle foods which the Federal Surplus or the Farm Security could use. You'd put these companies which process these human foods and these prepared cattle and dairy foods in a position where they'd have to put - to move this wheat into food consumption.

We checked through our G.L.F. figures for ten years, and under such a program the G.L.F. could double its use of wheat; in fact, is prepared to double it.

Now, to support such a program, a vigorous educational program should be conducted to teach people the value

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of whole wheat as a human food, also to show livestock raisers how to utilize it in rations.

The contracts by which the Federal Surplus Commodities Corporation traded wheat for human foods or for prepared dairy and poultry feeds, should always be on a short-term basis, 30-day period, so they could speed it up or retard it by their terms on which they trade, you see.

H.M.Jr: I follow you.

Babcock: Now, that's the only thing I can figure that's practical and apparently legal under the set-up of Federal Surplus Commodities Corporation to begin to get action immediately on three things: utilization of this wheat; relief with an excellent human food, in variety enough so that you wouldn't have to force just one cereal down all the people in the United States, which would utilize existing processing machinery and which would put the feed in direct channels for livestock consumption. And my own belief is that it would not displace other grains; that you would get that much increased livestock feeding, which would result in that much heavier animals.

H.M.Jr: Well, if it went to dairy cattle, you've got the increased production in your milk, the way Parran is talking about it.

Haas: That fits in perfectly with Parran.

Babcock: Milk and eggs.

H.M.Jr: The one that they did - where did Parran get those figures, from an English one?

Haas: He had some British figures there.

H.M.Jr: They've run an experiment, haven't they? Or a study.

Haas: A nutrition study, yes.

H.M.Jr: On this question of feeding the wheat to cows. I know he gave me a figure - get 18 percent increase for your wheat by running it through a cow.

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Have you got those figures? Get them, George.

Haas: Yes, I've got his report here.

H.M.Jr: It's an English nutrition study on this very subject, you see.

Babcock: Now, there's another corollary thing that comes in there of utmost significance, right up Bill's alley, and that is this tremendous potential increase of community refrigeration - locker plants with sharp freeze rooms, which will result all over the nation in a greater utilization of meat products and an increased standard of living. My whole philosophy is to turn this thing around and feed people better.

H.M.Jr: Well, that's what - as I say, this Chicago, Cleveland and Detroit thing is shocking, but I think we can do something on it temporarily; but I want to see the whole forest and not just one or two trees. And I'm sure that in the five years that the President has been here, he's never sat back and said, "How much money have I spent on the farmer, for agriculture, and what have I got for my money?" See?

Babcock: Well, I would throw this surplus grain, when I had it, into the people and into the livestock. And I believe that your ever-normal granary is going to work back away from a granary, with a supply of grain in it which you see in heavier livestock on the hoof and carcasses in widespread refrigeration immediately available to people. That just turns your trend right around.

H.M.Jr: I want to throw out this thing, which is right down your alley. Not one dollar of all this money goes for better distribution. I mean they just aren't marketing-minded. Not a dollar. I bet you'll find - George, you just check up on this: how much more money agriculture is spending today, the whole department, on marketing than they did five years ago, if they're doing anything to help marketing. For example, our nice public market in Newburgh and the one up - up at Syracuse and Albany and Buffalo - just struggling. But I mean not one cent of Federal money. And the one at Newburgh just last year - just organized; ten thousand farmers - truckloads were

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handled there the first year. Ten thousand truckloads the first year. And they hardly can pay their interest on their bonds.

Babcock: Well, I talked with Wallace about that. Harry Newton and I just went in to see him six months ago. He shrugged his shoulders and said that wasn't his baby.

H.M.Jr: You mean that particular thing?

Babcock: No, marketing.

H.M.Jr: What I would like to throw out to you people is this. In the first place, the thing we're talking about is the consumer, and when we have these surplus crops - and get them out that way. Looking still further ahead, the question of whether we can do something on buying. Now, Mr. Roosevelt is very much interested in marketing. He always helped us in Albany.

Babcock: I know it. That's why - you handled his marketing.

H.M.Jr: And that's why we handled it. He's just completely lost track. Old Louie Howe was tremendously interested in doing something for the consumer, doing something for the market. You see? Of course, on that end, we do do something. But this whole marketing thing is just, as near as I can make out - I don't want to be unfair, but I think it is completely lost sight of in this whole program.

Babcock: In other words, you're cutting your (words not understandable)

H.M.Jr: Pardon me?

Babcock: Cutting your cost of distribution and making it (words not understandable)

H.M.Jr: What we want to do is what your old friend John Dillon did, cut down the profits of the middleman. What?

Babcock: Yes, John has done it pretty well too. See the write-up in the New Yorker? This week.

H.M.Jr: No. The New Yorker? Oh yes, I've got to read that. Oh yes. He's done it pretty well for himself.

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Well now, what can we do, Bill? You're in on this. I mean you sit in on this, all these boards. Seriously.

- Myers: Well, you can't do anything beyond relief until you can change thinking.
- H.M.Jr: How we going to change the thinking?
- Myers: Then you got to change the law.
- Babcock: Why have you got to change the law, Bill?
- Myers: Well, you can change your emphasis right now; but, having planned to spend all they've got and 212 million more if they can get it on one program, you can't go ahead and spend that again; you've got to either wait until another year or else you've got to
- H.M.Jr: Well, it takes time. I mean the part - the thinking part. It takes time. It has to - there has to be some awful good thinking and some awful clear English on paper, and there's got to be some research work - I mean to study what's happened the last five years. And I wouldn't expect to turn that around right away, but
- Babcock: You want to begin to put on the pressure to turn - or on the leadership to turn.
- H.M.Jr: Well, we started out Now, here's the interesting thing. Hopkins is completely in our corner.
- Babcock: Swell.
- H.M.Jr: What? And this thing which we wrote to go up on the Hill in order to get direct relief - I wonder if I can get that - "Why," he says, "you and Phil LaFollette are together." I said, "Well, maybe Phil's good." I'd like to read you what I wrote. And the President passed on this question, got right down - pithy. But Hopkins, on the part of eating this stuff and wearing it, see, and this question of scarcity and - he's entirely in our corner.
- Babcock: Parran's with you too.

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H.M.Jr: And Parran's with us.

But where Hopkins - where he doesn't want to fight as long as he's here, is direct relief. And I don't want to get in on that. I want to avoid that question, see?

Babcock: You mean - is Hopkins for direct relief?

H.M.Jr: No, he's against direct relief.

Babcock: I see.

H.M.Jr: ~~But~~ he is also against this policy of scarcity. ~~See~~ what I mean?

Babcock: Sure.

H.M.Jr: Now, I think it's kind of hard, but I think the two things can be made to fit.

(On phone) Miss Chauncey on the phone. - Miss Chauncey, would you come in a minute please? Well, look, you know the letter that I wrote to send up on the Hill asking to put the word "direct relief" back in the bill, and then Mr. Hopkins tried to rewrite it. Have you got that? - Would you bring it in, please?

Haas: Hopkins, Mr. Secretary - is this right? Is he - would he object to direct relief in kind but not in cash? In other words ...

Myers: That's just supplemental, George. He doesn't want to substitute it. Am I correct?

Haas: Oh, I see.

H.M.Jr: He just doesn't object to this stuff at all, as near as I can make out from the talk that I had. I think we won't have any trouble with Hopkins on the Federal surplus relief stuff as long as the money isn't taken away from his work relief, see? In other words, if there is any money spent on this, he wants it to be additional money. He wants it to be additional money.

Myers: There's one other thing. Surplus Commodities now is

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thinking of wheat in two ways. One is the one I mentioned of getting some wheat and providing flour as supplemental relief, and the other is to distribute wheat for feed through the Farm Security Administration. They're afraid of upsetting the commercial apple cart. They've been criticized for interfering with commercial distribution, and so they're - those are the two minor ways, and the only ways in which they are now thinking of wheat.

Babcock: Well, it's the only way they can think of it.

Myers: Without changing policy, yes.

Babcock: Well, when and if they got the wheat, the only way they can use it is to feed it to people or animals.

Myers: But they're only thinking of one way to feed it to animals, and that's through Farm Security.

Babcock: Well, if I had this five million bushels of wheat that they bought, that they put out on a toll basis, see, I'd make it feed wheat. What do you call it when you take a - I'd degrade it into feed wheat. (Following portion not understandable)

H.M. Jr: This is the paragraph which I like and which Hopkins was amazed that the President let pass. I was going to write this to the Hill. I didn't have to, because Hopkins said he'd take care of it. "In order to meet these contingencies with the greatest effectiveness, the Federal Government should have the authority and the necessary funds so that it may make immediate use of whatever surpluses the resources of our country have yielded, and make available such surpluses to persons who are in greatest need." Now, this is the thing. "In other words, when the bounties of nature have provided this nation with a huge wheat and cotton surplus, and where side by side with such bounty there exists wide-spread want and suffering, the Government should be in a position, as a supplement to other measures, to alleviate the suffering in the simplest and most direct fashion."

But the thing that he was surprised at - when I said this business - "In other words, when the bounties of nature provide this nation with a huge wheat" and so forth and so on. Well now, of

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course, as I say, the President let that go. And I don't think that we'd have an awfully hard time if we could just put this up on the basis for him, you see - that is, the word "supplement."

Babcock: In other words, if he would agree to that principle, let that pass, you'd want to move into the other program step by step. You're going to put up a practical step by which he can put that philosophy into effect, aren't you?

H.M.Jr: Yes. And then when a lot of his people get to thinking about the constructive part of this, there's going to be some smart schemes for doing it.

Babcock: That's right, and you may have to do it step by step, not telling everybody what the goal is.

Myers: Yes, but you're going to have - I'm the devil's advocate, much as I don't like to be - you're going to have two barriers right off the bat. One is a price-determining wheat loan, and the other is a cotton loan that's going to be high enough to influence price.

H.M.Jr: Well, if this darn thing goes through - you know, when I called you I didn't know that it was - it was only introduced Thursday by Russell. As I understand it, in the case of cotton, if cotton is below 12 cents, they give the difference below. If it's ten cents, he gets two cents. If it's ten and a half cents, he gets a cent and a half. So they're really pegging it, aren't they?

Myers: They've got seven million bales and they're going to have - it's not only a subsidy, but you're going to have a loan on it too.

H.M.Jr: Well, you see, Bill, the great trouble is that - a lot of people say, starting with the Vice President, who said it again and again, that you can't handle cotton the way we do without losing our world market. The only way to keep the world market is on a price basis. Well, up to last year the consumption of cotton went up each year abroad in the world and our exports stayed absolutely fixed, and the increase went to other countries. We didn't get any of the increase

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in the world's consumption of cotton. And the stuff that we held back off the world market - why, somebody else just filled the world market with cotton and we stand here holding the bag, I mean. And once those things are explained, I just don't see how they're going to answer them, I mean. And there's such a - and the thing that you pointed out, if you're right, that the farmer this year is going to grow half as much cotton, and together with a low price - and his income from this cotton is going to be half as much, and he isn't going to have as happy

Myers: About two-thirds. He'll get two-thirds as much at the same price.

Babcock: In the past years, Haas, has a farmer gotten more money out of a big crop than he did out of a small one, on the average?

Haas: It varies somewhat with the crop. I think in general the larger crop gives him the more money.

Myers: With staples, George, isn't it?

Haas: Yes. Cotton is somewhat different.

Myers: With potatoes

Haas: Yes, way down. You don't get as much.

Myers: You can't carry it over.

Haas: That's right.

With cotton I think the situation is somewhat different, as I remember. With the smaller crop you can get more money.

Myers: They got a little less for their big crop, including seed, in '37 than for the small crop in '36. But I didn't think that was the usual thing, George, when you include seed, because you get two pounds of seed for every pound of lint. Cotton seed price is determined by your general price level.

H.M.Jr: Well now, Ed, you got what's in my head, as far as

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I can go. And what do you people need in the way of - how much time? I know you're awfully upset about this other thing.

Babcock: Did you (Myers) get any word as to when the funeral would be?

Myers: Probably Thursday. Carl said Mrs. Warren wasn't able to make plans yet, but they figured Thursday afternoon, two or three o'clock, State's Chapel.

H.M.Jr: Do you want to just sort of digest what I said and then maybe meet again?

Babcock: I've got that. All I want to know, Henry, is - I can - ever since you called me - for years I've thought about this philosophical approach, and since you called me I've thought a great deal about it. I can simply illustrate a turn in affairs - a turn in the tide by just taking this wheat, and that's about all the contribution I've got.

H.M.Jr: Well, can you begin - can you put it down on paper for me?

Babcock: Yes.

H.M.Jr: See?

Babcock: Yes. What I'd really like to do would be to put it down on paper and draft it, maybe go over it with Bill and leave it with you (Myers) and get out of here. I had planned to go to New York on this trip somewheres around noon or thereabouts tomorrow, and then have to be in Ithaca Thursday.

H.M.Jr: I see.

Babcock: Then I'd be available, on call.

H.M.Jr: Well, Haas can fix you up with a stenographer.

Babcock: I'll dictate this draft, work on it. See you some time today, Bill?

Myers: Uh-huh, any time.

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Babcock: And leave it with you.

H.M.Jr: All right.

Did you send Mrs. Myers away?

Myers: Just for a day.

H.M.Jr: When is she coming back?

Myers: Monday.

H.M.Jr: Well then, maybe some time this afternoon or so we can get together again; let's see.

Babcock: Yes, I'll be on call today.

Lonigan: May I make one statement, Mr. Secretary?

H.M.Jr: Please.

Lonigan: And that is that when you move these commodities that you speak of, as wheat, or as meat, to the city, to the outside of the city, as if there were a wall around it, from then on there is a whole mechanics inside, and if you work that mechanics the way you work marketing mechanics, the margin of consumption is enormous. I mean the statement that Governor Myers made

H.M.Jr: I don't follow you, Miss Lonigan.

Lonigan: So far as we talked about wheat, moving wheat to the cities - you don't need wheat, you want bread. Between wheat and bread there is an enormous amount of employment and possibilities for consumption. If you work that particular structure and mechanism of the city market and city employment within the city wall after you get the wheat to the door of the city, you've got a whole margin for employment and consumption as big as what you (Babcock) described in the new refrigeration and the rest of it. Two lines all the way along.

H.M.Jr: One line is what?

Lonigan: Inside the city. There is as much mechanics and as much room for expansion inside the city, and the same

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thing applies

Babcock: You mean in the processing and marketing machinery.

Lonigan: The same thing applies to the plantation in the South, where you've got your masses of people who don't consume. And in those two places you've just got an enormous space for technical ingenuity.

H.M.Jr: You mean inside

Lonigan: ... or on the plantation, where you've got crowds of people.

H.M.Jr: Well, on the question of the mechanics of this, giving people employment through increased marketing and food - who knows that the best?

Lonigan: I don't know. I don't think there is any employment economics. That's what I've been saying for five years, but I can't get it given any money. It takes money.

Babcock: You know, the ever-normal granary is a good catch phrase and it's good tariff, too, but it doesn't want to be a centralized one. The place for the granary is on the kitchen or on the pantry shelves. And the biggest possible supplement, or the way to implement an ever-normal granary, is with refrigeration.

Myers: On the hoof, Ed, is the biggest one.

Babcock: Well, I said on the hoof before. Carry it all the way on the hoof and then carry more converted cereals in refrigeration.

Myers: England had the best ever-normal granary. They had animals on their pastures fed with imported feed-stuffs; and they could eat the animals and turn over the pasture and raise grain when necessary.

Babcock: Bill, we can do the same thing but supplement that with refrigeration.

Myers: That's coming.

Babcock: Yes. And if the Government ever wanted to do a little subsidy, make a real ever-normal granary - see what I mean, Henry?

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H.M.Jr: Yes, I know.

Babcock: Just provide this country with ten million lockers.

Myers: The impression to me is this; that we find this year that a low - a small crop doesn't increase the price, and what's the reaction? It isn't, on the Hill, to increase consumption; the reaction is to have a loan granted that will increase the price. And the next thing will be an attempt at price-fixing, at least on the domestic consumption, and export the other somehow, or some modification of that. And until you go through the cycle and prove its futility, it's awfully hard to change the policy where it's finally controlled.

H.M.Jr: Well, here's the thing. Since the first of April our commodity figures have just been going down, down and down. Now, they've talked about this 212 million dollar bill, which may or may not - I guess the chances are two out of three it will go through; can't do anything - but it has no effect on the commodity prices.

Myers: Except the farmers are able to buy a little more of a lot of things.

H.M.Jr: But I still say I can't see anything - I mean that the market pays any attention to it whatsoever.

Now, I - I just wondered, if the President or Wallace announce a comprehensive plan which would stand up, which would consume this year 150 to 200 million bushels, what effect would that have on the market?

Babcock: Well, I think your technical employment within that area is a tremendous untapped employment and price factor. I quite agree with Miss Lonigan it's been totally forgotten in this picture. That's why I'd shove this stuff right through the established channels.

Myers: That's where the great cost is. They swapped the Farm Board cotton for cloth and paid the textile manufacturers in cotton.

Lonigan: That can be run all the way through from cotton.

Myers: They propose to do that with wheat, so far as the

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flour, but there's a lot of labor from there on and they propose to give the flour to relief families and the families perhaps can provide the employment. But the unemployed man can't make the bread.

H.M.Jr: Miss Lonigan, they have no way of making the bread.

Lonigan: They have no way - frequently no pans, frequently the gas turned off.

H.M.Jr: See, Miss Lonigan - she's been in Chicago, Cleveland, and Detroit for me the last week. Just been out there. I mean she's just been there, just come back from there.

Lonigan: On foot.

H.M.Jr: What?

Lonigan: On foot. I get my economics on foot.

Babcock: Well, the weakest thing in these whole wheat cereals is the heat, the cooking.

Lonigan: Now, you could swap that for labor somewhere, at some point, to make bread.

Babcock: I'd like to talk with you (Lonigan) a little about that.

H.M.Jr: And, Miss Lonigan, even if they get angry, call up Mr. Tapp and see if you can see Mr. Brickett, and say you're just back and in your most polite manner say you don't believe it.

Lonigan: I've wanted to have a chat with Mr. Brickett.

H.M.Jr: If you have any trouble, let me know. And say you're just back - be very polite, use whatever the polite phrase is that "I don't believe it."

Lonigan: I've got all their figures copied off their own books.

H.M.Jr: Well, will you get in touch with Brickett right away?

Lonigan: Yes.

May 24, 1938

Dear Eleanor:

I am sending you herewith a copy of a memorandum which I received, this morning, from Mr. Tapp.

I would like to draw your particular attention to the fact that a family of three or four persons during the month was given only 5 pounds of dry skim milk.

I should be delighted to have an opportunity to discuss this whole question with you at your earliest convenience.

Sincerely yours,

Mrs. Franklin D. Roosevelt,

The White House.

FEDERAL SURPLUS COMMODITIES CORPORATION

1901 D STREET NW.
WASHINGTON

U. S. GOVERNMENT PRINTING OFFICE

May 24, 1938.

MEMORANDUM TO MR. J. W. TAPP
President.

Attached is the schedule of distribution rates for commodities now available in Cleveland, Chicago and Detroit.

In checking these recommended quantities with actual disbursements to relief families, it is reported by the State Directors of Distribution for Illinois, Michigan and Ohio that these quantities are actually being given to approximately 90% of the families receiving commodities.

Some families however are receiving larger quantities of foodstuffs on the recommendation of case workers because of the existence of special need. Likewise in certain instances some families are receiving less than the suggested quantities on the recommendation of case workers.

Reports from the field indicate that the rates indicated are generally as large as can reasonably be cared for by recipient families in view of limited storage space and inadequate facilities to transport larger quantities of available foodstuffs to their homes.

The quantities of each food being distributed do not meet the full requirements of a food budget for an adequate diet at minimum cost. The complete lack of other resources of many recipient families however indicates that any real increase in the present distribution rates of the foodstuffs now available will greatly increase the likelihood that a portion of the commodities will be traded for other goods and services to provide in part other essential requirements of the families' budget, provision for which is now lacking.

It is recommended therefore that consideration be given to increasing the type and kinds of foodstuffs available for these families rather than attempting to distribute to them larger supplies of the commodities now available.

James E. Brickett
James E. Brickett,
Distribution Officer.

SCHEDULE OF QUANTITIES OF COMMODITIES
ISSUED TO VARIOUS SIZE
FAMILIES DURING ONE MONTH

NAME OF COMMODITY	UNIT	RECIPIENT FAMILIES				
		1 Person	2 Persons	3 or 4 Persons	5 or 6 Persons	7 & over Persons.
Apples (Fresh)	lbs.	12	24	36	48	72
Beans (Dried)	lbs.	1	2	3	5	7
Butter	lbs.	2	4	6	8	10
Cabbage	lbs.	5	10	15	20	25
Celery	lbs.	5	10	15	20	25
Flour (Potato)	lbs.	1	2	3	4	5
Flour (Wheat)	lbs.	12½	12½	24½	36¾	48
Grapefruit (Fresh)	lbs.	10	15	20	30	40
Milk (Dry Skim)	lbs.	2	4	6	8	10
Oranges	lbs.	10	15	20	30	40
Peas (Canned)	cans	2	4	8	12	16
Potatoes (White)	lbs.	10	20	30	40	50
Prunes	lbs.	1	2	3	4	5
Rice	lbs.	1	2	4	6	8

FEDERAL SURPLUS COMMODITIES CORPORATION

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S. M. BLAND, Secretary

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Potatoes (White)	lbs.	10	20	30	40	50
Prunes	lbs.	1	2	3	4	5
Rice	lbs.	1	2	4	6	8

FEDERAL SURPLUS COMMODITIES CORPORATION

1801 O STREET NW.
WASHINGTON

J. O. BLANCH, 881-411-1

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It is recommended therefore that consideration be given to increasing the type and kinds of foodstuffs available for these families rather than attempting to distribute to them larger supplies of the commodities now available.

James E. Brickett
James E. Brickett,
Distribution Officer.

SCHEDULE OF QUANTITIES OF COMMODITIES
ISSUED TO VARIOUS SIZE
FAMILIES DURING ONE MONTH

NAME OF COMMODITY	UNIT	RECIPIENT FAMILIES				
		1 Person	2 Persons	3 or 4 Persons	5 or 6 Persons	7 & over Persons.
Apples (Fresh)	lbs.	12	24	36	48	72
Beans (Dried)	lbs.	1	2	3	5	7
Butter	lbs.	2	4	6	8	10
Cabbage	lbs.	5	10	15	20	25
Celery	lbs.	5	10	15	20	25
Flour (Potato)	lbs.	1	2	3	4	5
Flour (Wheat)	lbs.	12 $\frac{1}{2}$	12 $\frac{1}{2}$	24 $\frac{1}{2}$	36 $\frac{3}{4}$	48
Grapefruit (Fresh)	lbs.	10	15	20	30	40
Milk (Dry Skim)	lbs.	2	4	6	8	10
Oranges	lbs.	10	15	20	30	40
Peas (Canned)	cans	2	4	8	12	16
Potatoes (White)	lbs.	10	20	30	40	50
Prunes	lbs.	1	2	3	4	5
Rice	lbs.	1	2	4	6	8

May 24, 1938

(Dictated May 25, 1938)

This was given to me by Ed Babcock last night
when he was at my house.

May 24, 1938.

The Honorable,

The Secretary of the Treasury.

Sir:

The attached memorandum is based on fifteen years' concrete experience in buying feed for poultry and live stock in the Northeast, and ten years' experience in purchasing and processing wheat for human food purposes.

While the average variation in the use of wheat is not great enough to have very marked effect on the utilization of a surplus of 200,000,000 bushels, my records show that a feed and human food purchasing organization like the G.L.F. bought 1,500,000 bushels when wheat was cheap in 1932-1933; and this year, with more business, will purchase 900,000 bushels.

Community refrigerated lockers: Since the smart thing to do nationally is to convert surplus cereal into live stock, I believe that the Government should give serious consideration to promoting on a sound and self-liquidating cooperative basis the erection of community refrigerated locker plants in which farmers and even townspeople might store grain which had been converted into live stock and slaughtered. These plants would constitute community ever-normal granaries, in which surplus cereals in the form of animal products would be stored by individuals.

Respectfully submitted,



May 24, 1938

MEMORANDUM

At the present time two somewhat opposing philosophies are responsible for Government policies designed to deal with the problems of crop surpluses.

One of these philosophies calls for the prevention of such surpluses by paying farmers to cut down production. The companion philosophy calls for making Government loans on a basis which prevents the prices of surplus crops going to their natural levels.

Since loans above the natural price level encourage production, the above-described programs are to a degree contradictory. They are likely to lead ultimately to price fixing. There is a chance that they will not accomplish their objectives.

A Hedge

As a hedge against the possible failure of the restriction and loan programs of our Government to deal satisfactorily with surplus crop problems, it would seem wise for some Government agency to get a bit of experience with the application of a philosophy which will pave the way for natural price levels to control surpluses and at the same time enable the population at large to benefit, through improved nutrition and a general increased standard of living, from the bounties of nature.

The logical agency to use in getting such experience is the Federal Surplus Commodities Corporation, which seems to have adequate legal powers. The present threatened wheat surplus of some 200,000,000 bushels might be a good surplus with which to gain experience.

Facts

- (1) Whole wheat is a most valuable human food.

The nutrition of the nation could be permanently set ahead by Government recognition of this fact.

- (2) More wheat can be fed live stock.

One of the best ways to store a cereal crop is by adequately feeding live stock, from which the cereal emerges principally as meat, milk, and eggs.

Suggestions

(1) The Federal Surplus Commodities Corporation might buy wheat.

It could do its buying in surplus areas and could concentrate on purchasing the lower grades of wheat and those which are not needed by the flour milling industry.

(2) Wheat purchased by the Federal Surplus Commodities Corporation might be identified in some manner as "feed wheat," available for live stock feeding but not for flour milling or human foods.

(3) The Federal Surplus Commodities Corporation might use its inventory of "feed wheat" to purchase on bid a fairly wide list of approved human foods made from whole wheat.

The processing of these whole wheat human foods would lead the processors into the purchasing of the wheat required to make them and into employing a great many men and women to operate their plants.

(4) The Federal Surplus Commodities Corporation might also trade its "feed wheat" to processors of dairy and poultry feeds for balanced rations which could be utilized by the Farm Security Administration.

Conditions Created

(1) The trading of "feed wheat" for processed whole wheat human foods and live stock feeds, in addition to furnishing supplies of excellent foods for relief feeding, would tend to load processors up with "feed wheat." The natural result would be that these processors would push this "feed wheat" out through their channels of distribution in a manner and at prices which would tend to lead feeders of live stock in feed-buying areas into feeding their live stock more liberally. In this manner surplus wheat would be converted into animal products.

(2) By the terms of its trades of "feed wheat" for processed human and animal foods, the Federal Surplus Commodities Corporation could speed up or retard the utilization of its purchases of surplus wheat.

Educational Program

To further the above program and at the same time to give leadership to the idea of the utilization of the bounties of nature in this country for the welfare of the people at large, the Government might well institute a vigorous educational program designed to teach people the value of whole wheat in the various forms it is available as a human food, and to show live stock feeders how to utilize wheat in live stock rations.

GROUP MEETING.

May 24, 1938.
9:30 A. M.

Present: Mr. Magill
Mr. Oliphant
Mr. Gaston
Mr. Haas
Mr. Taylor
Mr. Lochhead
Mr. Gibbons
Mr. White
Mr. Upham
Mr. McReynolds
Mrs. Klotz

H.M.Jr: Good morning.

Magill: Good morning, sir.

H.M.Jr: They called me twice at the house last night.
The final appointment is for you and me at
two on the Hill, see?

Magill: Today?

H.M.Jr: Wednesday. We'll meet the leaders. We'll
have to have a little dress rehearsal before.

Magill: When do you want to have your dress rehearsal?

H.M.Jr: Sometime today, if you want to - to see how
we get along.

Magill: On this New York Port of Authority case, I
could keep on talking about that case. That's
a sterling victory for the Treasury.

H.M.Jr: What kind of a victory?

Magill: That's a sterling victory for the Treasury.
The Department of Justice wanted to drop that
case.

H.M.Jr: Did they?

Oliphant: Frank did.

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H.M.Jr: What?

Oliphant: Frank wanted to drop it.

H.M.Jr: Sterling at a dollar seventy-nine today.
All right, what else?

Magill: (Nods "Nothing.")

H.M.Jr: Herman.

Oliphant: Nothing much.

H.M.Jr: Anything?

Oliphant: Practically nothing.

H.M.Jr: What have you got?

Oliphant: Nothing.

H.M.Jr: (Nods to Mr. Gaston.)

Gaston: The New York Times would like to have a conference with Ros on the New York Port of Authority, now that it's had time to sink in a little.

Magill: I'd have to have a conference with Justice in order to get ready for them.

H.M.Jr: Whatever you want to do.

Gaston: I found out last night why all the pressure was on us for motion pictures of the Greek Minister presenting the check.

H.M.Jr: Why?

Gaston: A Greek owns a chain of motion picture houses and he ordered this from the news reel companies.

H.M.Jr: Where's the chain?

Gaston: I don't know. I can find out. I don't know who - it was one of the boys, told me the name of the man.

Tom Stokes is going out to the Pacific Coast within a few weeks and he agreed to take on a story of decentralization.

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H.M.Jr: Fine.

Gaston: I don't think of anything else.

H.M.Jr: George, Babcock's somewhere in the Treasury, and I'd like you to get together with him at ten and I'll see you and him at ten thirty.

Haas: All right.

H.M.Jr: (Over telephone:) Ask Dr. Myers if he can be here at ten thirty. Mr. Babcock's here; I'd appreciate it if he can come over. Thank you.

I got this thing from Tapp this morning, which is interesting. I called him up last night - I am riding this question of giving people enough to eat awfully hard; I don't know where I'm going to end. I called up Tapp last night and asked him to give me the following information, and he came through very nicely.

(To Mrs. Klotz:) I'd thank him for his prompt service; it's awfully good.

"Attached is the schedule of distribution rates for commodities now available in Cleveland, Chicago and Detroit.

"In checking these recommended quantities with actual disbursements to relief families, it is reported by the State Directors of Distribution for Illinois, Michigan and Ohio that these quantities are actually being given to approximately 90% of the families receiving commodities.

"Some families however are receiving larger quantities of foodstuffs on the recommendation of case workers because of the existence of special need. Likewise in certain instances some families are receiving less than the suggested quantities on the recommendation of case workers.

"Reports from the field indicate that the rates indicated are generally as large as can reasonably be cared for by recipient families in view of limited storage space and inadequate facilities to transport larger quantities of available foodstuffs to their homes."

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Well, of course, that might mean bad distribution - giving them too much at one time.

"The quantities of each food being distributed do not meet the full requirements of a food budget for an adequate diet at minimum cost. The complete lack of other resources of many recipient families however indicates that any real increase in the present distribution rates of the foodstuffs now available will greatly increase the likelihood that a portion of the commodities will be traded for other goods and services to provide in part other essential requirements of the families' budget, provision for which is now lacking."

Well, that wouldn't be a tragedy, would it?

"It is recommended therefore that consideration be given to increasing the type and kinds of foodstuffs available for these families rather than attempting to distribute to them larger supplies of the commodities now available."

That's all right.

Now here is the schedule of quantities of commodities issued to various size families during one month. Well, three or four persons - this is a month. They get - now mind you, this is ninety per cent of what they get:

Thirty-six apples - thirty-six pounds of apples; three pounds of beans; six pounds of butter; fifteen pounds of cabbage; fifteen pounds of celery; fifteen pounds of flour - that's potato flour (three pounds is correct for potato flour); twenty-four and a half pounds of wheat (flour); twenty pounds of grapefruit; six pounds of dry skimmed milk; twenty pounds of oranges; two cans of peas (eight is correct); ten pounds of white potatoes (thirty is correct); one pound of prunes (three is correct); and one pound of rice (four is correct).

And that's what a family is living on.

Gaston:

That doesn't check with the Chicago list that I gave you, from one of the papers. That's a much larger assortment than I gave you.

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Gibbons: No meat at all.

H.M.Jr: What?

Gibbons: They get no meat at all.

H.M.Jr: No, this is America.

Gibbons: Marvelous.

White: How does that check with Dr. Parran's list?

H.M.Jr: I don't know.

Haas: I got his report last night.

H.M.Jr: (Hands letter to Mr. Kieley) Have six photo-stats of this made right away.

Incidentally, what they boiled it down to say - and they caught Hopkins - is that the reason that Chicago and Cleveland are not coming through is because there's a fight against work relief and direct relief. That isn't the thing at all. Now in nothing that we have done have we indicated that is the fight. Miss Lonigan is just back; she doesn't think so. But Hopkins is beginning to answer me through Pearson, and Allen.

Gaston: The proposition is W. P. A. is taking on so many people and there is a huge balance left over, and they have to take care of them on direct relief, and they haven't had enough money.

H.M.Jr: That's Hopkins' answer to me.

What have you got, George?

Haas: I have nothing.

H.M.Jr: Huh?

Haas: You know when you're going to have a meeting on that other subject? I might tell you what my situation is before you give the answer. I had something yesterday, but I tore it up last night.

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H.M.Jr: Oh, on that.

Haas: Yes.

H.M.Jr: Three o'clock if anybody's ready - this afternoon.

White: You want to see it before.

H.M.Jr: Yes, I'd like to meet with Gaston, Haas, White, and Seltzer.

White: I mean, did you want to see the speeches on your desk before the meeting?

H.M.Jr: No. I won't have time, but I will be ready at three.

That memo that Harris sent me - to the house - on financing, see that Mr. Bell gets a copy, and Mr. Taylor. It's a good memorandum. Tell Harris I am pleased. And then, George, if you come through with something - see that it's circulated; see that it goes to Harris, Taylor, Haas, and Bell. It's a good memo.

George.

Haas: I have nothing.

H.M.Jr: Well, at three o'clock I am seeing you fellows.
(Nods to Mr. Taylor)
Where's Cy? Get fed today?

Upham: Yes.

H.M.Jr: Good chicken?

Klotz: Good chicken - milk fed.

H.M.Jr: Good.

Taylor: (Nods "Nothing.")

H.M.Jr: You, or your wife, would be interested to know that Mrs. Hanes has had a baby and she's all right but the baby is in an oxygen tank. I

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thought maybe your wife would like to know. They think the baby will pull through, but don't know. Thursday - last Thursday - it happened last Thursday, but I thought maybe your wife would like to know.

Taylor: Thanks. What sex?

H.M.Jr: A girl. That's why they are working so hard to save it.

Klotz: (Laughs.)

H.M.Jr: And you might - I think if you could find out - I think Johnny's pretty sick. He called me from the doctor's office yesterday and sounded awfully low.

All right. (Nods to Mr. Lochhead.)

Lochhead: The feeling continues better, but there is no volume in the market at all - just a slight improvement. Generally quiet.

H.M.Jr: Those of you who are interested in the Czecho thing most likely read it, but if you don't, may I call your attention to this man - I think it is Gedy - G-e-d-y-e. I think he writes for the New York Times.

White: He's the man who just left

H.M.Jr: He was kicked out of Vienna. He's writing now - he's an Englishman, but he writes for the Times. His dispatches are excellent.

McReynolds: He was on the radio Sunday evening, giving a little (too low.)

H.M.Jr: What else?

Lochhead: Nothing particularly.

H.M.Jr: Herman, you might have Hester keep his ears aground on that silver resolution and let me know - you know, the one put in yesterday. It's known as the Bailey-Oliphant Resolution.

Taylor: They are working together all right?

H.M.Jr: Absolutely.

Oliphant: I initialed it.

H.M.Jr: What?

Oliphant: I initialed it.

H.M.Jr: Harry.

White: Yesterday the - they've asked Corliss to keep in closer touch with Mexico, and he's now getting cables. Got a cable late yesterday afternoon in which, he said, the situation is deteriorating rapidly, and the peso is down to four eighty last night.

H.M.Jr: Well, you'll be interested to know that at Cabinet I said, "Any time, Mr. President, you and Mr. Hull make up your mind what you want to do in Mexico and you want us to help you financially, we are ready to talk about silver." The President gave me a discouraging look and Mr. Hull said nothing.

White: So there is a possibility that the exchange may get away from them, and we'll be confronted with somewhat the same situation of China, in support of Mexican coin.

Lochhead: The balance is the Federal Reserve. So if the exchange is getting away from them it's getting away because they are not trying to support it. There hasn't been any big withdrawals.

H.M.Jr: I'll never forget, as long as I live, that before this trouble in Spain we were approached to lend Spain five million dollars against gold, and the State Department wouldn't let us do it because they had a trade treaty pending. That's all they wanted - five million dollar loan against gold, and it was a hundred eighty days, or six months loan. All they wanted was five million dollars. Is that right?

Lochhead: Five million dollars, to release the frozen collections.

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- H.M.Jr: Jimmy said, "No, we'll have to clean up the trade treaty first." That was all they wanted. Mr. Beyen, of the International Bank, just wept here - "Wouldn't I do this?" I said, "No, the State Department has put 'thumbs down' on it." Five million dollars would have meant a lot. Same thing in Mexico, except.....
- Oliphant: Except things get worse faster.
- H.M.Jr: I mean, a hundred million dollar loan, with our check on the possibility of repayment would be cheap - it would be cheap compared to having to man a whole border with soldiers, and everything else.
- White: Not only that. Our exports in Mexico are over a hundred million dollars and have dropped to thirty or forty this year.
- Gaston: Evans talked to the Standard Oil of New Jersey, who told him they had it fixed so they wouldn't be able to sell a barrel of oil out of Mexico.
- H.M.Jr: They made that statement here a few months ago; fellow in charge of all their foreign business made that statement, but that's a laugh.
- White: He had made another statement - you probably remember the statement he made about the expert they were getting down in Mexico, to get ready for
- Lockhead: Fix up the refinery so they wouldn't be able to make any runs through the refinery.
- H.M.Jr: They couldn't make good on it.
- These Governments can buy all the fuel oil they need.
- Gaston: Are they selling now?
- H.M.Jr: Sure.
- White: Very little, because the tankers are owned either by Scandanavians or by the Americans, and they won't let the Scandanvians use any of their tankers, either. Still, there are some - Germany and Japan have some.

H.M.Jr: Just as a matter of interest, Harry, find out, through the insurance channels, how many tankers are leased now to Mexico.

White: I'll have a little memo on the whole tanker situation.

H.M.Jr: And how many tankers there are which are hired.

White: Could I step out of the Department.

H.M.Jr: I think you can do it through the Fed.

Lochhead: Yes, they can run through the insurance brokers up there.

H.M.Jr: Through the Fed fellow - what's his name?

Taylor: I think, with working on that, he'd better work with Knocke.

H.M.Jr: I'd try it first, that way.

White: Archie will call them for me.

H.M.Jr: (Nods to Mr. Gibbons.)

Gibbons: Friend Dr. Sirovich.....

Gaston: Who's friend?

Gibbons: is demanding a job now with Herman. He wants a lawyer's place. I called Lamar Hardie, and Lamar said, "I wouldn't have that so-and-so in my office,...." so now he's insisting on a job with Herman.

H.M.Jr: Sirovich got very ugly in here yesterday.

Gibbons: He wanted five jobs in Harry Durning's office - temporary positions - and there are five in the whole district. He wanted the whole five.

H.M.Jr: He got very ugly in here.

Gibbons: I called Mac - he showed me a telegram from McIntyre - and Mac went sky high. He got in there.

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- H.M.Jr: I refused to see two people yesterday morning because I was too busy. While I was waiting to see the President for lunch, he saw both of them, and he got McIntyre - "Just what do you make me see people for that Henry won't see?"
- Gibbons: This fellow's terrible. I listened to him for fifteen minutes.
- H.M.Jr: (Holds side conversation with Mrs. Klotz.)
- Gibbons: I saw him, and he's got a device that they developed to a certain point and it went dead. The Coast Guard reported on it, but that's all.
- H.M.Jr: That man got in to see the President. The President was furious about it.
- Gibbons: He got in to see the President?
- H.M.Jr: Yeah. The President was furious.
- Gibbons: He's just a high-pressure salesman.
- H.M.Jr: And not very high.
- Gibbons: I sent him over to see Waesche. It's strictly scientific measures. I could talk to him a week and not know anything about it - breaking through static with radio, etc.
- Oliphant: Oliphant has hired the last one of that fellow's - I have that nephew of his, haven't I - yes.
- Gibbons: Have you got a nephew of his. He's got - Jim Farley says he's got more jobs than any other man. Of course, he stood up for the Reorganization - and now he thinks he ought
- Upham: I don't think so.
- H.M.Jr: Anything else?
- Gibbons: Nothing else.
- H.M.Jr: (Nods to Mr. Upham.)
- Upham: I have a few little difficulties but I don't think I'll bother you with them.

H.M.Jr: So do I.

Upham: We may have a T. V. A. situation over at F. D. I. C. One Director has difficulty in finding out what the Board does, but that will probably straighten out.

H.M.Jr: Which Director does?

Upham: Diggs.

H.M.Jr: Mac, how are you coming along with your re-organization?

McReynolds: Well, I am spending most of today getting ready to lay it on your desk tomorrow. The boys have gotten everything in writing so far. I will

H.M.Jr: As a result, how many employees have you added?

McReynolds: We haven't added any; you can be sure of that.

H.M.Jr: I'll bet you've added some. Mac, ask Babcock if he wants to spend plus twenty-five today.

McReynolds: Yeah.

H.M.Jr: I'm not a very good boy; I've got a lot of home work, and haven't done any of it. Tell you what - we'll break this log-jam, as part of my home work. We'll break this log-jam. Give me all these confidential things to read, and I don't read them. - (Looking through papers on desk.)

Oliphant: How'd you like to see Cox this Wednesday?

H.M.Jr: What's that?

Oliphant: How'd you like to see Cox this Wednesday - just for lunch, anyway.

H.M.Jr: I'm sorry, I couldn't do that, but if he was down here Thursday I'll promise to see him.

Oliphant: He'll be here.

H.M.Jr: About ten thirty. Mrs. Klotz, am I free?

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Klotz: I beg your pardon.

H.M.Jr: Am I free at ten thirty?

Klotz: Today?

H.M.Jr: No, on Thursday.

(Low conversation with Mrs. Klotz.)

I'll see Cox between eleven and twelve - say tentatively eleven thirty.

(Looking at letters:) Yeah, here's the whole business. I doubt if you've read it, Ros. By golly! He didn't sign it. There it is. That's a letter to go to Mac on the Chicago thing.

O. K.

May 24, 1938

My dear Mr. President:

I am sending you herewith two memoranda.

One is from Miss Lonigan, who spent last week in the field for me investigating unemployment conditions. I think you will find her report very interesting.

Second, I am sending you a report from the Federal Surplus Commodities Corporation, showing how much food they are allocating to Illinois, Michigan and Ohio.

Yours sincerely,

The President,

The White House.

May 24, 1938

My dear Mr. President:

When Mr. Magill and I saw you last, you pointed out that you had three possible courses of action in regard to the tax bill.

We understand that questions are apt to arise as to the exact time at which the bill became law if it is signed or if it is allowed to become law without your signature. We think it would be advisable, therefore, for you to consult the Attorney General as to the several legal question and technicalities which seem to be involved.

Sincerely yours,

The President,

The White House.

May 24, 1938

To: The Secretary

From: Mr. Magill

The Constitution, Article I, section 7, provides:

"....If any Bill shall not be returned by the President within ten Days (Sundays excepted) after it shall have been presented to him, the Same shall be a Law, in like Manner as if he had signed it, unless the Congress by their Adjournment prevent its Return, in which Case it shall not be a Law."

It is my understanding that the President received the Revenue Bill of 1938 on the afternoon of May 16. The best informed opinion which I can get is to the effect that the ten-day period begins to run on Tuesday and ends at midnight on the 10th day thereafter, excluding Sunday. On this construction the Bill would become law at midnight on Friday, May 27, unless the President signed it or vetoed it before that time.

Rm

May 24, 1938.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

The Procurement Division of the Treasury Department has been in charge of all purchases from emergency relief funds since July 1, 1935, under Executive Order No. 7034 signed by the President on May 6 of that year.

From that date up to April 30, 1938, the Procurement Division has purchased supplies, material and equipment to the value of \$610,049,179 from emergency funds. Of this total \$549,094,538 was for the Works Progress Administration.

Field purchases are made through 48 State offices, which operate in close cooperation with the State Administrators of the W.P.A. These State offices are under the direct supervision of the Director of Procurement. These offices were originally established by the transfer of personnel from the purchase departments of the Federal Emergency Relief Administration. Some changes in personnel have been made where inefficiency was discovered. The operation of the State Procurement offices has cost from the start, including personnel, rent, light, heat and all services, \$.0365 per dollar of purchase, which compares more than favorably with the cost of purchasing activities in most commercial fields. In addition to their purchase activities, these State Procurement offices have also had charge of the disposition of surplus W.P.A. materials and have negotiated all leases for space necessary in connection with the W.P.A. program. Discounts on purchases to the amount of \$4,945,014 furnish a clue to the efficiency with which the State offices have been administered.

Regular routine inspections of the State Procurement offices are made by representatives of the inspection force of the Procurement Division. In connection with these inspections, visits are regularly made to the State Administrators, on completion of the inspection, and reports to the Procurement Division fail to note a single instance in which the State Administrator has not expressed his satisfaction with the manner in which the procurement work is being administered and his appreciation of the assistance that is being rendered to the relief program by the State Procurement offices. The Procurement Division has received directly in many instances commendation from officers of the

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Works Progress Administration, particularly for instances of energetic cooperation by the State Procurement offices where material had to be acquired immediately to keep workers employed. It has also received a great number of letters from vendors of materials commending the businesslike procedure in effect.

Concerning the accomplishments of the Procurement Division and the procedure followed, with particular reference to textiles, one of the Assistant Administrators of the Works Progress Administration commented that centralized purchasing through the Procurement Division had eliminated all possibility of charges of graft and favoritism and have relieved the State organizations from the pressure of local interests.

The central offices of the Procurement Division in Washington have made purchases of heavy equipment and of textiles for the Works Progress Administration. These purchases have included 1,740 units of heavy equipment valued at \$2,908,033. These included such items as air compressors, concrete mixers, pumps, tractors, automobiles, trucks and road machinery of various types. It is estimated that a saving of approximately \$236,000 was made by this centralized purchasing as compared to numerous purchases of smaller quantities in the several States.

Since the beginning of the W.P.A. program and up to April 30, 533 proposals have been issued, covering the purchase of 322,699,558 yards of textiles, in quantities varying from three thousand to twenty-two million yards. In addition to these quantities 44 proposals, covering sixty million yards will be issued May 26.

The requisition covering this latest proposed purchase was received by the Procurement Division on Thursday afternoon, May 19. The requisition covers 67 different kinds of cotton textiles for 75 points of distribution country-wide. This requisition resulted from several conferences between representatives of the Procurement Division and the office of the Assistant Administrator of the Works Progress Administration in charge of women's activities. The conferences were solely occupied with working out the details of this large purchase program. The Procurement Division has made every effort to expedite the purchases and has made no suggestion for delay. It can be appreciated that the Procurement Division can not proceed without a requisition and that the preparation of accurate and satisfactory proposals, in the case of so large and diverse an order, requires time. The Procurement Division has concentrated its attention and is engaged in overtime work to produce the proposals and will obtain a contract in the shortest possible time. In addition the Division sent out on May 20th, at the request of the W.P.A., telegraphic bids for 2½ million of the 60 million yards to meet an unexpected urgent need in six States for eight of the fabrics. The average cost of textiles purchased through the Procurement Division from October, 1935, to May, 1938, has been \$.10535 per yard for a total of

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322,599,435 yards of cotton textiles purchased.

Not only has the Procurement Division been commended by representatives of the W.P.A. for the efficient manner in which these textile purchases have been handled, but there has also been favorable comment by textile trade papers and in letters received from many of the manufacturers. It is definitely known that all purchases of textiles have been at a price less than the wholesale market price and a conservative estimate of the result is that the saving to the Government has been in excess of \$4,800,000.

In every requisition submitted to the Procurement Division the date shipment is desired is indicated and there has been no instance in which the date of shipment has not been met. In the case of textiles, in order to assure the highest quality, arrangements have been made with the Quartermaster's Department of the Army for the detail of skilled textile inspectors from the clothing depot in Philadelphia to the factories in which the fabrics are being produced.

There have been many instances in which unforeseeable circumstances have required unusual speed in delivery of goods on order. The Procurement Division in these instances always takes extraordinary steps to obtain early delivery and in many cases manufacturers have been induced to pick up equipment and supplies from various parts of the country and to rush them to the point where they were needed.

While the preparation of specifications is ordinarily a responsibility of the administrative staff of the W.P.A., or other emergency agency, both State Procurement officers and officers of the Procurement Division in Washington frequently consult with the W.P.A. representatives and advise and assist them in the preparation of specifications. There has been throughout the most wholehearted and satisfactory cooperation between the Procurement Division and both the National and State staffs of the W.P.A.

The foregoing should illustrate the more salient advantages of the system of centralized and expert purchasing service through the Procurement Division. It is believed that it would be a most serious mistake to abandon it or modify it in any essential particular.

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TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE May 24, 1938

TO Secretary Morgenthau

FROM Mr. Haas *[Signature]*

Attached are three copies of Miss Lonigan's report covering her recent trip to Cleveland, Toledo and Detroit.

May 23, 1938

To: The Secretary
From: Miss Lonigan *EL*

What happens to relief families in Cleveland when food orders are stopped? The answers are varied.

"Some families manage for a while. It's a challenge. They go back to relatives who give them a little. They get credit at the grocers."

"They take it. But they take it in a way that scares you. They go into their shell."

"The grocers in poor neighborhoods have been closing down their shops. They say they cannot bear to refuse food to the families if they stay open."

"Surplus commodities had to close its local stations because the city had no money. The workers had to stand in line for hours at central stations to get commodities. It was the most awful thing. Sometimes the line was three or four blocks long. It's bad to have unemployed men gathered together for a long time like that. They get ugly. I saw one man take four pounds of butter and I involuntarily asked him how many children he had. He said, 'Nine, and what the hell is that to you.'"

"The gas company is withholding suspensions if the relief agency gets the notice in time. Families do not always know how to make arrangements in time."

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"One family had been within two months of establishing residence in Connecticut, but was sent back under the settlement laws. The man worked at Good Will Industries to get a stove, but had no money to have the gas turned on. We can't decide whether to use their money for cold food, or spend it one week to have the gas turned on."

"Teachers write in that the children stay home from school. City doctors demand emergency food orders."

"In our station the families say at three o'clock, 'I have to go now. If I don't I won't get any food when they throw it away at the market.' The spoiled and unused food is dumped into the street when the market closes. The workers bring baskets and bags and take it home." (This district includes cheap salesmen, little racketeers and the unskilled labor for the steel mills.)

"The worst cases are those that just stand there and cry and cry. They're like dogs that have been whipped so much they don't dare to bark. I'd do anything to put a little fight into them. We thought of going down, a group of us, to President Roosevelt -- not a pressure group or representing anybody but those who knew the families -- and ask him please to restore Federal relief."

There is nothing new in this situation. It has been going on, at intervals, since 1935. Its counterpart can be found in many States.

Sources

I talked with WPA executives, heads of relief agencies, members of the Unemployment Compensation Commission, and officers of the GIO.

The States

The Ohio legislature was convened in special session May 16th to deal with the latest relief crisis. They promptly appointed an investigating committee to study relief chiseling in the cities. The committee was made up chiefly of members from rural counties who were said to be extremely hostile to urban relief. No relief bill can be passed before June first.

At the last relief crisis the Ohio legislature appropriated, in several bills, about \$12,000,000 for state relief for the entire year. The League of Municipalities is asking \$70,000,000 for about half a year. The minimum estimate for Cleveland is about a million dollars a month.

The legislature assumed that the cities would match State funds, but the law provided that levies above the bond limits must be approved by 65 per cent of the population. It is not possible to get such approval. Even families on relief vote against relief levies. They have voted for heavy sales and other taxes which they thought were going to the unemployed. Now they will not vote more, at least not by a 65 per cent vote.

The City

Cleveland has four kinds of aid for the needy. WPA, city relief, surplus commodities, and county aid for transients and unemployables.

WPA had 21,000 workers in Cleveland on December 15th, and 65,000 in mid-May. They had 17,000 applications of certified workers on file, of whom 13,000 were employable. The other 3,500 workers were classified as "employable" by relief authorities but were not able to work on WPA.

WPA has given to Cleveland one of the highest quotas in the United States. Standards of admission to WPA are very much easier than for relief.

~~The State~~ auditor is now insisting that WPA, and not the city, should make the supplemental payments to WPA workers who get extra relief.

The city now has 25,515 families on direct relief. On Monday, the 16th, the City Council of Cleveland made another emergency appropriation of \$75,000. This was sufficient to give 7 day food orders to all relief families. The last previous order had been a 3 day order, given only to families with illness or other critical necessities. Before that there had been no food orders, only surplus commodities. Rents are paid only in case of evictions. Several reductions have been made in food budgets.

For several weeks the only relief funds have been transfers from funds earmarked for sponsors' contributions to WPA. The most recent funds were taken from salaries of street cleaners and other city workers. The street cleaners are near-relief families. They will promptly appear in new relief applications.

Staff workers in relief offices have not been paid since about April 25th. They are borrowing, selling insurance, not paying their rent. In some offices there are no funds for office expenses and the unpaid office workers pay for pencils, paper, paper towels and other conveniences.

Satellite Cities

The Governor of Ohio also obtained last spring a law providing for complete decentralization of relief for employables, on a city instead of a county basis. As a result the metropolitan county of Cuyahoga administers relief through a large number of cities, all in the same industrial zone. In one of the small outlying cities a large manufacturing plant is located. The city has just finished a million dollar school house, with swimming pools and shower baths, and a beautiful new City Hall. It has almost no relief problem. Its unemployed workers live in Cleveland.

Cleveland gets the residual relief load from the surrounding industrial areas, but has as a tax base only property within the corporate limits of the city itself. That is why the relief problem of the cities is incurable.

The County

Under present Ohio law, the county takes care of non-residents and unemployables, "paupers".

A great deal of energy is used by city and county

agencies in deciding who is in charge of whom. This would all be abolished under a county-wide system.

For example, a man disabled by tuberculosis whose cousin gives him a room can get no aid from the county because he is not a pauper. The city can pay no rent to relatives. But if his cousin puts him out and sends him to a cheap rooming house he can get county aid.

Curiously, county aid in Cuyahoga is now far more generous than the city aid. The voters approved a 65 per cent levy for county funds because it was for general administrative expenses, at the same time that they turned down purely relief levies in Cleveland. The county is spending more than its budget on relief. The money is being taken from hospital and other State departments.

About half the total expenditure goes to non-residents, while Cleveland families do not have food.

The county maintains an excellent system of workshops (very much like the Washington Self-Help Exchange) where workers (unemployables) repair county furniture, make clothing, repair shoes, provide barbering, and run the house for homeless men.

Surplus Commodities

With the stoppage of food orders, Surplus Commodities Corporation shipped to Cleveland dry skimmed milk, potatoes, prunes from the coast, and ten carloads of flour, above the regular allotments of rice, beans and peas.

Purchases are limited to officially declared surpluses of the Department of Agriculture. The purchased food is shipped

to the nearest available distributing center, to save transportation cost. Ownership of the commodities stays with FSCC until they are ready for physical distribution.

Physical distribution of surplus commodities is usually a WPA project assigned to an agent of the FSCC. In Cleveland distribution is by the county and city.

Because the city has no money for trucking services (about \$1000 a month) the Corporation had to abolish its retail outlets, and reestablish a bread line. "I saw fomenting in that crowd ideas that might make trouble - It's dangerous to have men in such a state of mind so close together for a long time", said one worker.

Employees have not been paid. The workers have appeared every day for work, worked overtime, and maintained normal discipline.

People interested in surplus commodities think an expansion of commodities is the best possible solution of relief. "The grocery order is dynamite. Grocers made good". Purchase of supplemental foods by the county would provide a balanced budget. (Social workers are bitterly opposed to commodity distribution.)

The value of commodities distributed in Cuyahoga County in 1937 was \$438,000. In the entire State it was \$2,149,770.

The quantity of commodities distributed in Cleveland in April 1938 was:

Apples	34,294 bus.	Potatoes	1,337,380 lbs.
Butter	51,597 lbs.	<u>Rice</u>	<u>5,707 lbs.</u>
Oranges	139,850 lbs.	Value	\$ 75,451.90

Toledo

Toledo is much better off than Cleveland. They have not stopped relief. They borrowed some money from the sinking fund, which Cleveland could not or would not do. They are running on credit. The city is \$300,000 in debt. It does not pay its grocery bills. Wholesalers carry the local grocers. The State auditor in Toledo permits them to spend beyond their assets. The State auditor in Cleveland stops expenditures. This may be part of the Mayor's program.

Toledo is now, however, getting close to the end of its credit. The staff in Toledo is still being paid. School-teachers are still hired at their basic rate, but paid a percentage of their salary.

Landlords raised rents generally in Toledo this March. One specific instance was an increase of 67 per cent. They will not even discuss temporary rent reductions. Tenants in Federal houses are suffering severely. Agents make no allowance for unemployment and will not even wait for WPA checks. When they moved in the tenants had sold their stoves and iceboxes because they didn't need them. They bought new furniture which the installment companies take back. When they are dispossessed they have nothing to move.

HOLC is dispossessing new delinquents, who made their payments until the factories shut down. The workers want the rules on foreclosure to be adjusted locally, instead of having each single case referred to headquarters. Families are using money needed for food to make HOLC payments.

Employment is estimated to have decreased since April. The outlook within industry is extremely unfavorable.

The expected machine-tooling program did not get under way in automobiles. There are rumors that the automobile show will be postponed until January, a change which would postpone revival of employment until the end of the year. (The astounding fact is the total absence of reliable information about the automobile industry, and the consequent power of rumor to affect public feeling.)

Mine workers in the southern counties are on half-time or less. Placements in lake shipping average about 50 per cent of a year ago. Two-thirds of the farm labor in rural counties is on WPA. Farmers are buying machinery to take their place. The WPA wage-rate is about twice the farm labor rate.

The WPA assumes that its "static load" after the next recovery will be twice as high as it was in 1937.

"The New Deal has saved CIO." Two-thirds of the CIO workers are outside the factories. CIO is forming WPA auxiliaries to organize their former members now on WPA. WPA officials are keeping in close touch with CIO local leaders, helping them to understand reasons for WPA policy, giving them aid in meeting problems of relief procedures, and helping them prepare material for relief hearings. CIO members are fully aware of the aid the administration has given them.

Sabotage

There seems to be no question that powerful forces in industry are seeking to prolong unemployment to defeat either the

New Deal or CIO or unemployment compensation or all of them.

"Normal men in industrial circles who used to talk frankly about anything now froth at the mouth -- It's even invaded our homes. We have had to ask our guests not to discuss national politics -- One of my friends went to Ireland for six months. He said he had plenty of time to read the American papers. He even found propaganda in the recipes, remarks about the shortage of foodstuffs or insinuations about high prices."

It is still possible, however, that forces outside of industry may defeat any conscious or unconscious sabotage. Commentators ignore entirely the possible effects of European arms purchases, the American naval program, or the bottom put under deflation by other government spending. They ignore also the fact that Henry Ford may quite suddenly decide to go into volume production. It would not take the others long to follow.

Violence

There are no outward signs of violence today. Under the surface the materials for violence are there, inert, under terrific pressure, safe unless a match sets them off.

In the matter of relief Michigan is in far better shape than Ohio or Illinois because three governors, two Democrats and one Republican, have refused to put politics into relief. If violence comes, the eruption in Michigan will be far worse than in any other State.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE MAY 24 1938

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TO Secretary Morgenthau
FROM Herman Oliphant

Responding to your request in Staff Meeting for suggestions, regardless of one's field of work, my opinion and suggestions are as follows:

There is, first, the problem of restoring a volume of consumption that will reverse the present trend, and then of attacking the fundamental causes that make the pump so difficult to prime and so quick to lose its prime.

I approach the first problem, i.e., quick, emergency measures to reverse the present trend, with the assumption that the situation is going to get much worse, and therefore more drastic remedies than have been considered are required.

I limit my suggestions to things which can be done and done now. Each of the suggestions for immediate action would contribute also to the solution of the second problem of correcting underlying difficulties:

(1) Our Federal excise and social security taxes are deflationary. The President should be given power forthwith to suspend any and all of them, thus leaving in consumers' hands hundreds of millions of dollars which it will take us months otherwise to get into their hands. There has been no recovery except in periods when the total debt, public and private, was expanding. Until the total of private debts turns around and begins to increase, there is no alternative but to increase the total public debt if recovery is to be had.

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(2) The virtual repeal of the undistributed profits tax will be deflationary to an amount that will cancel out all that a revived P. W. A. might hope to accomplish in stimulating production. Such repeal is doubly deflationary, first, since less consumers' funds will go to stockholders, and second, since more corporate earnings will go to pay off corporate debts. I predict this move will be deflationary in the neighborhood of a billion dollars annually. Accordingly, my second suggestion of something practical to do at once is, not to stand on form but, to fight for the veto of the Tax Bill.

(3) Numerous large firms, notably chain drug stores, have put on a campaign to buy goods at lower prices and sell them at lower prices. This effort to secure a larger volume at lower prices should be helped along by calling the heads of these firms to Washington to formulate plans for an immediate, wider adoption of this emergency policy. See the attached chart in this connection.

(4) Straus should be authorized, through Peoples, immediately to give firm orders for the enormous quantities of building materials and supplies which his project will require. They can thus be obtained at great savings and their manufacture can start at once and be used as fill-in orders. The Government should take this inventory risk, writing off as a loss any overbuying, which loss will be more than counter-balanced by the savings in price.

(5) The Cabinet should be reorganized to get quicker and better coordinated action. Any suggestion of a steering or coordinating

committee is tantamount to the suggestion of reorganizing the Cabinet and will be no more successful than Walker was as head of the National Emergency Council, or than Richberg as "Deputy President."

—oOo—

Turning now to the second problem, namely, the underlying causes that make the pump so difficult to prime and so quick to lose its prime, there are two fields in which activity promises most:

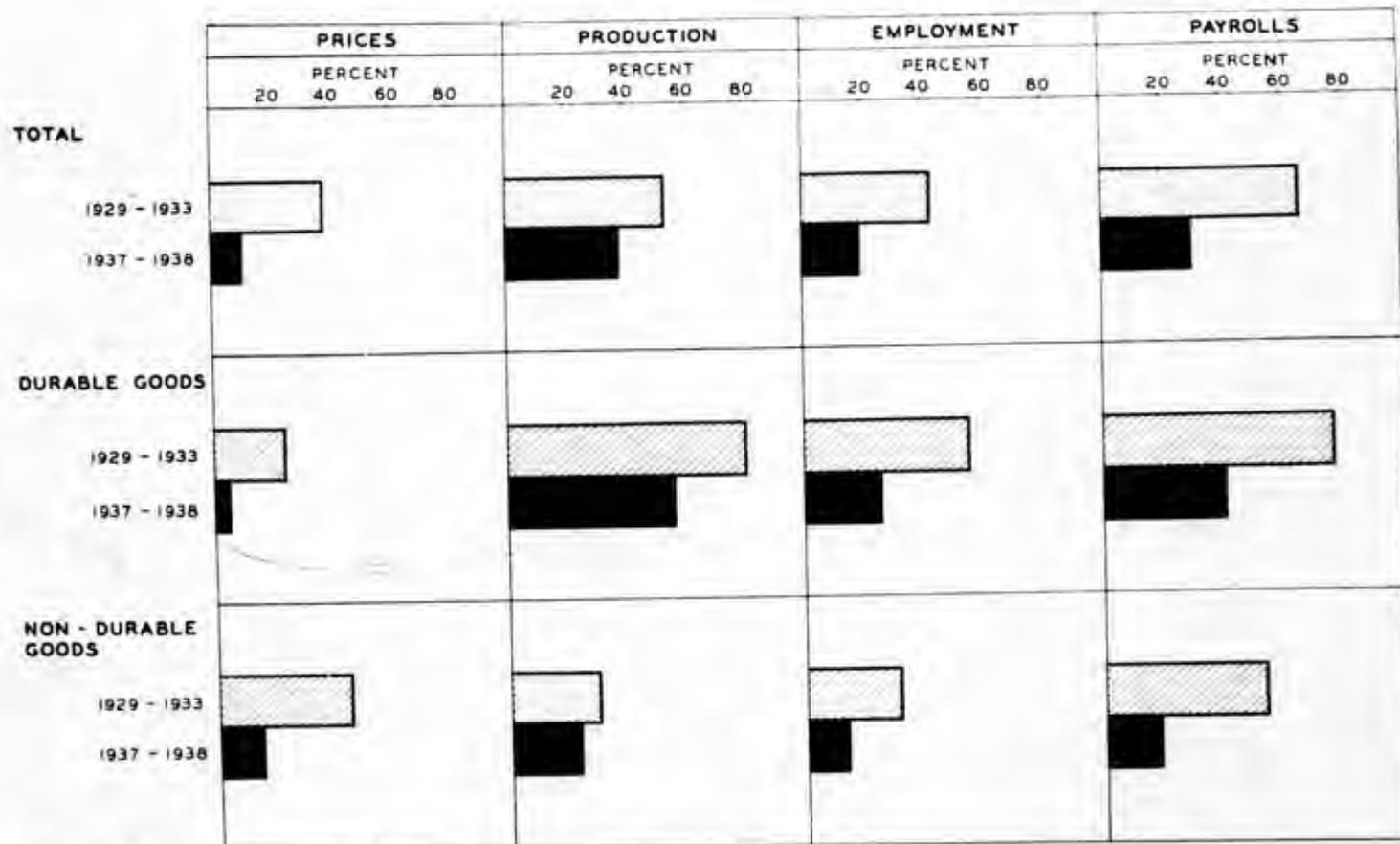
(1) Continuance and enlargement of present efforts to get monopoly prices down so that the goods so priced will exchange more freely with goods subject to competition. This is the most practical and promising attack on the most important areas of unemployment.

(2) Measures to increase the amount of the total, annual, dollar product of trade and industry which flows back into consumption. Among the most effective measures for this purpose are lower consumption taxes, higher death taxes, higher taxes on the larger incomes, and taxes to decrease sterile accumulation of funds by corporations.

Herbert Hoover

Attachment

DECLINES IN PRICES, PRODUCTION, EMPLOYMENT, AND PAYROLLS
 IN DURABLE AND NON-DURABLE GOODS INDUSTRIES
 1929-1933 AND 1937-1938



SOURCES - PRICES - NATIONAL BUREAU OF ECONOMICS
 PRODUCTION - FEDERAL RESERVE BOARD
 EMPLOYMENT - FEDERAL RESERVE BOARD
 PAYROLLS - BUREAU OF LABOR STATISTICS

NOTE - COMPARISONS MADE OF HIGH INDEXES IN 1929 TO LOW INDEXES IN 1933 OR 1932
 AND HIGH INDEXES IN 1937 TO FEBRUARY 1938.

WORKS PROGRESS ADMINISTRATION 2830

Prepared by: Lawrence H. Seltzer,
Assistant Director of. 77
Research and Statistics;
Assisted by: Henry C. Murphy, and
Sidney G. Tickton.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 24, 1938

TO Secretary Morgenthau
FROM Mr. Hass
Subject: June Financing: Preliminary

In some respects the June financing is like the new five-euit bridge deck: There are more than the usual number of cards, combinations, and choices. The more debatable alternatives are discussed below:

I

Shall we offer to refund the September note maturity along with the June note maturity, thereby increasing the June refunding operation to \$1,214 millions, but making possible the elimination of a September financing operation?

Pros

(a) The market is now in a very favorable condition to receive a large Treasury financing. There is a very strong demand for Treasury notes and bonds. We could not confidently expect this background to be greatly better in September; whereas, it is easily conceivable that it might be significantly worse. For one reason or another, three of the last four September financings have faced unfavorable market conditions.

(b) The green signal could be given to the private capital markets for the next six months if the expanded refunding offering were accompanied by an announcement that the Treasury would conduct no other major financing operation until December 15.

Cons

(a) There is no urgent reason to anticipate the September note maturity. The technical basis will exist for at least as high a market in September as in June, since excess reserves will probably rise above their present level by something in the neighborhood of one billion dollars by mid-September.

Secretary Morgenthau - 2

(b) Unless carefully explained as a matter of financing convenience, and coupled with an announcement that no financing would be conducted in September, the anticipation of the September maturity by three months might give rise to unfavorable rumors. That is, in the absence of specific explanations, speculators and rumormongers would be stimulated to manufacture their own, which might run in terms of the bad things anticipated in Washington by late summer.

(c) The large amount involved if the September maturity is anticipated would make advisable a joint offering of notes and bonds. Such an offering might result in subscriptions overwhelmingly concentrated for one or the other security. If the concentration favored the bonds, complaint would be made because of the reduction of \$1,000 millions or so in the supply of short-term investments, on top of the current program of bill redemptions. If the bulk of subscriptions were for the notes, on the other hand, unfavorable comment would doubtless result.

The relative pricing would, of course, be highly influential in determining concentration. It may be noted that in the financing of last December, \$247 millions of the maturing notes were turned in for bonds and only \$13 millions for new notes.

If notes are offered jointly with a long-term -- say 25 years -- rather than a medium-term bond issue, the chances would be greatly improved for a more equal division of the subscriptions.

(d) If an attractive but uniform offer is made to the holders of both the June and September notes, the value of the offer to the latter would be about 20/32nds smaller than to the former. That is, the September note holders would have to give up the right to 2½ percent interest for three months, which amounts to 20/32nds; whereas the market rate of interest on Treasury paper of three months' maturity is less than 1/32nd at this time.

Secretary Morgenthau - 3

It must also be noted that the minimum premium needed to assure the success of the refunding so far as the September note holders are concerned would be 19/32nds to 20/32nds, for the same reason. If a security commanding a premium of one point were offered, the effective premium to the holders of the September notes would be only 12/32nds.

An interest adjustment in favor of the September notes, in addition to a liberal apparent premium, might conceivably be necessary therefore.

II

Shall we pay off in cash either the June or September note maturity?

Pros

(a) This would permit a more rapid utilization of desterilized gold, and, therefore, a more rapid creation of additional excess reserves.

(b) If used in September, it would eliminate the necessity for a September financing; with the advantages previously cited.

Cons

(a) The funds disbursed would probably have to be reborrowed before the December financing; and this would mean, in effect, the substitution of additional bills for the redeemed note issue. It would appear wiser to reserve our ability to issue bills for new money requirements; and to utilize the present opportunity to refund both maturing notes into five-year or longer obligations.

(b) The cash redemption, without preferential refunding subscription rights, of either note issue would come as a shock to the Treasury note market and would cause a downward adjustment in the market prices of Treasury notes. Significant losses would be inflicted in arbitrary fashion upon holders of Treasury notes, those holding the nearer-term maturities probably suffering most.

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III

Shall new money be raised in June?

Pros

(a) In view of the virtual certainty that Congress will enact a large spending-lending program by June 15 or soon thereafter, it may be argued that the Treasury should take advantage of the present favorable market to raise a portion of the needed funds.

(b) In March and June, 1939, the Treasury faces note maturities of \$942 millions and \$1,294 millions, respectively, at a time when its cash requirements may be near their peak for the current recovery program, and when conceivably the market may be unfavorable. It would be prudent, therefore, to get into a position to avoid the necessity of raising large amounts of new money in conjunction with the March and June refundings.

(c) The banking system would benefit by the increased supply of Treasury obligations, particularly if short-term obligations were included; and the increased supply would tend to restrain market prices from rising unduly.

Cons

(a) Without raising any new money, the Treasury's working balance at the end of June is estimated at more than \$1,500 millions. This is after allowing for cash redemptions of Treasury bills amounting to \$50 millions weekly up to June 15 and \$250 millions in the succeeding three days. In other words, no new money is needed, judged by any ordinary standards.

(b) The sale of interest-bearing securities to increase such an abnormally high working balance might well occasion unfavorable comment. In addition, the monetary and banking effects would be in sharp contrast with the objectives of the current bill retirement program. That is, the raising of new cash at this time

Secretary Morgenthau - 5

would slow down the disbursement of the recently deesterilized gold, thereby slowing down the increases in the total reserves of member banks and in their excess reserves.

(c) Our December note maturity is relatively small -- \$433 millions; and some new money could conveniently be raised in conjunction with the refunding of this issue.

(d) In addition, a billion dollars or more of new money could be raised either before or after the December financing, through Treasury bills. The market would welcome an increase in the volume of outstanding bill issues. The present volume will have been reduced by June 18, to \$1,150 millions -- the lowest since 1933. As recently as September 14, 1937, our bill volume amounted to \$2,750 millions, and it amounted to \$2,400 millions on December 9, 1937.

IV

Relative advantages and disadvantages of short-, medium-, and long-term obligations for use in June refunding operations.

A. Short-term: 1-1/8 percent 5-year note. Probable premium, 27/32.

Pros

(1) Such an issue would be greatly in demand by banks, whose need for short-term investments is being accentuated by the reduction currently being made in the volume of outstanding Treasury bills and in the volume of commercial loans. Thus, the issue would satisfy an undeniable banking need.

(2) The Treasury would obtain 5-year money at the lowest interest rate on record, the previous record being 1 1/2 percent.

(3) The refunding would not cause any contraction in the aggregate volume of bank deposits. Virtually all banks holding the maturing notes could be expected to subscribe for and retain new notes offered in exchange.

Secretary Morgenthau - 6

If, in contrast, bonds are offered in exchange for the maturing notes, some banks, though subscribing for the bonds initially, are likely to sell them soon after; and to the extent that the purchasers are not commercial banks, a reduction in the aggregate volume of bank deposits will result -- all other things being equal.

The latest call report for member banks of the Federal Reserve System shows that between December 31, 1937 and March 7, 1938, there was a reduction of \$780 millions in total member bank deposits, exclusive of inter-bank deposits. This reduction followed a decline of about \$1,100 millions of such deposits during the calendar year 1937. Bank deposits constitute the major part of the cash resources of business enterprises; and a continued decline in their total volume would be a restrictive influence upon business recovery, all other things being equal.

It may be observed, however, that this consideration is of lesser importance today than it was prior to the Treasury decision to desterilize gold and the Reserve Board's reduction in reserve requirements, for the effect of these actions should be to stimulate banks to increase their total of loans and investments and, therefore, aggregate bank deposits.

Cons

(1) During the five years beginning June 1, 1938, the Treasury will face bond, note, and bill maturities aggregating more than \$13 billions, exclusive of special issues to Government agencies and trust funds. A balanced Federal budget is not yet in sight and the new spending-and-lending program is not yet under way. This means that the Treasury will be in the market for large amounts of new money for some time to come. Since it is always easier to borrow for short periods than for long periods, prudence requires that favorable opportunities be utilized to curtail the short-term debt in order that a large market be retained for the use of short-term obligations in times of market strain.

Secretary Morgenthau - 7

B. Medium-term: 2-1/2 percent bonds of 1949-1953 -- additional issue. Premium on basis of present market price, 1-19/32.

• Pros

(1) The maturity of this issue is about as long as a 2-1/2 coupon will safely take in this market. A shorter-term bond issue, on the other hand, would be a waste of good ammunition and would further crowd an already overcrowded section of our debt structure.

(2) A new issue with approximately the same maturity and call date as the outstanding issue, such as a 1950-53, would have no apparent advantage over an addition to the outstanding issue. Our medium-term maturities already include numerous issues with overlapping call periods.

(3) The fact that the market price on the outstanding issue is definitely known and incorporates a substantial premium is a distinct advantage, inasmuch as such a premium doubtless appears more real to many prospective subscribers than the hypothetical premium of a new issue. Further, the present market price of the 2-1/2's of 1949-53 is such as to afford an ample cushion against any probable price declines resulting from an additional offering of these bonds.

Cons

(1) No medium-term bond issue would improve the balance of our debt structure nearly as much as would a long-term issue. Our bond maturities between June 30, 1943 and December 31, 1954 already amount to \$16 billions, or 46.6 percent of the entire interest-bearing public debt, exclusive of special issues. Existing maturities after December 31, 1954 are now less than \$5 billions, and constitute only 14.3 percent of the total interest-bearing public debt, exclusive of special issues.

It is interesting to contrast our debt structure with that of England in respect to final maturities.

Secretary Morgenthau - 8

Final Maturity of the Direct Public Debt of the
United States and the United Kingdom

	United States		United Kingdom	
	May 31, 1938		March 31, 1938	
	Amount	Percent	Amount ^{1/}	Percent
	(Billions	of total	(Billions	of total
	of dollars)		of dollars)	
Amount maturing by June 30, 1943	13.4	39.1	5.7	16.1
Amount maturing between June 30, 1943 and December 31, 1954	16.0	46.6	5.8	16.3
Amount maturing after December 31, 1954 ^{2/} ..	<u>4.9</u>	<u>14.3</u>	<u>24.0</u>	<u>67.6</u>
Total ^{3/}	<u>34.3</u>	<u>100.0</u>	<u>35.5</u>	<u>100.0</u>

^{1/} Converted at \$5 to the pound.

^{2/} Includes, in the case of the United Kingdom, \$16.8 billions of obligations for which there is no fixed maturity.

^{3/} Excludes noninterest-bearing public debt and special issues to governmental agencies and trust funds in the case of the United States; and interallied debts in the case of the United Kingdom.

It may also be noted that the average term from the present time to final maturity of the corporation bonds comprising Moody's index of high-grade bond yields is 32 years -- the average maturity being in 1970.

(2) The 2-1/2's of 1949-53, which were issued less than three months before the drastic bond market decline of March 1937, were the first of the Treasury bonds to go below par during this decline, and they stayed under par longest and went to the biggest discount.

Secretary Morgenthau - 9

On a yield basis, however, whether above or below par, they have normally done better -- sold on a lower yield basis -- than roughly comparable maturities.

(3) It may be contended that the 2-1/2's of 1949-53 already constitute a sufficiently large issue -- \$1,786 millions -- and that the addition of \$600 millions or more would make the issue unwieldy. The force of this objection, though meriting consideration, is tempered by the fact that during the four-year call period there will be sixteen regular financing dates, other than the final maturity date, on any of which part or all of the issue may be refinanced. It may also be noted that the 2-7/8's of 1955-60 are outstanding in the amount of \$2,611 millions.

(4) Any Treasury bond issue will tend to absorb some funds that might otherwise be made available for private industry.

(5) Since the issue does not mature for 15-1/2 years, it harbors significant risk of price depreciation, a factor of special importance to banks.

C. Long-Term: 2-3/4 percent bonds of 1953-63 (15-25 years). Probable premium: 1-7/32.

Pros

(1) As was indicated by the figures cited in the preceding section, our public debt would be more manageable in the future if the absolute and relative proportions of the long-term debt were increased at the expense of both the medium- and short-term debt.

(2) This manageability would be further enhanced if our bond issues generally provided for extended call periods, such as that in the suggested issue. In the present market, this advantage can be obtained by the Treasury at no apparent cost.

Secretary Morgenthau - 10

(3) The proposed issue would have the longest maturity of any ever provided in an ordinary Treasury bond carrying a coupon rate as low as 2-3/4 percent.

(4) If a note issue is to be offered optionally with a bond issue, a long-term bond is more suitable than a medium-term bond.

(5) The present offers a favorable opportunity to float a long-term issue: Opportunities are far more frequent to float shorter-term issues.

Cons

(1) A 25-year bond issue is not well calculated to satisfy the needs of banks. The longer the term of a bond, the greater its vulnerability to price depreciation in the event of higher interest rates.

(2) The coupon rate of interest would be 1/4 of 1 percent higher than on a medium-term bond.

(3) Any Treasury bond issue will tend to absorb some funds that might otherwise be made available for private industry.

V. Tentative Recommendations

(1) Our tentative first choice would be:

(a) Offer to refund the September as well as the June notes.

(b) Make a joint offering of 2-3/4 percent 15-25-year bonds and 1-1/8 percent 5-year notes to the holders of the maturing issues only.

(c) An interest adjustment of between 1/4 and 1/2 point to the September note holders would make the refunding offer of more nearly equal attractiveness to the holders of the June and September notes.

(2) Our second choice would be as above except for the substitution of the outstanding 2-1/2's of 1949-53 for the 15-25-year bond.

May 24, 1938

The Secretary had as luncheon guests Mr. Eccles, Mr. Ransom, Mr. Taylor and Mr. Upham.

Mr. Morgenthau told Mr. Eccles and Mr. Ransom what his tentative ideas are with respect to financing in June and asked them to be thinking it over between now and Tuesday, the 31st of May, when the Executive Committee of the Open Market Committee will be here.

He said that what he would like to do is to issue a $2\frac{1}{2}$ per cent bond but he is afraid that if he does and if we run into difficulties and they drop below par, all of our vacations will be disturbed by frantic long-distance telephone calls about what to do. He is thinking at present of offering in June to the holders of bonds of the June and September maturities an option of a five-year note at $1\frac{1}{8}$ and a 15-25 year bond at $2\frac{3}{4}$. He feels that the chances are the bonds will go to insurance companies and other institutional investors rather than to banks. This will leave September free for a cash offering and he would be inclined to pick up a substantial amount of cash then whether we need it or not. In December he

- 2 -

would offer to refinance the December and March maturities, leaving March free for another substantial cash offering, which will undoubtedly be needed because the spending program will by that time have begun to take hold.

The Secretary said that he will pay off tax bills in June and continue after that to roll over \$5 million of bills a week. Mr. Eccles said that they hold about \$450 million of the \$750 million bills outstanding which will be retired and that he does not see how the system can replace maturities. So far, they have been replacing maturing bills by buying other bills at a negative yield, but he does not see how they can continue. He would like to see some bills rather than a note. Mr. Taylor, too, said that he would continue to reiterate that what this market needs is more bills. Mr. Ransom, too, spoke of the need for more short-term securities. Mr. Eccles said not only did he think the market needed more bills but that the Federal Reserve portfolio needs a higher percentage of short-term securities than it will have.

Mr. Morgenthau asked Mr. Eccles if he thought letting their portfolio go down would really cause any difficulty and observed that he thought it might be interesting if

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their portfolio went off and business picked up. Mr. Eccles was inclined to think there would be no great harm from now on in permitting their portfolio to fall off and thought it would not be interpreted as sabotaging the President's program. He was very pessimistic about any pick-up in business, as was the Secretary who reported that the outside statisticians who had conferred here saw no such prospect.

Mr. Morgenthau related his successful efforts to get bread added to the list of commodities which the Federal Surplus Commodities Corporation is distributing to relief clients, and his unsuccessful effort to get milk included.

He said that it ought to be possible for the Federal Government to buy up surplus wheat and cotton, for instance, and give them to the manufacturers for processing, accepting them back in the form of bread and clothing, so that people can have more to eat and more to wear with additional labor being provided as well. Mr. Eccles was inclined to think it would be better to give cash to the relief clients, observing that that if you were going to

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have a money economy, you want to use money rather than substitutes. He was inclined to think that what relief clients needed was a greater diversity of food, a more balanced diet with more fruits, vegetables and poultry. He seems to think they have enough potatoes, bread, beans, et al. Asked by Mr. Morgenthau if he belonged to the scarcity school, Mr. Eccles said that he did not but that sort of philosophy had been forced upon us by the pressure of events--by the loss of foreign markets, by the tariff, by rigid wages, etc. He gave his philosophy of compensatory action by the Government to offset the ill effects of oversaving and expressed his views in favor of a real undistributed profits tax. He referred to the fact that the taxes taken out of business by Italy, Germany, England and Sweden, particularly the top half of business, are much higher than in this country; to which Mr. Ransom stated that the American people would never favor such high taxes; to which Mr. Morgenthau added the further comment "Fortunately."

Mr. Eccles said that nothing that is being done now will bring recovery--that pump-priming, if in sufficient volume and quantity, will bring a brief and fictitious

- 5 -

turnover of business but that something must be done fundamentally about railroads and utilities and labor if we are to have a sustained prosperity. He favors ownership of the railroads and either owning utilities or not competing with them. Mr. Morgenthau referred to the fact that we are subsidizing municipal governments in order to provide projects for work relief.

Mr. Morgenthau asked Mr. Eccles what the Federal Advisory Council had recommended, and Mr. Eccles said they didn't recommend much of anything, that they were just a bunch of bankers who couldn't see beyond the doors of their own institutions. They were like other business men--they can't grasp the necessities of the national interest as a whole. He passed the ball to Mr. Ransom who told pretty much in detail what the Federal Advisory Council had discussed, and at Mr. Morgenthau's request promised to send a copy of the memorandum to Mr. Upham. As outlined by Mr. Ransom, the memorandum approved a change in name of the slow column but wanted the column retained, totaled and recapitulated. The Council apparently deplored the reliance by the Comptroller upon rating agencies for qualification of investment securities for purchase by banks.

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Mr. Eccles urged the view that there was no necessity for appointing a Comptroller at this time--that the whole situation better be left as it is until some kind of agency unification can be brought about.

Upm

CA

Gray

TOKYO

Dated May 24, 1938

Rec'd 5:30 a.m.

Secretary of State

Washington

329, May 24, 5 p.m.

CONFIDENTIAL

Bank of Japan has informed the Commercial Attache
that gold valued at 20,000,000 yen will be shipped from
Kobe on May 25 per steamship HOKURIKU MARU.

GREW

CA

RECEIVED

MAY 25 1938

U.S. DEPARTMENT OF STATE

WASHINGTON, D.C.

TREASURY DEPARTMENT

95

INTER OFFICE COMMUNICATION

DATE MAY 24 1938

TO Secretary Morgenthau

FROM Herman Oliphant

For your information -

On reading the minutes of your conversation with some of the cement people, the following observations, which may be merely confirmatory of your own impressions, occur to me:

Cement for the Government was never considered as "dealer business" prior to 1935, when the dealers and manufacturers undertook by agreement of doubtful legality arbitrarily to divide the Government cement business between themselves. It is perfectly clear that the cement we are trying to buy under the new form of invitation does not require "dealer service", and is "dealer business" only if we accept as legitimate the manufacturer-dealer allocation of business. Anyway, whether we need or want "dealer service" in connection with each cement purchase is our problem, and it seems presumptuous for the cement companies to take the position that they should decide it for us.

There are only two reasons that I know of for giving cement companies information as to the destination of the cement we buy:

- (1) To enable the companies to arrive at identical prices by means of the basing point formula. It is just nonsense to take the position, as some companies apparently do, that it is necessary to know the destination in order to bid competitively.
- (2) To enable the companies to determine whether it is "dealer business" within the purview of the arbitrary agreement between the companies and the dealers. It has nothing to do with "dealer service", and to accept it as a valid reason is to concede the right of the manufacturers and dealers to make such an agreement.

It appears to me that the "dealer" argument is being used as a smoke screen argument to protect the monopoly price structure in the industry. I am reliably informed that the cement manufacturers exercise control over their dealers to the extent of letting them keep on hand only very small quantities, except for particular jobs which the dealers must name. This policy has the avowed purpose of keeping "free" cement off the market, since possession of large stocks of free cement in the hands of dealers would constitute a threat to the rigid price structure which the industry constantly fights to maintain.

Herman Oliphant

FEDERAL HOUSING ADMINISTRATION
MEMORANDUM

May 24, 1938

DATE

TO: Miss Chauncey

FROM: Mrs. Hart

SUBJECT: FIGURES FOR WEEK ENDING MAY 21, 1938

	Week Ending May 21, 1938		Corresponding Week Last Year 1937	
	Number	Amount	Number	Amount
<u>FOR THE WEEK:</u>				
Mortgages Selected	4,906	\$22,991,478	3,004	\$12,718,385
Mortgages Accepted	3,469	15,360,400	2,625	10,618,660
Premium Paying Mortgages	1,584	6,918,000	2,072	8,758,875
Property Improvement Loans (Amended February, 1938)	7,798	3,855,279		
<u>CUMULATIVE:</u>				
Mortgages Selected	411,208	\$1,728,438,540		
Mortgages Accepted	303,557	1,243,282,608		
Premium Paying Mortgages	231,365	950,425,067		
Property Improvement Loans (Amended February, 1938)	61,691	29,224,237		

Note: Under original Title I (expired April 1, 1937) 1,450,860 modernization notes were insured amounting to \$560,603,240

18085

EMPLOYMENT ON WPA PROJECTS, BY STATE
UNITED STATES AND TERRITORIES

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Weeks Ending May 21 and May 14, 1938

(Partially Estimated - Subject to Revision)

State	Number of Persons Employed		Increase (+) or Decrease (-)
	Week Ending May 21, 1938	Week Ending May 14, 1938	
GRAND TOTAL	2,652,215	2,627,370 A/	+ 24,845
CONTINENTAL UNITED STATES	2,650,475	2,625,558 A/	+ 24,917
Alabama	41,288	41,484	- 196
Arizona	9,715	9,765	- 50
Arkansas	36,086	35,690	+ 396
California - Total	95,239	94,202	+ 1,037
Northern	50,517	49,187	+ 1,330
Southern	44,722	45,015	- 293
Colorado	28,168	28,407	- 239
Connecticut	22,950	22,581	+ 369
Delaware	3,205	3,278	- 73
District of Columbia	8,192	8,099	+ 93
Florida	34,517	33,628	+ 889
Georgia	44,818	44,024 A/	+ 794
Idaho	9,768	10,509	- 741
Illinois	213,603	212,081	+ 1,522
Indiana	92,993	92,846	- 147
Iowa	33,534	33,806	- 272
Kansas	35,945	36,117	- 172
Kentucky	50,445	59,103	+ 8,658
Louisiana	31,816	31,578	+ 238
Maine	7,948	7,892	+ 56
Maryland	12,501	12,329	+ 172
Massachusetts	105,833	105,097	- 736
Michigan	169,304	161,855	+ 7,449
Minnesota	62,205	61,314	+ 891
Mississippi	33,566	33,039	+ 527
Missouri	95,959	94,080	+ 1,879
Montana	19,375	19,428	- 53
Nebraska	29,378	29,241	+ 137
Nevada	2,234	2,235	- 1
New Hampshire	8,288	8,276	+ 12
New Jersey	90,402	90,748	- 346
New Mexico	9,955	10,021	- 66
New York City	162,695	162,080	+ 615
New York (Excl. N.Y.C.)	56,054	55,699	+ 355
North Carolina	36,724	34,254	+ 2,470
North Dakota	13,040	13,048	- 8
Ohio	235,593	234,129	+ 1,464
Oklahoma	55,338	55,299	+ 39
Oregon	15,978	17,042	- 1,064
Pennsylvania	239,376	235,411	+ 3,965
Rhode Island	14,217	13,957	+ 260
South Carolina	33,558	32,740	+ 818
South Dakota	15,482	15,265	+ 217
Tennessee	32,428	32,468	- 40
Texas	80,810	81,348	- 538
Utah	10,157	10,151	+ 6
Vermont	4,950	4,968	- 18
Virginia	23,121	23,020	+ 101
Washington	44,126	43,869	+ 257
West Virginia	42,986	43,090	- 104
Wisconsin	71,672	71,524 A/	+ 148
Wyoming	4,380	4,445	- 65
Hawaii	1,740	1,812	- 72

A/ Revised.

May 25, 1938

Mr. Stettinius came in to see the Secretary at 9:15 today.

He stated that he had tried very hard to break the log-jam on the cement bidding, but that he had failed. He handed the Secretary a memorandum (attached hereto) which gives numerous reasons why the cement companies are not able to bid f.o.b. mill. He said that the price question brings up the question of wages and hours; that prices cannot be cut without cutting wages, and at the present time they are only working 12 hours a week. To this Mr. Morgenthau replied, "The wages and hour question of course is up to the President."

The Secretary said that there must be a middle ground on which this question could be solved and that he would ask the President whether he would be willing to give Mr. Stettinius, Mr. Fairless and himself an evening sometime very soon to discuss the whole question.

Mr. Stettinius called the Secretary's attention to the fact that back in 1933 when he was with the N.R.A. he knew that the President wanted to buy cement f.o.b. mill, but was not able to do anything at that time.

Mr. Stettinius stated that if the steel industry wanted to cooperate with the Government at any time, it was at this time, but that the basing point system of pricing cement had grown up over a period of 30 years and that it was impossible to change this system at this time without great danger to the industry.

Mr. Morgenthau asked Mr. Stettinius whether he thought that business had hit bottom or whether it would continue to go any lower. Mr. Stettinius' reply was that he thought business would continue to drop. He said that their production for the month of May had dropped considerably below that for April. However, he pointed out one encouraging fact. He said in 1933 their business went down to a 15% production. Now it is running 30% production. The difference between what it is running now and what it was in 1933 is due to their miscellaneous business

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because they are getting no business from railroads, public utilities and automobiles.

HM, Jr thanked Mr. Stettinius for his splendid cooperation and said he would get in touch with him after he had talked to the President.

MEMORANDUM

Following the conference on May 20, 1938 between Secretary Morgenthau, Admiral Peoples, and Mr. McReynolds, representing the United States, and Mr. Stettinius, and Mr. Smith, representing the Universal Atlas Cement Company, a careful effort has been made by the Universal Atlas to see if there is any way in which bids to the Government for cement purchases can be made which would insure the receipt by the Government of non-identical bids.

At the above conference it was apparently the opinion of the Government's representatives that if the cement companies would bid fob mill, then the Government would get variant destination costs, which would enable it to make an award to a lowest bidder. We have therefore carefully considered what would be the results of bidding fob mill, and we make the following comments:

If bids are made fob mill, such bids may be of two kinds:
I. Inflexible, that is, where the unit price for a barrel of cement is the same, irrespective of where the cement is to be taken for use; and
II. Flexible, that is, where the unit price for a barrel of cement varies, depending on the place where the cement is to be used.

I.

The objections to inflexible fob mill bids are as follows:

1. Inflexible bids will result in a monopoly to the bidder in a limited district immediately adjacent to the bidder's mill. The reason for this is that the total cost to the Government at destination within such limited area would be lowest by purchasing from such mill.
2. Such a monopolistic territory would inevitably tend to result in higher prices within such monopolistic zone (the geographical limits of such zone obviously depending, of course, on the distance away, freight-wise, of other mills).
3. A mill selling at inflexible fob mill prices would not be able to sell cement for use beyond its monopolistic zone because when it went beyond the zone, total delivery cost to the Government from some other mill outside the zone would be lower.
4. The result of the foregoing objections would be that a mill would prosper only at such times as there was a large consumption in its monopolistic zone and it would suffer seriously and perhaps fail during periods of lean consumption in that zone.

5. The monopolistic zones around many mills which would be created by inflexible fob mill prices are not areas where much cement is consumed and many mills having a practice of selling at inflexible fob mill prices would be threatened with serious injury. The only way mills at such a disadvantage could continue to survive would be by drastically reducing their fob mill price below the fob mill price of competitors outside their zones. There is no assurance that such a reduction would continue to secure business, as the competing mills would probably reduce similarly their fob mill prices. Thus the mills first making the reduction would have gained nothing - they would be in the same position they were in before they made the reduction.

6. The destruction of invested capital in mills thus located and the reduction of employment would be serious public evils.

7. There are some places where a number of competing mills are built practically at the same location and have the same freight rates to outside points. Obviously, in such cases the prices which would be bid by them would become uniform.

II.

The objections to flexible or varying fob mill prices are as follows:

1. The making of varying prices fob mill, depending on where the cement is to be used would probably be illegal under the Patman Act, at least as far as commercial buyers are concerned.

2. A single Government purchase of cement for use at several points, upon which the manufacturer bid different fob mill prices per unit, would almost certainly be criticised. The contention would be that all of the cement should be sold at the lowest unit price named.

3. Buyers of cement, both Government and commercial, buy cement from the bidder whose bid, plus transportation costs to point of delivery, results in the lowest total delivered cost to the buyer. Thus, competition among sellers actually takes place at the point of use and not at the mills of the sellers. Since no buyer will pay one cent per barrel more for one brand of cement than for any other brand, any seller wishing to obtain an order must learn, if he can, what is likely to be the lowest total delivered cost to a buyer from any seller, and the seller wishing to participate in the business must at least equal or go below the total delivered cost which he discovers or believes will result from any competitors' bids. Therefore, flexible fob mill prices will result in bidders striving to equal or to go below the total delivered costs of competing bidders. Thus, it is clear that the tendency of flexible fob mill prices will be to produce the same results as under the present system of bidding a total delivered price. The Government can no more expect to receive

varying total delivered costs if flexible fob mill prices are bid than it can under the present system of bidding delivered prices. Thus, the same difficulty which the Government now finds, to-wit, that there is no lowest bidder, will not be eliminated to any greater extent than when delivered prices are bid.

III.

THE BIDDING OF DELIVERED PRICES IS JUSTIFIED.

1. Both commercial and governmental buyers insist on making awards on the basis of total destination costs, thus forcing the competition among the bidders to be at the point of use. Prices should compete at the point of awards.
2. Bidding destination prices permits manufacturers to compete with each other without restriction,—a bidder in any locality can compete with any other cement manufacturer in any other locality. This inevitably tends toward lower prices to buyers. In fact, this result of unrestricted and unlimited competition is the very thing which brings prices eventually to a uniformity.
3. Delivered prices have not resulted in undue profits to the industry. In fact, over a period of many years the industry has made little or no profits and in several recent years it has sustained heavy losses.
4. Bidding delivered prices is the result of many years' experience and is the direct result of the fact that all mills anywhere are free to compete with all other mills anywhere and the further fact that buyers have always insisted on basing their awards upon total destination costs. To change to fob mill bidding, either flexible or inflexible, will disrupt a long-established method of doing business without there being any apparent advantages from the change either to the Government or to commercial buyers.

IV.

WHAT WILL BE THE RESULT OF UNIVERSAL ATLAS BIDDING LOWER DESTINATION PRICES TO THE GOVERNMENT THAN IT ANTICIPATES WILL BE BID BY OTHER MANUFACTURERS?

1. The experience in the industry shows that persistent price cutting at destination results in all other manufacturers reducing their prices to meet such cuts when subsequent invitations are made. The result is a lower price level, often resulting in price wars and chaos in the industry. Self-restraint thus prevents intelligent manufacturers from consistently cutting prices below competitors' bids.

V.

WHAT WOULD BE THE RESULT OF UNIVERSAL ATLAS
BIDDING F.O.B. MILL BUT AT VARYING PRICES?

1. If the bids of Universal Atlas persistently result in lower destination costs than the destination costs resulting from bids of its competitors, then experience shows that the bidders will reduce their bids in subsequent invitations to meet such lower destination costs. The result again is a lower price level, price wars, and chaos.

2. If Universal Atlas bids varying fob mill prices but so that the total destination cost under its bids will prove to be higher than the total of destination costs from competitors, then the result will be that Universal Atlas will merely be out of consideration, with the probability that all bids of other competitors will result in identical destination costs, lower, however, than Universal's.

VI.

WHAT WOULD BE THE RESULT OF UNIVERSAL ATLAS
BIDDING AN INFLEXIBLE F.O.B. MILL PRICE?

1. Universal Atlas will be out of consideration except in zones immediately surrounding its plants, where the total destination costs resulting from such fob mill price prove to be lower than total destination costs resulting from fob mill prices of other bidders.

2. Universal Atlas will not be in a position to compete for business remote from its mills.

3. Investment in some of Universal Atlas mills will be jeopardized.

4. Employment at such mills will be jeopardized.

May 24, 1938

PRICES IN THE CEMENT INDUSTRY

It is the purpose of this memorandum to explain the prices and the method of making prices in the cement industry.

The subject can best be seen and comprehended by stating the fundamental facts and principles very briefly, very simply, and in their proper relations. After these fundamental facts and principles have been brought together in perspective, then they probably may be discussed in greater detail with profit.

There are two fundamental facts which every company must follow in making prices for the sale of its cement. In carrying out any sales policy there are numerous other important facts which must be considered, but they are incidental or secondary to the two primary facts next mentioned.

1. Every company must get for its cement a price which includes its costs and some profit or sooner or later it will go broke.
2. Every company must make a price for its cement as low as or lower than the price of its competitors or it will go broke because it will sell no cement.

Every company must at all times steer its policy so that it will accord with both these fundamental facts.

Now, let us go back and take up some of the incidents of these two facts which have been so baldly stated.

1. Every company must get for its cement a price which includes its costs and some profit. A consideration of this proposition requires a consideration of the following incidents:

The costs include:

- (a) The cost of manufacture. This includes raw materials, power, labor, overhead, depreciation, etc.;
- (b) The cost of transporting the cement from the point of manufacture to the point of use. The purchaser of cement wants to know the cost to him of the cement at the place where he wants it delivered. He naturally wants to know which producer will sell cement delivered at the point where he wants it at the lowest cost to him. To meet that wish of a purchaser is good salesmanship; and prices are commonly quoted at the point of delivery. The real competition, therefore, is at such point of delivery;

(c) It follows that if a producer gets back its cost, it must include in its price not only the cost of manufacture, but also the cost of transportation. Its price for its cement ought, therefore, to increase as the cost of transportation increases. This is of especial importance

in the cement industry because cement is heavy, is cheap, and the cost of its transportation is usually very large in proportion to its price;

(d) This process of increasing the price of cement at points successively farther away (freight-wise) from the point of production is what is commonly referred to as a "base price" system. The system, in part, at least, is necessary in order that the producer may get back its costs. A cement producer, which follows the system, customarily establishes a price base at its mill. The price base and the cost of transportation being known, the delivered price at any point is merely a matter of addition;

(e) Every cement producer tries to sell its cement at every possible point which the cost of transportation will permit it to reach. It employs many salesmen soliciting orders. Every salesman must know its price at every place where he seeks to sell cement. Every salesman, by the plan indicated, can immediately know his company's price at any point. This is a great convenience. Furthermore, the plan preserves a proper relation between the prices at every point of sale;

(f) Each one of the incidents above mentioned comes into play in the application of the "base price" system so long as the producer is not affected in making its prices by the prices made by a competitor. Immediately, however, a competitor, differently located, freight-wise, makes at any point a price lower than that produced for a seller at that point by the application of the "base price" system, then that seller must no longer make its prices at that point by adding to its base price the cost of transportation to the point of delivery in accordance with the system, but must discard the system and meet the lower price of the competitor if it hopes to sell cement at that point. And in this day of intense competition every producer of cement is surrounded by competitors. Wherever a producer comes in competition with a competitor, at any point, then it must be controlled by the second fundamental principle above mentioned. It must meet the lowest price of any competitor or it will sell no cement. It must meet that low price regardless of its own costs and its own price base and regardless of any elements which entered into the competitor's price and regardless of any considerations which influenced the competitor in making its price. For illustration: If producer A was preparing to quote at a certain point a price to meet the price which competitor B had been making at that place (which competitor A is accurately informed about as described later), and if A should then learn from its salesman in the field that B had suddenly quoted a lower price, A would immediately go to that lower price regardless of any consideration that influenced B, if he expected to sell cement at that place;

(g) There is very little criticism of the customs in the cement industry which really constitute the "base price" system. The criticisms are directed to the practices which have grown up where competition has forced producers to discard the system.

2. As has been stated, no matter how important the first proposition mentioned may be, it must, at times, yield to the second proposition. Every company must make a price for its cement as low as or lower than the prices of its competitors at any particular place or it will sell no cement at that place. This is so because cement is a standard commodity. It is made to standard specifications. Generally speaking, cement made to such standard specifications by one manufacturer is as good as that made by another for practical use.

A consideration of this proposition requires a consideration of the following incidents:

(a) At every place, numerous companies are each striving constantly to sell their cement. Each is using all the energy and all the ingenuity known to salesmanship. In order to fully understand the matters here presented, this competitive activity must be kept in mind constantly.

(b) In order to meet the low price at any point a producer must keep itself informed of the prices of its competitors. Probably every company would prefer to make its prices at different places by adding the freight rate between its mill and such places to its price base. That method at any rate would be the simplest method. But, as stated above, no producer can sell cement at any place at a higher price than its competitors sell it at the same time and place. Therefore, every producer always endeavors to know what its competitors' price will be at any place where it desires to sell its cement;

(c) A producer, endeavoring to forecast the prices a competitor will make at any time, should know what price the competitor has been making down to the last moment possible. There are two ways in which a producer can know what its competitors' prices have been at any given place;

First, it can pick up its competitors' quotations in the field. A change in price is usually made public by broadcasting the announcement of the new price. Salesmen are constantly soliciting orders where there is any probability that cement may be sold. Customers are quick to inform the salesman if any one else has quoted a price lower than the salesman has quoted. Every salesman is constantly in touch with the general office of his company for his district. The information of one salesman is quickly the information of all salesmen for the same company. Any change of price by any producer is generally known by every other producer and by its salesman within the day or the hour even. It is necessarily so as to a standard product freely and actively bought by a large number of informed buyers in a highly competitive market.

Second, if any producer has any doubt about any competitor's price at any particular point, it may calculate it by adding to such competitor's price base the freight from the competitor's base point to the particular place. Every producer knows the price base of every competitor. It is its business to know it. It can calculate it. Whenever a competitor has quoted a price at several points, then by subtracting from each of those prices the cost of transportation from the competitor's mill to those points, if the result is constant, then that result is the competitor's price base. Then such price base can thereafter be used to determine

such competitor's price at any other point which can be supplied from that mill.

(d) Every producer, having informed itself in the manner described of the base price and the delivered prices of its competitors down to the latest possible moment, assumes that each competitor will continue to use the same price base and to quote the same delivered prices. This is of course a pure assumption because any competitor is free to change its prices at any time; but the assumption is accurate enough for all practical purposes. As a matter of fact, cement companies do not change prices frequently. There are very good reasons why they should not.

(1) Costs do not undergo sharp and frequent fluctuations.

(2) Cement companies have learned out of bitter experience that changes in price merely to cut under competing companies is a dangerous experiment. If a producer makes a price justified by prevailing conditions, including its costs and supply and demand, other producers will probably recognize that such prices must be met or all chances at the business must be surrendered. But if a price, which is lower than reasonable, is made for a specific occasion, reprisals may be expected from other competing companies. Such a situation is likely to grow into a price war. Such wars have developed frequently enough and have hurt competing companies so grievously that everyone of experience in the cement business is deathly afraid of doing anything which may precipitate such a catastrophe;

(3) If a seller cuts a prevailing price for a particular sale, without making a corresponding change in price to all purchasers similarly situated, it is guilty of discrimination and may incur the penalties of the Patman Act.

(e) It must of course be recognized that a competitor may change its prices at any time and that in such case the information which the producer has collected about the prices of that competitor will instantly become worthless. But as has been stated this does not happen very frequently; and when it does happen, each producer will pick up in the field almost instantly the same information regarding the new prices as he had accumulated regarding the abandoned prices.

If a new price is a higher price, the producer making the change has no motive to keep it secret and he couldn't if he tried. Other companies may increase their prices to meet the new price or make no change, whichever course each thinks is to its best interest. If the new price is a lower price, then other companies may voluntarily or not meet the lower price and lose the chance to get the business.

(f) The fact that every producer must make a price at any destination point as low as any competitor makes at that point produces this result. A producer may build a price structure around its mill on the system of a mill base plus freight. The prices at points successively more distant from its mill will be successively greater. This is the "base price" system. But, proceeding farther and farther from the mill, a point will finally be reached at which the price of a competitor, more

favorably located, will be lower. Then, the producer must at that point and at other points at equal or greater distances, freight-wise, from its mill, discard its price base system. In this more distant region it will have to make prices as low as the prices of competitors no matter what those prices may be, and regardless of what elements enter into those prices, if it hopes to sell cement. The producer may choose to sell its cement at the lower price. It will not realize, as a net, an amount as large as when it sells its cement for a price which it has built up on its own price base on the price base theory. But it may increase its volume; it may increase the number of its customers; it may advertise its cement more widely. Such considerations may induce it to sell at a lower profit or no profit. That is a matter for business judgment. Merchants have never found it good policy to make sales only when each sale produces the same amount of profit. Good merchandising is directed by many variable elements. It is, of course, very clear that a producer, selling outside of its own price basing region, at a price made to meet a competitor's price, is not selling on the basing price system;

(g) It is, therefore, improper to say generally that cement is sold on the basing price system. Some of it is. A very large amount is not. It depends upon the conditions under which the various sales are made;

(h) Another result of the fact that no producer can sell its cement at any point unless its price at that point is as low as any competitor's price at that point, is that it brings about a similarity of price by all competitors at such point. Most cement companies build up price structures around their respective mills on the "base price" system. If such price structures, of several producers be extended until they overlap, it is evident that the prices of the different companies at any given point, if constructed on the "base price" system, will vary. This is so because the freight from the mills of the several companies to the selected point will vary and freight is a very important element in the price. It is also evident that the mill nearest the selected point, freight-wise, will probably make the lowest price. Necessarily then, all the other producers, if they wish to sell cement at the selected point will be obliged to abandon their prices constructed on the "base price" theory for sales at that point and must reduce their prices to the probable sales price of the producer whose mill is located nearest, freight-wise, to such point. Competition is such in these days that that is just what actually happens. At every point of demand there will be found several bidders and every bidder will ask the same price as the price asked by the mill most favorably located. Similarity of price, such criticized, is brought about by active competition and the economic fact that no producer can sell its cement unless it offers it at a price as low as the lowest price offered by any one;

(i) Stated more specifically, every producer intending to bid for the sale of cement at any place actually follows a very natural procedure. It makes a survey of all the cement companies which may be expected to compete. It must take into consideration the price each competitor will probably bid. If previous bids by competitors at the same place are known, well and good. If not, and probably as a check even if previous bids are known, the theoretical delivered price of each company, if constructed on the basing point theory, is calculated. Obviously, by reason of varying freight rates, the price of some

one of the companies, if constructed on the basing price theory, will probably be the lowest. That company then will "make the price" as it is termed, and all other companies if they want to sell any cement at that place will be obliged to reduce their price to the lowest price. For reasons stated, they will not think it wise to go below that price. By the process of each company reducing its price down to the lowest price, the prices of all companies come to the same level. By reason of that similarity of prices, all are then accused of conspiracy and each is accused of adopting the prices of the others and of charging for the same items as those which were included in the price of the others. It is accused of charging, among other things, for freight which it does not pay. Such a statement is not correct. It is incorrect because it improperly emphasizes a mere method of ascertaining a fact and then substitutes the method for the fact. The fact which is important is this: What is the lowest price which the producer must meet? That is the only important fact. The elements which the competitor making the lowest price included in making that lowest price are of no importance. It would be just as reasonable to say that the product of multiplying two numbers together is a slide rule merely because a slide rule is used to quickly get the product of the multiplication. A producer who reduces its price to meet the lowest price is not bidding on a price base system and is not charging freight it doesn't pay. It is just meeting competition. It is just charging a competitive price - a simple unit, not a composite.

3. There are a few companies in the cement industry which do not themselves establish prices of their own on cement shipped from one or more of their mills. For convenience these may be called non-basing point companies. They follow the prices at points of delivery set by others. In other words, they meet and follow the market made by others. They do not have a price structure based upon any plan except that they keep themselves informed as to the prices which have been made by other companies at all points where they desire to sell their cement. As explained above, whenever desiring to make a quotation at any place they must find what probably is the lowest quotation which will be made by any other company at that place. They will inform themselves by the process or processes above explained. The company making the lowest price at the point may have a base of its own at its own mill located in a different direction and at a greater distance from the delivery point. When the company following the lowest competitive price succeeds in making a sale it is commonly charged with making the price based on the other company's price base and the other company's freight cost. It is then charged with collecting an unreasonable base charge and an unreasonable freight charge because the amount of freight is not what the selling company pays.

As a matter of fact, however, the company is merely making a price as low as the lowest price charged by anyone else in a given market. It is merely meeting a low price. How that low price is arrived at is of no concern to it.

4. Undoubtedly, some persons are prejudiced at this time against the cement companies. The principal cause of this prejudice is the fact that

the prices of different producers at the same time and place are generally the same. It is charged that the companies are in conspiracy. The similarity of price is assumed to be so conclusive of conspiracy as to require no other proof.

It is further asserted that many times cement companies include in their price freight rates which they do not pay.

When the actual facts are understood and when the character of cement and the customs which have grown up in the business are understood, it becomes very clear that the prices made by the cement companies are not made by agreement and conspiracy but on the contrary are the natural result of very active competition.

May 24, 1938

GROUP MEETING

May 25, 1938.
9:45 A. M.

Present: Mr. Magill
Mr. Oliphant
Mr. Gaston
Mr. Haas
Mr. Taylor
Mr. Upham
Mr. Bell
Mr. White
Mr. McReynolds
Mrs. Klotz

H.M.Jr: You're here tomorrow, aren't you?

Magill: No sir.

H.M.Jr: Why?

Magill: I have to make a speech in New York tomorrow afternoon.

H.M.Jr: You'll be here, Taylor?

Taylor: Uh huh.

H.M.Jr: Because, weather permitting, I'm going to Dr. Warren's funeral. There's Cabinet tomorrow, but if it's good weather I'm going up there. You go to Cabinet at two o'clock. I'll give my respects to that man.

Magill: Well, just to wind up that thought, I expect to be gone over the week-end. I'll be in New York tomorrow and Ottawa Friday and Saturday - Ottawa, Canada.

H.M.Jr: (Over telephone.) Find out if Mr. Hanes is going to be in - down today. I want to talk to him.

Magill: I'll be back in Washington Sunday noon.

H.M.Jr: Oh! This doesn't mean you're starting your vacation?

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Magill: No.

H.M.Jr: When are you starting on your vacation?

Magill: I expect to leave here the sixth of June.

H.M.Jr: Is Bell going with you to Ottawa?

Magill: Yes.

Bell: If nothing interferes between now and tomorrow afternoon.

H.M.Jr: Atta boy!

Magill: We hope the Canadian Government is good for it.

H.M.Jr: What! Do you mean by that - are you going as their guests?

Magill: Oh, absolutely - as a guest. We even got an official invitation, which we had to pry out of them, but we got it.

H.M.Jr: (Telephone.) Hello. Hello. How's my new "unsworn in" Assistant Secretary?

Klotz: Sworn at.

H.M.Jr: (Telephone.) Yeah. I know. Well, how's the baby doing? Yeah. Fine. I hope you're free at lunch today; will you come over at one? Fine. I'd like to talk to you. One o'clock.

(To Mrs. Klotz:) You tell Dowling. I've told him I didn't know how many was going to be here. I was going to the house, but I told him what to get.

(To Messenger:) Has Dowling gone?

(Bowman:) No sir.

H.M.Jr: Tell him to see Mrs. Klotz.

Magill: Mr. Oliphant and I discussed yesterday the importance of some legislation at this session, if possible, on the various problems which are raised by this Port Authority case, particularly

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two angles to it. First, the question of what officials are now liable to taxes and what interests are now liable to tax, and what should be done, particularly as to the past. Mr. Oliphant has had his staff preparing a letter, or message, of some description, which might be sent by the President to Congress to get that confirmed.

H.M.Jr: Is that Wallace?

Magill: Well - wanted to know whether to pass or not.

H.M.Jr: Wallace is pretty good at getting two hundred twelve million.

Magill: I thought of that.

Oliphant: Not according to the President.

H.M.Jr: Kind of left handed.

Magill: And Mr. Oliphant can speak for himself, but I take it he probably could have this draft of the communication prepared during the time I will be away.

H.M.Jr: For Congress?

Oliphant: This is a suggestion, that we do have a genuine emergency, so far as the Bureau is concerned, created by this decision. Shall we go back and tax all these people from 1913?

H.M.Jr: Can't be done! I was a State employee.

Magill: Whom are we going to tax? I should think, under the decision, you are taxable - under your job as State Conservation Director.

H.M.Jr: For God's sake, get that out of the way. Also, Franklin D. Roosevelt was Governor for six years.

Oliphant: To go ahead - to pass this legislation, we asked for in that early message - Jerry Cooper was in my office just now with a candidate for a job. He brought the question up - he had previously given an opinion that you couldn't act now.

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H.M.Jr: What I think you fellows ought to do - the way you talk you know what you want.

Oliphant: We'll have a draft.

H.M.Jr: When are you leaving?

Magill: Tonight. At midnight tonight.

H.M.Jr: Can't you get this thing cleaned up?

Magill: I would think so.

H.M.Jr: What have you got this morning important?

Oliphant: I think I can get the draft up today.

H.M.Jr: I'd get it today, and I'll sign it and send it over tonight.

Oliphant: (Nods "Yes.")

H.M.Jr: Huh?

Oliphant: O. K.

H.M.Jr: Now, this is a letter to Congress.

Oliphant: Yes. The President's letter.

H.M.Jr: See, the reason I'm pushing it, the President leaves tomorrow and will be gone for four or five days; he takes it up with him, reads it, comes back Tuesday morning, sees the leaders. If you get it to him Tuesday he has to have another meeting. If it's that important, I say it ought to go over to him this evening - before he leaves. That means it will go over the first thing tomorrow morning. See, Herman?

Oliphant: If you sign it today.

H.M.Jr: You fellows might work tonight, if necessary, and I'll be here tomorrow morning. I don't leave until eleven.

Oliphant: Well, it will be time enough. We'll have it.

H.M.Jr: Then you can take out the third sheet and substitute it, and change it, all you want to.

Magill: Just like a Manhattan law office.

H.M.Jr: So you've got until five minutes to eleven tomorrow morning. Fair enough?

Oliphant: We'll take care of it.

H.M.Jr: Then he takes it - I'll give it to him at Cabinet tomorrow so he'll have it; he can take it with him and decide what he wants to do when he sees the leaders Tuesday. Check?

Magill: Right.

H.M.Jr: What else?

Magill: Commissioner - New York and Chicago.

H.M.Jr: You've read that stuff?

Magill: Yes sir.

Klotz: (Inaudible.)

Magill: Guy (Helvering) feel happy about the whole thing. That's the essence of the letter.

H.M.Jr: Around eleven - what are you doing around eleven?

Magill: At your service.

H.M.Jr: You'll follow after McReynolds and Bell have operated on me - I mean, you'll be the next one - around eleven.

Magill: Around eleven.

H.M.Jr: I'll tell the Commissioner.

(Over telephone.) Helvering, eleven fifteen. Please.

What else?

Magill: That's all. Been doing some home work on our two thirty trip.

H.M.Jr:

Oh! Now this is what I thought we'd do, especially in view of what the President said at his press conference. Incidentally, I think you people ought to have that release - it's somewhere on my desk. I'd say, "Gentlemen, the President asked me to come up here and see you and bring to your attention what he said when he signed this bill, and if you people pass this kind of legislation he expects you to raise additional revenue."

Now, if they come back and say to me, "That's very nice," I don't know whether I can say, "Well, if you don't there is a letter coming up on this thing"- see? And I simply felt that I could ~~say~~, unless I talked to the President again - simply say, "We are here to bring this to your attention, gentlemen. If you pass this thing there is a very good chance that there will be a letter come up asking for additional revenue of two hundred twelve million."

Let me just take a minute and explain what happened last night. I want to get it in the record.

Jimmy Byrnes got me at the house a little after seven and he was terribly upset over the fact that on Monday morning the President told Barkley to introduce an amendment to the recovery bill which would make it impossible for the Government to loan any of this money in this bill, in competition with private utilities, with certain qualifying conditions. Yesterday - this is all in the room here - Tommy Cochran tells the President that Mr. Senator Norris is very much upset and so the President tells Senator Barkley, "Withdraw that amendment." And Byrnes says his interest is two - in the first place, it leaves not only Barkley but the whole Administration - makes it look ridiculous that the President tells them one thing Monday morning and they come out publicly and say, "These are his wishes; we are carrying them out," and twenty-four hours later withdraw it. And, furthermore, he thinks what the President told Barkley to do on Monday was right. I said, "So do I. Either let's buy all the public utilities or let's give them a

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chance to make a profit so we can collect the taxes and run the Government; but," I said, "let's do one or the other. Let's buy out all the public utilities or let's let them make a living, but if you go into competition with them, how are we going to collect our share of the profits to run the Government?" I said, "Let's do one or the other." "Well," he said, "would I get McIntyre - " He had gotten McIntyre and hadn't gotten even a satisfactory answer. They located Mac at some party. I repeated the conversation. Mac said he'd call me back, which he didn't, but Jimmy Byrnes called me at eight thirty this morning and said he heard from McIntyre and he was going to see the President this morning; that there was nothing I need do. I said, "Fine, because this is outside of my line anyway; I'd much rather not do it."

So that makes a record of that.

- Oliphant: Within the last two or three days, Harry Hopkins called Ed Foley on just this issue.
- H.M.Jr: A little louder.
- Oliphant: He said somebody ought to get busy for the Administration to have that thing knocked out.
- H.M.Jr: What knocked out?
- Oliphant: Provision prohibiting the grants in competition with utilities.
- H.M.Jr: Hopkins wanted to see it done?
- Oliphant: Wanted to see it knocked out.
- H.M.Jr: The President only gave it to Barkley on Monday.
- Oliphant: I can find out exactly when.
- Gaston: What Barkley offered was an amendment limiting grants to cases where a reasonable offer for the utility had been turned down. The other provision, forbidding any grants to municipalities, was already in the bill.

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Bell: I think the Committee itself put in an amendment.

Olipphant: (Inaudible.)

H.M.Jr: I don't get - I'd be interested to know what - where is Hopkins' stand; what is his position?

Olipphant: I think that we ought to be free to make grants, even though they might be in competition.

H.M.Jr: You mean no strings.

Olipphant: No strings.

H.M.Jr: No strings. Well, as I say, I am tickled to death I'm out of it. I don't belong in it.

Olipphant: That's what Ed told him - "That's a P. W. A. project, and I'm not working for P. W. A."

Bell: Hasn't the President talked to the leaders about this two hundred twelve million - what should be done?

H.M.Jr: He told me the best he could get out of them was a sealed letter in an envelope that they'd give him the revenue. My feeling was - the impression he left with me was - "Well, you go up and if you can get something better than that, all right." That's my sailing orders. "If you can get anything better than that ..."

Oh yes.....

Bell: This is the reason why I brought

H.M.Jr: Can you hold your thought a minute. "Listen," Jimmy Byrnes said, "we fixed this up. I was against the two twelve. We cut two hundred seventy-five million out of Ickes', and we've saved that for you; you don't have to raise the two twelve." I said, "Wait a minute. The President asked in his message for four fifty; you upped it to seven fifty. There's a three hundred fifty million increase over what the President said in his message, and you tell me you saved two hundred seventy-five."

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Bell: The reason I raised this other question, the President - that suggestion of getting the revenue in January - and he seemed quite happy over that suggestion - said, "That had been done before."

H.M.Jr: Were you with me when he told me this?

Bell: No, that was yesterday at my conference with him. I was there with General Hines yesterday afternoon. I went over on this relief bill and the two twelve.

H.M.Jr: What did he tell you?

Bell: That the leaders had suggested that a resolution be put through Congress telling the President they would do this tax job in January, next session, and called his attention to the fact that they had promised to do that once before and had done it. That was the case of the Three A's when it was declared unconstitutional. They did put that through the following year, and he seemed quite elated over that suggestion, and I was just wondering - whoever we're getting today

H.M.Jr: Well, we've just got to go up and feel our ground. The easiest way to raise the revenue is to knock out the two twelve.

Bell: The House Committee is going to fight it. Whether they'll be able to sustain their action, I don't know.

H.M.Jr: Which side are they on?

Bell: They are against the two twelve, and Woodrum has asked me to get together all of the papers and statements that the President has made on the farm program, keeping it within the five hundred million dollars. He's going to use that.

H.M.Jr: I'll bet anyone three to one I'll fail on my mission. I'm willing to take a three to one chance on that.

Gaston: If I knew what your mission was I'd bet with you.

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H.M.Jr: To draw these people's attention to what the President said - attention to the parity payments; that he expects them to produce the revenue. We are going up there to rub their nose in it, and sit back and let them talk. I'm glad that he talked to you. He said the same thing to you. He left it with me, a little bit kind of fuzzy, "If you can get something a little better, why, God bless you." So I think we can up that.

Magill: Fine.

H.M.Jr: What?

Magill: Fine.

H.M.Jr: Leave here at two fifteen?

Magill: All right.

H.M.Jr: You all right?

Oliphant: My friend, Cox, is arguing cases all this week in the Court of Appeals in Albany. Can you see him Monday - Tuesday?

H.M.Jr: Tuesday. Have him down; I'll work him in Tuesday morning. What else, Herman?

Oliphant: I have a matter I want to see you about after the meeting.

H.M.Jr: Herbert.

Gaston: I don't think of anything. The President doesn't seem to have made any direct statement on that question of utility loans. He simply said, "You had better get up to date on that thing. Things are changing pretty rapidly on the Hill.

H.M.Jr: (Nods to Mr. Haas.)

Haas: I have nothing.

H.M.Jr: Henry Wallace came down; I told him something about this wheat business. He asked who was doing the work and I said that you were. Will

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you get in touch with him - at least, he's going to have somebody get in touch with you?

Haas: You want me to get in touch with Wallace?

H.M.Jr: He'll have somebody contact you.

Olyphant: Does that involve legislation?

H.M.Jr: No, just swapping. It's all up here (indicating head).

Haas: O. K.

H.M.Jr: Wayne.

Taylor: (Nods "No.")

H.M.Jr: You might drop a hint to Warren Pierson that I have in mind the possibility of lending some money to China to buy flour, and the possibility of swapping - can he swap, say flour for tin?

Taylor: He can work that out that way.

H.M.Jr: You might just kind of drop it.

Taylor: He's out in California and won't be back until the end of the week.

H.M.Jr: Who knows how much tin they got in China?

White: I can find out very quickly.

H.M.Jr:Part of the Chinese control, and has it any access.

White: It has, but I can tell you how much very soon.

H.M.Jr: They don't have magnesium, do they? You're working on that, George?

Haas: Yes sir.

H.M.Jr: Wayne.

Taylor: (Nods "No.")

H.M.Jr: (Points to Mr. Upham.)

Upham: (Nods "No.")

H.M.Jr: Dan.

Bell: I have nothing.

White: I heard something yesterday that I think will throw some light on the route difficulties. There were three men - a surgeon, a lawyer, and an economist.

H.M.Jr: Is this a funny story?

White: No, it's not so funny for some of us. The three were discussing which was the oldest profession, and the surgeon said he thought his was because a rib was taken out of Adam to create Eve, and that's a long time ago; it must have required a surgical operation. But the lawyer said, "But order was created out of chaos." The economist said, "Ah, but who created the chaos." (Laughter.)

H.M.Jr: All right. You go to the head of the class.

White: Now, we know what's wrong.

H.M.Jr: All right. Well, (Nods to Mr. Lochhead.)

Lochhead: Not much change in the foreign situation. It's holding about the same. So this morning they said that they - newspaper dispatches this morning said they weren't getting together - and the cables, getting - said they were more or less despondent - getting together.

H.M.Jr: Mac.

McReynolds: I've got nothing but a list.

H.M.Jr: Will you see me with Bell or without Bell?

Bell: All I know about it is the statement you made the other day.

H.M.Jr: I'll tell you what I'd like - have you got any hearings coming on? Can you save time

Bell: I guess I'm pretty free this morning.

H.M.Jr: Can you give me - it's getting late, on account of Wallace now - thirteen after - can we concentrate on this for half an hour?

McReynolds: I think we can clean it up in ten minutes.

H.M.Jr: I'll see you both sharp at ten thirty.

McReynolds: There are just two or three things to say yes or no on.

Conference in Colonel Halsey's office with Senators Barkley and Harrison, and Congressmen Rayburn, Cullen, and Cooper

The conference was called by Colonel Halsey at the request of Secretary Morgenthau and was attended by the above-named gentlemen, Secretary Morgenthau, Mr. Bell, and myself.

The Secretary said that he had had luncheon with the President on Monday and had called his attention to the fact that the relief bill as reported to the Senate contained an amendment providing for agricultural parity payments up to an amount of \$212 millions. The President had asked the Secretary to direct the attention of the congressional leaders present to the passage in his statement of February 16 - "While the new Act makes many important changes in the existing plan for the benefit of agriculture, it is to be noted that, with one exception - the provision for "parity" payments, - the improved plan for agricultural adjustment does not entail any greater annual cost than the sum authorized under the present one, which is known as the Soil Conservation and Domestic Allotment Act. Parity payments would increase the present authorized cost, and in order to make such payments it would be necessary to provide additional revenue needed to finance them." Senator Barkley said that the Russell amendment providing for the parity payments would undoubtedly be passed by the Senate. Mr. Rayburn added that so far as that amendment was concerned it would be concurred in by the House without sending the bill to conference. There would be not more than a hundred votes against it. Mr. Bell suggested that the Appropriations Committee of the House might put up a fight on it. Mr. Rayburn repeated his statement that there would be no serious opposition in the House in view of the fact that so many members came from agricultural areas and could not be expected to vote against such a provision.

Mr. Cooper said that he doubted very much whether a revenue bill could even be reported out by the Ways and Means Committee before the end of the session. The members all wanted to go home and there was a good deal of doubt as to what the source of revenue should be.

Senator Harrison said that he thought the only way to raise the money was by a processing tax, but Secretary Wallace, in appearing before the Finance Committee on the tax bill, indicated that next January would be time enough to take up processing taxes. He added that there was a good deal of question whether the processing taxes could be adopted, but he thought that was the best way to raise the money. Senator Barkley said that he and Mr. Rayburn had advised the President at their Monday session that it was out of the question to pass a new revenue bill at this session. Moreover, he thought that the \$500 millions provided for agriculture would care for the situation in all probability until the first of the year. He did not see how it could be known before the crops were harvested and sold whether

parity payments would be required. Hence, he thought that January 1st was time enough for a revenue bill. At that time Congress would take into account the need for revenue and would pass the necessary legislation.

The Secretary called attention to the fact that \$500 millions was already provided for agriculture and the additional \$212 millions appropriation seemed excessive. The next thing would be to provide fixed prices for all agricultural commodities. All the legislative leaders agreed, however, that there was no chance to eliminate the \$212 millions amendment at this time.

Senator Harrison expressed himself to the effect that in about two years the pendulum would swing strongly the other way, against excessive appropriations, and that it would become impossible to get even legitimate appropriations.

Mr. Bell then had some discussion with Mr. Rayburn regarding a provision in a pending flood control bill, whereby the United States would be subject to local taxes on lands included in the floodways. He said that the President might be forced to veto the bill on that account. Mr. Cooper said he believed a similar provision had been approved by the Department of Interior. Mr. Bell urged that since the floodways are for the benefit of the local communities, the local communities have no right to ask the Federal Government to pay taxes on land taken for that purpose.

Secretary Morgenthau called attention to the fact that the relief bill limited to \$50 millions the amount which might be used for direct relief. He said that if conditions continued as they now are in Chicago, Cleveland, and perhaps Detroit, additional direct relief money might well be desirable or necessary, since many families in these communities were now living entirely on foodstuffs provided by the Surplus Commodities Corporation. Mr. Bell agreed to call Senator Barkley's office regarding an amendment to enable more money to be used for direct relief.

Rm

Notes taken by Mr. Magill
May 25, 1938

May 25, 1938

To: The Secretary
From: Miss Lonigan *EL*

In my interview with Mr. Brickett about Surplus Commodities in Cleveland, Mr. Brickett said that the table showing "schedule of commodities issued" was recommended rates of distribution, and operates as a maximum, not as actual distribution. It is based on the difference between

the emergency diet of the Department of Agriculture, and

the adequate diet at minimum cost, of the same agency.

This FSCG standard assumes the issue of relief orders to supply basic needs, and gives only the additional food requirements for the next higher standard. If the relief orders are not issued, they are not issued.

.....

Actual commodities issued in Cleveland in April fell far below this standard. The Cleveland averages are based on total actual commodities issued, divided by 20,000 families. The number of families receiving commodities is an estimate below the total receiving relief, which was 27,497 families. Families in furnished rooms, or without gas, must be excluded by arbitrary estimate.

Schedule of surplus commodities to be issued. Family of 3 or 4. (FSCC) Actual Commodities issued in Cleveland (Cuyahoga County) April 1938. (FSCC)

Apples.....lbs.....	36.....	103.0
Beans.....lbs.....	3.....	-
Butter.....lbs.....	6.....	2.6
Cabbage.....lbs.....	15.....	-
Celery.....lbs.....	15.....	-
Flour(Potato)..lbs.....	3.....	-
Flour (Wheat)..lbs.....	24 ¹ / ₂	-
Grapefruit.....lbs.....	20.....	-
Milk(dry skin).lbs.....	6.....	-
Oranges.....lbs.....	20.....	7.0
Peas.....cans.....	8.....	-
Peaches.....lbs.....	-.....	-
Potatoes.....lbs.....	30.....	67.0
Prunes.....lbs.....	3.....	-
Rice.....lbs.....	4.....	.3

The value of commodities distributed in Cleveland in April was \$75,451.90. Estimates of relief needs in Cleveland are about a million dollars a month, of which probably more than half is for food.

The Corporation has this justification for its refusal to give more commodities, that it has been struggling since 1935 to prevent relief authorities all over the United States from using surplus commodities in place of local relief funds. Some of the local supervisors even thought out plans for having the unemployed do road work to get Federal commodities.

The Corporation is buying larger quantities of food in May than previously, especially flour and milk. They have just issued bids for 8,000,000 lbs. of dry skim milk to be delivered by June 30th, and will continue to buy it during the summer. A pound of dry skim milk equals a quart of skim milk without fats.



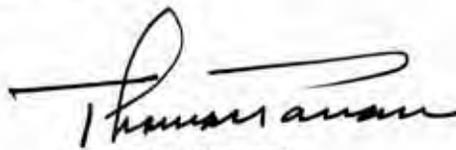
IN REPLYING
ADDRESS THE SURGEON GENERAL
U. S. PUBLIC HEALTH SERVICE

TREASURY DEPARTMENT
U. S. PUBLIC HEALTH SERVICE
WASHINGTON

May 25, 1938.

Memorandum for the Secretary.

I am sending herewith two copies of data on
dietary deficiencies and food consumption.


Surgeon General.

SDC:HL

MEMORANDUM ON DIETARY DEFICIENCIES AND THE FOODS REQUIRED TO
MEET THESE DEFICIENCIES

Contents

Extent of Dietary Deficiency in the United States
Types of Food Elements Consumed for Different Food Expenditure Levels
Specific Nutrient Deficiencies and the Foods Needed to Correct Them
Consumption of Specific Foods at Different Food Expenditure Levels
Milk Consumption in Relation to Family Income
Present Consumption Levels as Compared with Requirements of Standard Diets

Extent of Dietary Deficiency in the United States

According to recent data from the Bureau of Home Economics of the U.S. Department of Agriculture, diets of a considerable percentage of white non-relief working populations are deficient enough to impair health if continued over any considerable period; and diets of self-supporting Negro families in the South are much more deficient. Similar or greater deficiency would be expected among relief families. Table 1 shows the percentage of white wage-earning families in several geographic areas for which data are available that have good, fair and poor diets, respectively, according to the studies of the U.S. Bureau of Home Economics.

Half of the white workers in Southern cities in 1935-1936 were spending less than \$2.10 a person a week for food. These families were spending only three-fourths as much for food as those in Pacific Coast cities. Southern Negro workers spent less than 60 percent as much. Half of the Negro families were spending less than \$1.55 a person a week for food.

The lowest proportion of diets that are poor from the standpoint of nutrition, and the highest proportion that are good, are found in the regions spending most for food. Conversely, the most precarious situation is found in the region spending least for food. Only 34 percent of the families of employed white workers in the South were securing good diets, and 22 percent were subsisting on poor diets. The corresponding figures for Negro families were 18 and 54 respectively. It is believed that diets classed as poor would, if long continued, undermine health and lower resistance to disease.

While data are not available for all geographic sections, the report indicates that roughly 15 to 30 percent of white non-relief families in the United States have poor diets and more than half of the Southern Negroes have such diets. It may be assumed that persons in lower income groups and on relief would show still higher percentages with inadequate diets. According to the last report of the Works Progress Administration, 16 percent of all persons in the United States (approximately 20 million persons) were on relief of one type or another in March of 1938.

While food habits and dietary likes and dislikes appear to be very significant factors in dietary deficiencies, nutritionists generally agree that the major factor contributing to the consumption of deficient diets is inability to buy an adequate and varied diet.

This is shown graphically in Fig. 1 which gives the percentage of families for different food expenditure levels subdivided according to the classified adequacy of the diet. Special attention is called to the black part of the bars which indicates the proportion of families that have poor (fourth rate) diets. All of the families studied with an annual food expenditure of less than \$65 per capita had diets classed by nutritionists as poor; that is, diets that are insufficient to maintain health and provide resistance to disease over long periods. With food expenditures of \$65 to \$98, per capita, approximately half of the families had poor diets and another 30 percent had only fair (third rate) diets.

The character of the diet in relation to expenditures for food is shown pictorially in Fig. 2. A few families who spend as much as \$200 per capita per year have poor diets and a considerable percentage have only fair diets. But with food expenditures below \$100 per capita practically all have inadequate diets and up to annual expenditures of \$150 per capita diets that are only fair or poor predominate.

Throughout this memorandum, consumption is shown in relation to expenditures for food which, in turn, are closely related to family income. Table 2 shows approximate family income levels that correspond to these food expenditure classes and the approximate distribution of families in the United States in these income levels.

Types of Food Elements Consumed in Different
Food Expenditure Levels

There are a number of ways in which a diet may be deficient -- in energy value or calorie content; in such elements as proteins, fats and carbohydrates; in important minerals such as calcium, phosphorus and iron; or in one or more of the various vitamins. Fig. 3 affords a comparison with respect to energy value and protein, fat and carbohydrate content of diets obtained from annual food expenditures of various amounts. As the average income (and the resulting amount spent for food) goes up, there is an increase in the consumption of every one of these classes of food elements in the diet. In general, dietary surveys indicate that diets in the United States meet the accepted standards for energy requirements, but are below the accepted standards in protective foods, especially those containing vitamins and minerals.

While the quantities needed are small, vitamins are highly essential to health and every diet should include a liberal supply. Fig. 4 indicates that of four important vitamins, the diets based on larger food expenditures, such as are found in the higher income brackets, include two to three times as much of these vitamins as in the lowest food expenditure group.

While the amounts of such minerals as calcium, phosphorus and iron that are needed by the body are also small, they are highly essential to health. Fig. 5 shows the amounts of these minerals found in diets with various food expenditures; in every case the low

income families which necessarily spend less for food have the lowest consumption of minerals. The vertical broken lines indicating the smaller quantities on the scales (nearer the left or zero end of the scale) represent the absolute minimum amounts of these minerals that are required for the maintenance of health as specified in budgets of food requirements for temporary and emergency use only. The other broken lines (nearest the right or higher end of the scales) represent amounts of these minerals required in a budget of food expenditures for adequate requirements. It is seen, therefore, that diets based on annual food expenditures of less than \$129 are not up to this reasonable requirement and that diets based on annual food expenditures of less than \$65 are all below the absolute minimum requirement for health. In calcium, which is particularly important, diets based on food expenditures of less than \$97 are below minimum requirements. The widespread character of these deficiencies is apparent when it is recalled that annual per capita food expenditures of less than \$97 accompanies income levels that include about one-third of the total population of the United States.

Specific Nutrient Deficiencies and the
Foods Needed to Correct Them

In the diet surveys of the Bureau of Home Economics of the U.S. Department of Agriculture, the outstanding deficiencies were considered to be in calcium, vitamin A, iron, and vitamin B₁. Of

these, calcium was thought to constitute the most prevalent specific deficiency.

It should be noted that these surveys were of wage-earners and low salaried clerical workers and did not include relief clients and others of the lowest income brackets where the diet may be even more deficient.

The calcium deficiency which is the most common one in these surveyed groups may be corrected by adding or substituting the following classes of foods in the diet: (List is necessarily incomplete)

- (a) Milk and milk products; including whole milk, skim milk, condensed milk, evaporated milk or milk powder, cheese of all kinds; buttermilk.
- (b) Leafy green vegetables; including cabbage, spinach, string beans, turnip tops, collards, kale, chards.
- (c) Miscellaneous sources; such as molasses (especially the unrefined types) and eggs.

The vitamin-A deficiency may be corrected by adding or substituting the following classes of foodstuffs in the diet: (List is necessarily incomplete).

- (a) Fats; including butter, cream and fish liver oils.
- (b) Green and yellow vegetables; including spinach, carrots, kale, collards, sweet potatoes (yellow), tomatoes, turnip greens, string beans, alfalfa leaf meal (used quite generally in reinforced infant foods), broccoli, chard.
- (c) Miscellaneous; including milk, cheese, eggs and lamb.

Iron deficiency may be corrected by adding or substituting the following classes of foodstuffs in the diet: (List is necessarily incomplete)

- (a) Animal foods; including eggs, especially the yolks; meats, especially organs such as liver, kidney, brain, and heart; oysters and shrimp.

- (b) Leafy, green vegetables; such as turnip greens, spinach, beet greens, kale, chard, mustard greens, and broccoli leaves.
- (c) Fruits (fresh or dried); such as apricots, peaches and prunes.
- (d) Whole grains or cereals; such as barley, wheat, rye, oats.
- (e) Legumes (fresh or dried); such as lima beans, kidney beans, cowpeas, soybeans, common peas.
- (f) Miscellaneous; such as molasses, sorghum and cane sirups.

Vitamin B₁ deficiency may be corrected by adding or substituting the following classes of foodstuffs in the diet: (List is necessarily incomplete).

- (a) Whole grains or outer coats of grains; such as wheat and whole wheat derivatives in normal foodstuffs, such as wheat bran, wheat middlings, wheat shorts and wheat germ; oatmeal, rye, rice (unpolished or rice polishings); corn.
- (b) Green, leafy vegetables; such as cabbage, kale, turnip greens, and spinach.
- (c) Legumes; such as beans (red kidney and lima); dried pinto; common peas; black-eyed peas.
- (d) Milk and milk products.
- (e) Meat, especially lean pork.

In the year 1935 there were 3,543 deaths in the United States, from pellagra, a disease primarily due to a deficient diet. About 90 percent of these deaths occurred in the southern states.

The following foods, given in sufficient quantity, are known to be effective in the prevention of pellagra. (List is necessarily incomplete).

- (a) Dried yeast, wheat germ, liver, lean beef, lean pork, canned salmon, milk, green peas, turnip greens, kale, collards.

Consumption of Specific Foods at Different
Food Expenditure Levels

Studies of the Bureau of Home Economics of the Department of Agriculture show the present consumption of certain foods among

families spending different amounts for food; these amounts represent roughly the different income levels of the population (See Table 2). Fig. 6 shows the total pounds of food (all kinds) consumed per capita in the different expenditure levels. The highest expenditure level uses twice as many pounds of food as the lowest shown on this chart; differences in the amount of waste might account for some of the variation but certainly not for all of it.

Figs. 7 and 8 show the consumption of fruits and fresh vegetables, eggs, milk, and butter and other fats in families of different food expenditure levels, or roughly of different income levels. All four of these classes of foods are important sources of nutritive elements that are now deficient in the diets of a considerable percentage of the families surveyed and in every instance the consumption of lower expenditure families is considerably less than that of the higher groups. The differences between the expenditure levels is particularly marked for fruits and fresh vegetables.

Fig. 9 shows similar consumption data for meats and grains. Grain shows the least variation with food expenditure. The lowest expenditure groups come nearer the amount of grain used by the highest group than for any of the various kinds of food.

Milk Consumption in Relation to Family Income

In view of the importance assigned by nutritionists to an adequate supply of milk in the diet, it is desirable to consider further the relation of the income and other social-economic factors to the consumption of this commodity. At the time of house-to-house

canvasses in Buffalo in connection with the National Health Survey of 1935-1936, the United States Public Health Service collected information on the use of milk in that city. The data have been analyzed and reported by the Buffalo office of the State Department of Health.^{1/} They show that per capita consumption of milk (fluid and canned), in the home varies directly with income. The average daily consumption per capita was lowest, .37 of a quart, in families with annual incomes under \$1,000 and rose steadily to .50 of a quart in families with incomes of \$5,000 or more. (Fig. 10). It was found also that the per capita rate declined as the size of the family increased and that the decline was more extreme in each successively lower income group (table 3). The smaller consumption per capita in the larger families which include more children is particularly significant because the standard of adequate milk consumption for children is double that for adults. Negroes and families of foreign extraction, considering all nationalities together, had considerably lower per capita milk consumption rates than native-born white families. For the total population, milk consumption varied in 20 districts of Buffalo from .28 to .43 of a quart per capita.

^{1/} Dean, Archibald S. and Haenzel, William M.: "Milk Consumption in Buffalo," Statistical Survey, Supplement to Vol. XIII, No. 7-A, March 1938, issued by the University of Buffalo Bureau of Business and Social Research.

In 1934 a study ^{2/} of milk and butter consumption was made for 8,796 Milwaukee families in 201 city blocks representing every section of the city. The findings were similar to those of the Buffalo survey. Per capita milk consumption varied directly with total family income and inversely with family size. Milk consumption was significantly lower for Negroes and for Italians, but not for other nationality groups, than it was for native-born whites. Use of butter varied in like manner; weekly per capita butter consumption in pounds was as follows: Low income group, .39; intermediate income group, .54; high income group, .67. On a racial and nationality basis weekly butter consumption was: Negroes, .31; Italians, .29; others, .56 of a pound.

Present Consumption Levels as Compared with Requirements of Standard Diets

The Agricultural Adjustment Administration and the Bureau of Home Economics of the Department of Agriculture have computed the per capita consumption of different foods that would prevail if everyone in the United States had (a) an adequate diet that could be purchased at a minimum cost, (b) an adequate diet that could be purchased at a moderate cost, and (c) a liberal diet. In Table 10 these three levels of possible food consumption are compared with estimated present consumption per capita for a list of 20 foods, or

2/ A Survey of Milk Marketing in Milwaukee, Marketing Information Series, Agricultural Adjustment Administration, Division of Marketing and Marketing Agreement, United States Department of Agriculture. Issued May 1937. Government Printing Office, 1937, p. 25.

groups of foods, in actual pounds or other units, and in percentages. Figs. 12-16 show graphically the increased consumption for each food that would result from the general use of the various diet standards.

It is seen from Fig. 12 that the present consumption levels of leafy vegetables, citrus fruits and other fruits and vegetables are all below the adequate standard at moderate cost and very much below the liberal diet standard. At the liberal diet level the consumption of these foods would be roughly 50 to 75 percent greater than at present. Similarly for butter, milk and eggs (Fig. 13) the liberal diet standard would involve the use of $1\frac{1}{2}$ to 2 times the present consumption of these products. The consumption of meats (Fig. 15) would be moderately increased by the general use of the liberal diet standard. On the other hand the consumption of cereals, dried beans and peas and sugar (Fig. 16) and also margarine, lards, vegetable oils and shortening, and salt pork (Fig. 14) would not increase; consumption of these kinds of foods might even be expected to decrease if the liberal diet standard came into general use, because the increased consumption of green vegetables, fruits, milk and eggs would in many cases result in less quantities of cereals, fats, legumes, and sugar being used.

TABLE 1.- Median expenditures for food and quality of diet, by region. (Families of employed wage-earners and low salaried clerical workers, Dec. 1934 - Feb. 1937)

Region	Median weekly expenditure for food per person	Proportion of diets estimated to be -		
		Good	Fair	Poor
North Atlantic	\$2.75	31	52	16
East North Central	2.65	28	51	21
East South Central	2.10	34	44	22
Pacific	2.80	45	42	13
South	1.55	18	28	54

Preliminary unpublished data furnished by the Bureau of Home Economics,
U.S. Department of Agriculture

TABLE 2 -- A rough approximation of the average levels of annual total family income which correspond to food expenditure classes used in the following pages, and the percentage of families at each income level, 1935-1936.

Yearly food expense per capita	Estimated annual average family income level corresponding to these food expenditures*	Estimated percentage of families at each income level in the United States	
		Cumulative	Actual
Less than \$65	\$450	20	20
\$65 - \$97	\$750	35	15
\$97 - \$129	\$1100	57	22
\$129 - \$161	\$1500	71	14
\$161 - \$193	\$2000	83	12
\$193 - \$226	\$2500	89	6
Over \$226	\$3000	94	5
	\$3600	96	2
	\$4500 and higher levels	100	4

* Note that these are approximate midpoints rather than upper or low limits of income classes.

TABLE 3 -- Milk consumption in Buffalo, N.Y., as determined by a canvass of 26,845 families including 102,641 persons, 1935-1936, in connection with the National Health Inventory

Annual family income	Percentage of individuals in each group	Average milk consumption per capita per day (Quarts)						
		All Families			All Milk			
		Total Fluid Canned		^{1/}	2 person families	4 person families	5 person families	7 person families
All incomes	100.0	.40	.33	.07	.46	.42	.40	.36
Under \$1000	31.4	.37	.28	.09	.43	.38	.36	.32
1000 - \$1499	28.0	.40	.33	.07	.47	.42	.40	.35
1500 - \$1999	19.2	.43	.37	.08	.48	.46	.44	.39
2000 - \$2999	13.4	.45	.40	.05	.51	.46	.44	.42
3000 - \$4999	4.8	.48	.44	.04	.52	.50	.47	.43
5000 & over	3.2	.49	.48	.02	.53	.53	.50	.49

^{1/} Canned milk converted at its fluid milk value

Data from Dean, A.S., and Haenzel, W.M., Milk Consumption in Buffalo, Statistical Survey, Supplement to Vol. XIII, No. 7A, March 1938, issued by the University of Buffalo Bureau of Business and Social Research.

Table 4- Approximate Yearly Quantities of Specific Types of Foods Consumed per Person in the United States at Current Consumption Levels as Compared with the Quantities Which Might be Consumed at Varying Levels of Dietary Adequacy

Food	Unit	Estimated per capita current consumption ^{1/} (actual units)	Per capita consumption at levels suggested for diets of varying adequacy			Percentage that each diet level is of current consumption level			
			Minimum cost (actual units)	Moderate cost (actual units)	Liberal diet (actual units)	Current consumption %	Minimum cost %	Moderate cost %	Liberal diet %
Milk:									
Fresh whole milk ^{2/}	quarts	181	130	296	296	100	72	163	163
Evaporated milk	pounds	15	138	10	10	100	920	67	67
Total whole milk equivalents ^{2/}	quarts	196	260	305	305	100	133	156	156
Leafy, green or yellow vegetables	pounds	74	80	100	135	100	80	100	135
Citrus fruits	"	36	25	45	55	100	69	125	153
Potatoes, sweet potatoes	"	162	165	165	155	100	102	102	96
Other vegetables & fruits ^{3/}	"	228	130	280	400	100	57	123	175
Eggs	number	241	180	180	360	100	75	75	149
Dried beans, peas, nuts	pounds	16	30	20	7	100	188	125	44
Lean Meat:									
Beef	"	53	18	35	57	100	34	66	108
Pork	"	52	30	35	57	100	58	67	110
Lamb & mutton	"	7	2	5	9	100	29	71	129
Veal	"	8	3	6	11	100	35	75	138
Poultry	"	15	7	11	18	100	47	73	120
Total	"	135	60	92	152	100	44	68	113
Flour, cereals:									
Wheat flour	"	164	157	122	76	100	96	74	46
Other cereals ^{5/}	"	42	67	38	24	100	160	90	57
Total ^{2/}	"	206	224	160	100	100	109	78	49
Fats:									
Butter	"	18	15	35	35	100	83	194	194
Lard	"	13	12	7	7	100	92	54	54
Vegetable oils & shortenings	"	13	7	7	7	100	54	54	54
Bacon, salt pork	"	20	12	2	2	100	60	10	10
Margarine	"	2	3	1	1	100	150	50	50
Total	"	65	49	52	52	100	75	80	80
Sugar & other sweets	"	108	35	60	60	100	32	56	56

1/ Current level of consumption is simple average of apparent consumption (disappearance) figures for 1931-33 and 1935-36. Figures for 1935-36 are tentative only.

2/ Include fresh whole milk, concentrated milk products, cheese and ice cream, combined into whole milk equivalents.

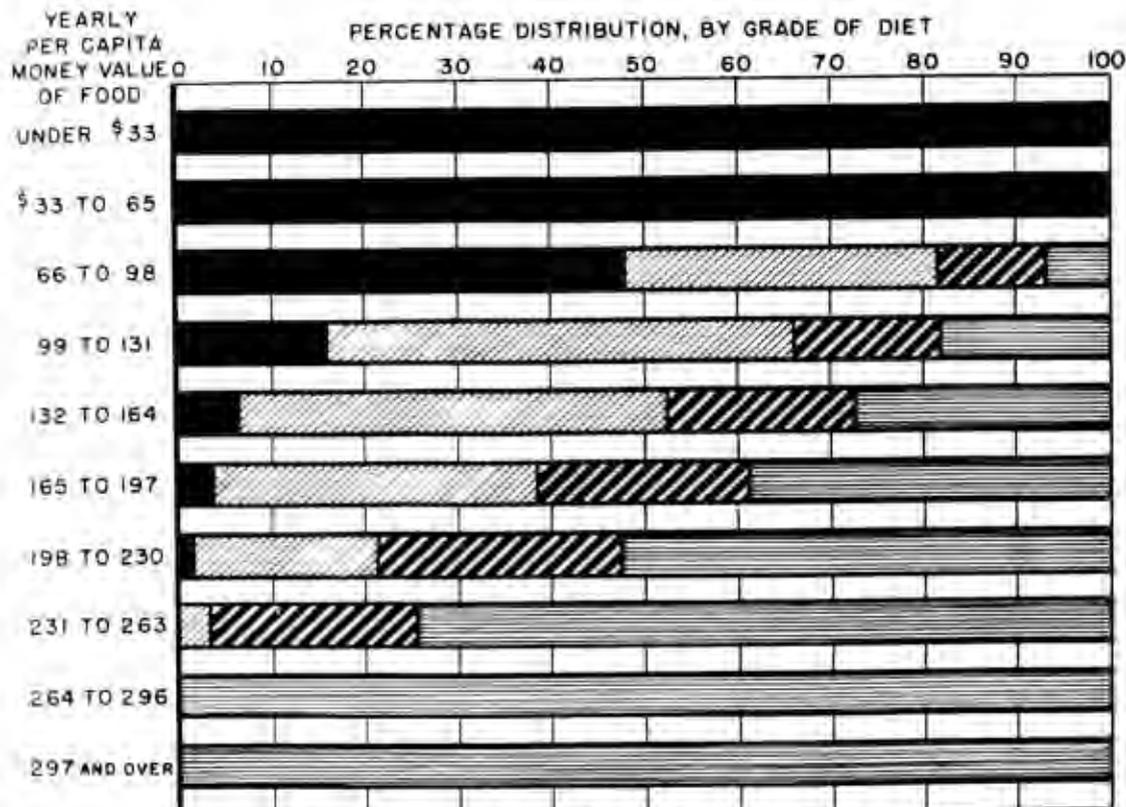
3/ Includes fresh, dried and canned fruit and vegetables.

4/ Does not include fish.

5/ Does not include current consumption estimates for corn meal nor salt.

DIET RATINGS AND EXPENDITURES FOR FOOD, UNITED STATES, 1936

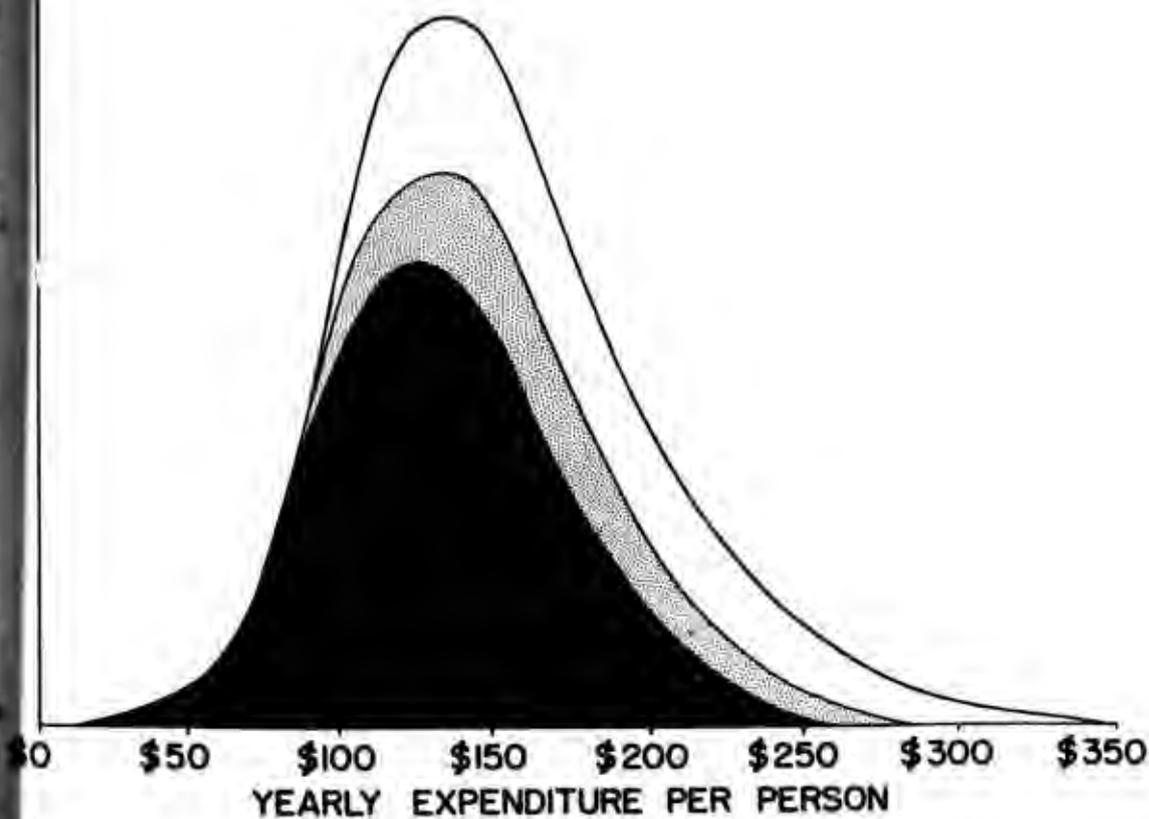
(ESTIMATES FOR U. S., BASED ON DATA FROM 25,000
NONRELIEF WHITE FAMILIES)



-  VERY GOOD (FIRST-RATE) DIETS: PROVIDE FULLY FOR THE NUTRITIONAL NEEDS OF THE BODY, SUPPLYING A LIBERAL MARGIN OF SAFETY OVER AND ABOVE AVERAGE REQUIREMENTS.
-  GOOD (SECOND-RATE) DIETS: COVER AVERAGE DAILY REQUIREMENTS WITH A GOOD BUT NOT A LIBERAL MARGIN OF SAFETY.
-  FAIR (THIRD-RATE) DIETS: PROVIDE AVERAGE DAY-BY-DAY PHYSICAL NEEDS, BUT BUILD UP LITTLE RESERVE.
-  POOR (FOURTH-RATE) DIETS: IF CONTINUED OVER LONG PERIODS, WILL UNDERMINE HEALTH AND LOWER RESISTANCE TO DISEASE.

DIET RATINGS AND EXPENDITURE FOR FOOD

UNITED STATES: 1936
(NONRELIEF WHITE FAMILIES)



VERY GOOD (FIRST-RATE)



FAIR (THIRD-RATE)



GOOD (SECOND-RATE)

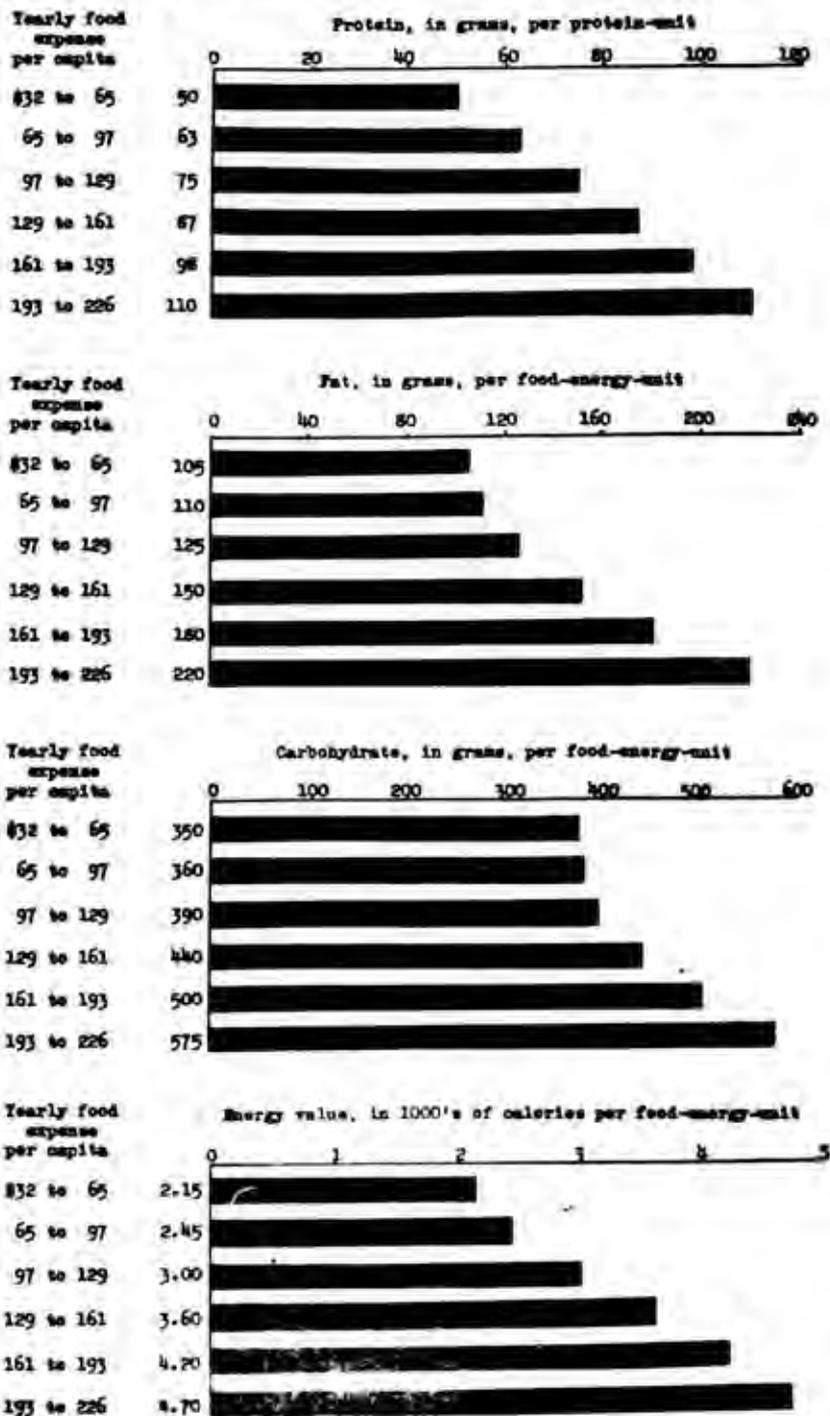


POOR (FOURTH-RATE)

Fig. 3

**PRINCIPAL COMPOSITION AND ENERGY VALUE of diets of families of employed wage earners and low-salaried workers:
May - August 1935**

(30 industrial cities, 12 States - U. S. A.)

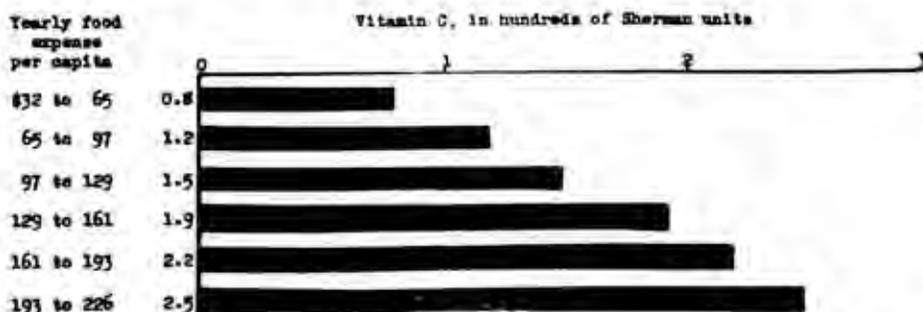
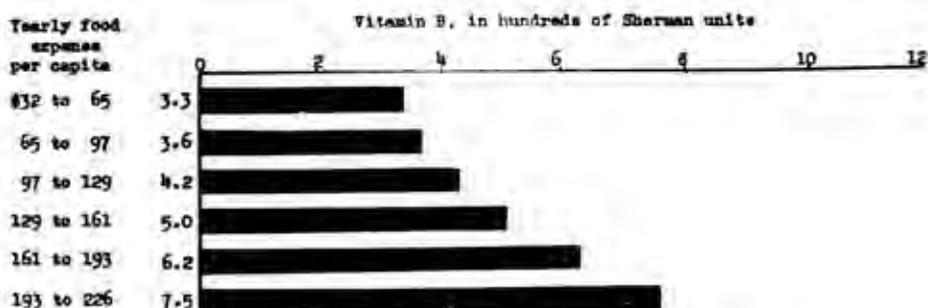
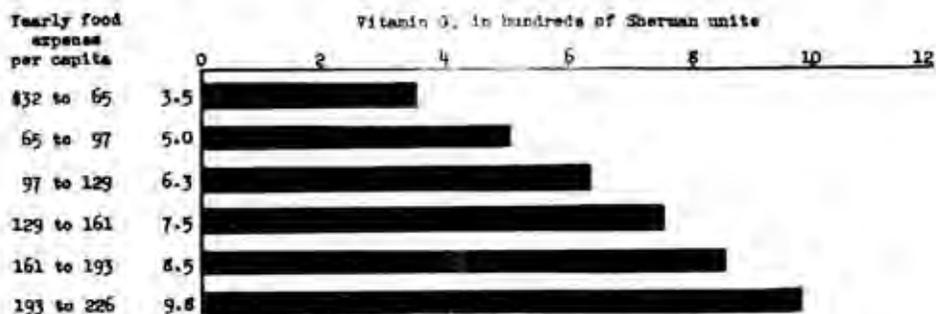
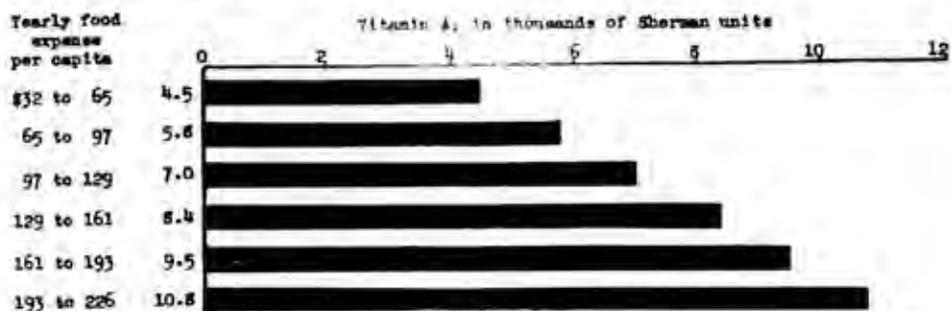


From the Bureau of Home Economics, U. S. Department of Agriculture.

Fig. 4

VITAMIN CONTENT of diets of families of employed wage earners
and low-salaried workers: May - August 1935
per nutrition-unit per day

(30 industrial cities, 17 States - U. S. A.)

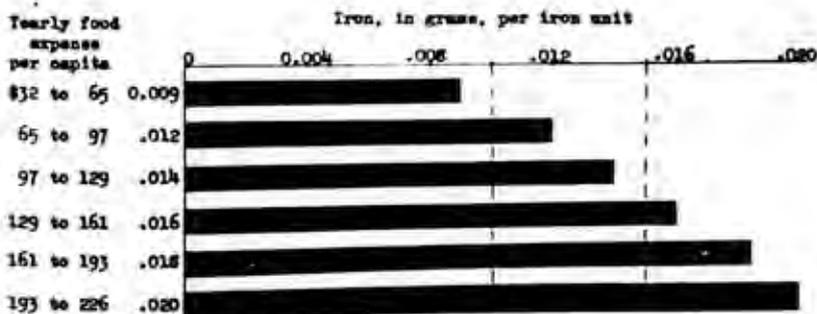
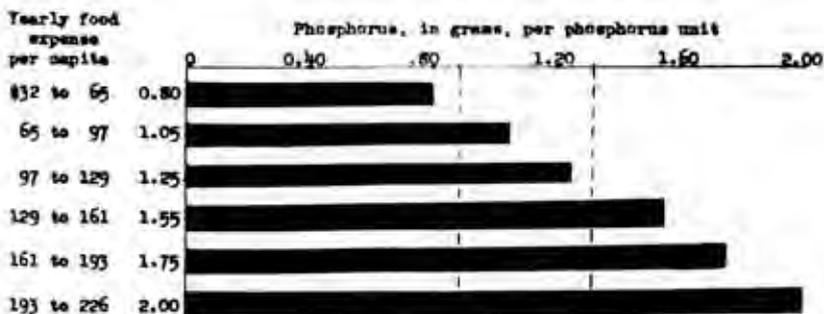
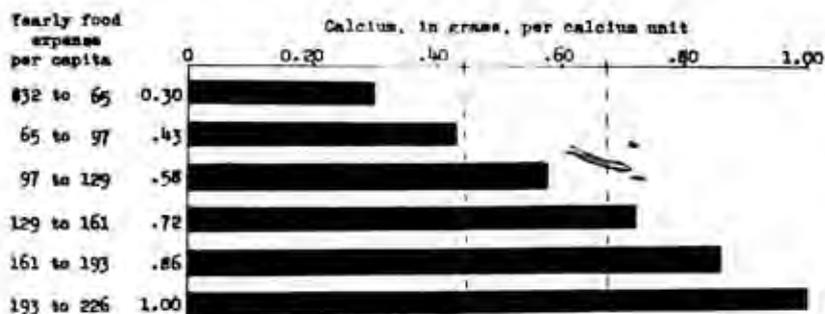


From the Bureau of Home Economics, U. S. Department of Agriculture

Fig. 5

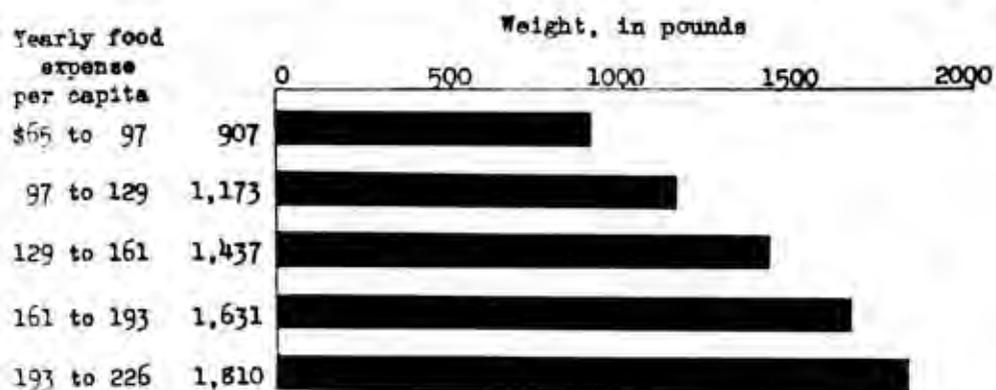
MINERAL CONTENT of diets of families of employed wage earners
and low-salaried workers: May - August 1935

(30 industrial cities, 12 States - U. S. A.)



From the Bureau of Home Economics, U. S. Department
of Agriculture.

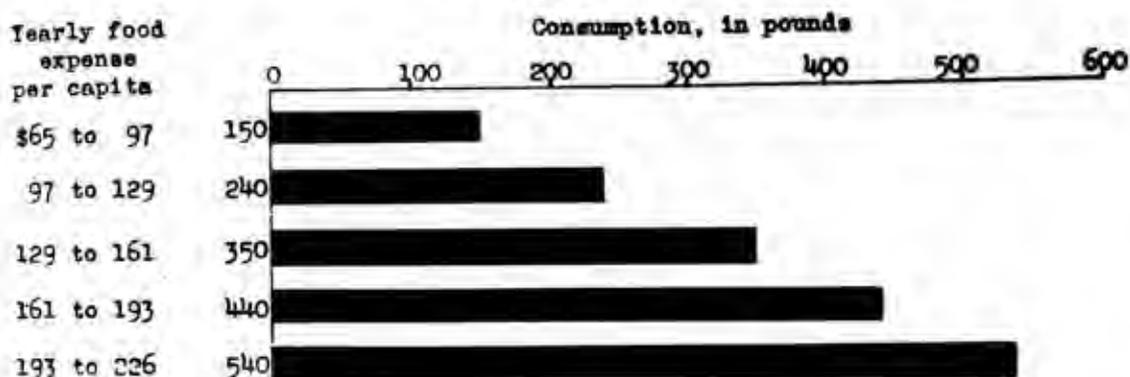
Fig. 8 ALL FOODS
 March - May 1935: Weight of food consumed weekly per capita by families
 of employed wage earners and salaried workers, multiplied by 52



From the Bureau of Home Economics, U. S. Department of Agriculture

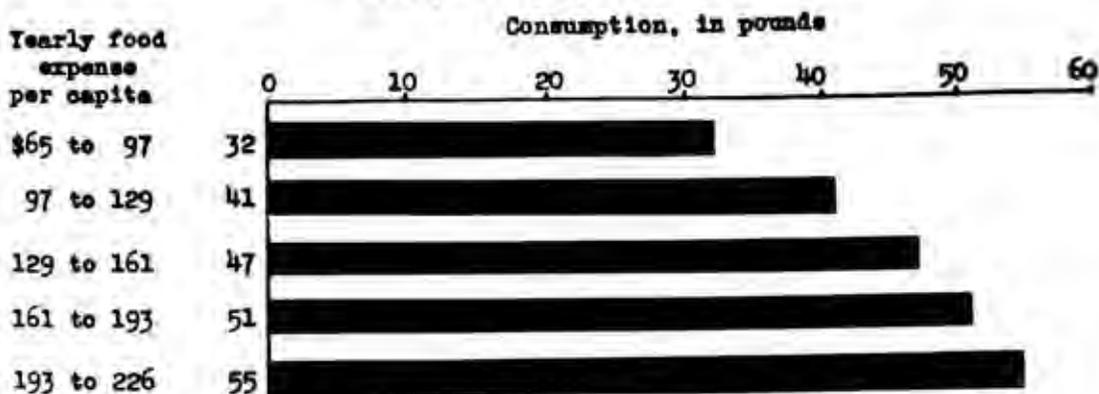
Fig. 7

March - May 1935: FRUITS AND VEGETABLES^{1/}: Weekly per capita consumption by families of employed wage earners and salaried workers, multiplied by 52



^{1/} Exclusive of potatoes and dried legumes.

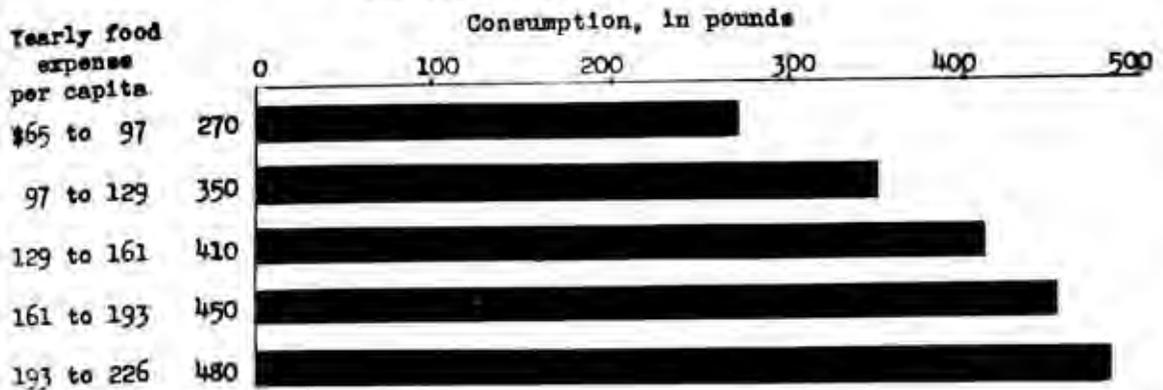
March - May 1935: EGGS: Weekly per capita consumption by families of employed wage earners and salaried workers, multiplied by 52



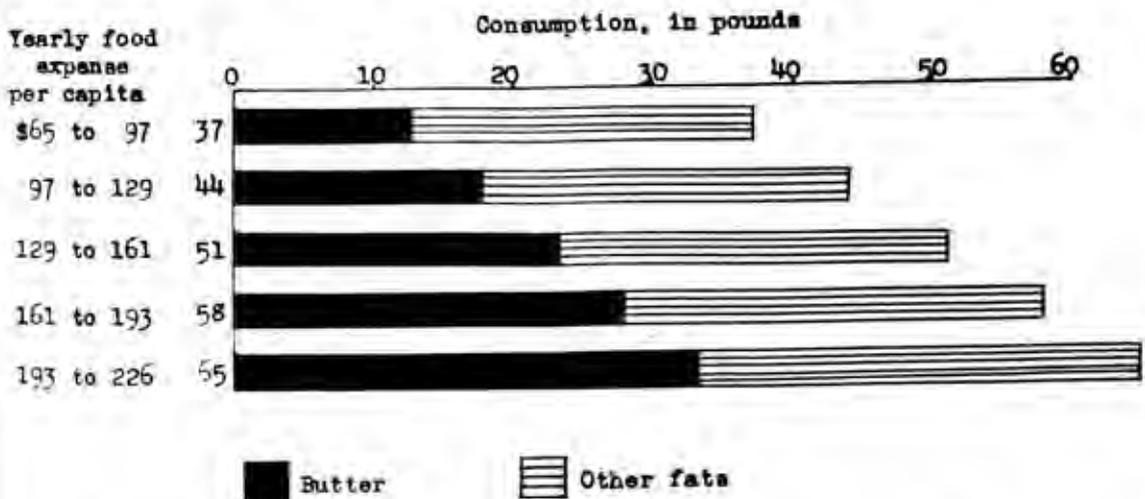
From the Bureau of Home Economics, U.S. Department of Agriculture.

Fig. 8

March - May 1935: MILK: Weekly per capita consumption by families of employed wage earners and salaried workers, multiplied by 52



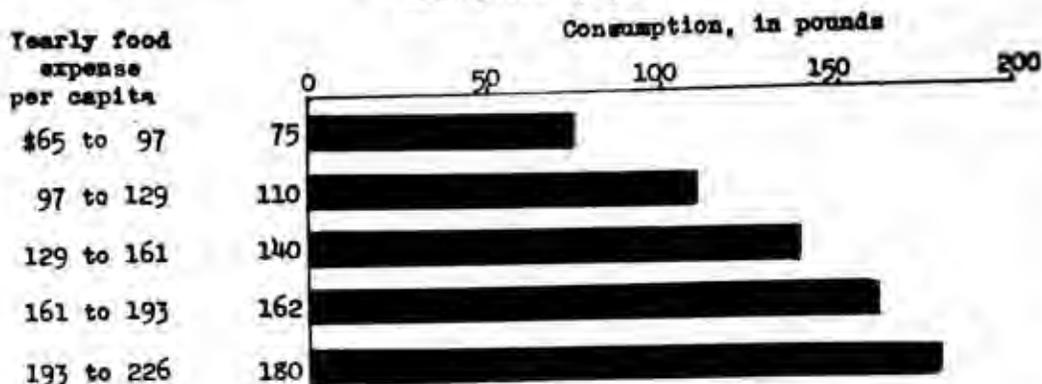
March - May 1935: BUTTER AND OTHER FATS: Weekly per capita consumption by families of employed wage earners and salaried workers, multiplied by 52



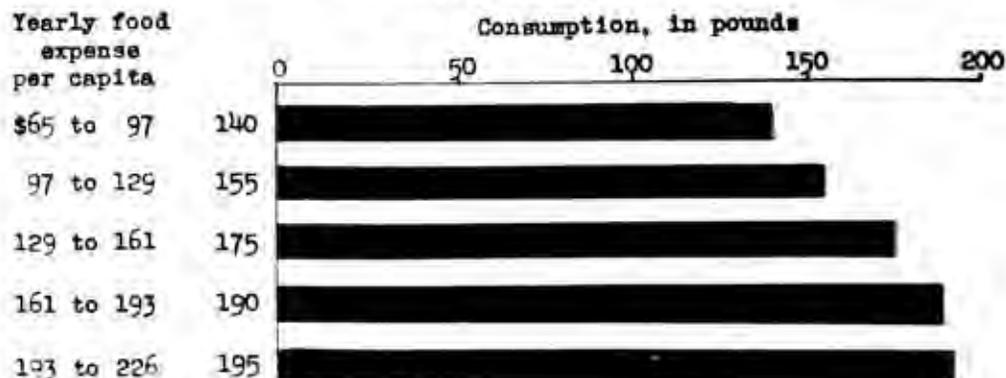
From the Bureau of Home Economics, U. S. Department of Agriculture.

Fig. 8

March - May 1935: LEAN MEATS, POULTRY, FISH: Weekly per capita consumption by families of employed wage earners and salaried workers, multiplied by 52

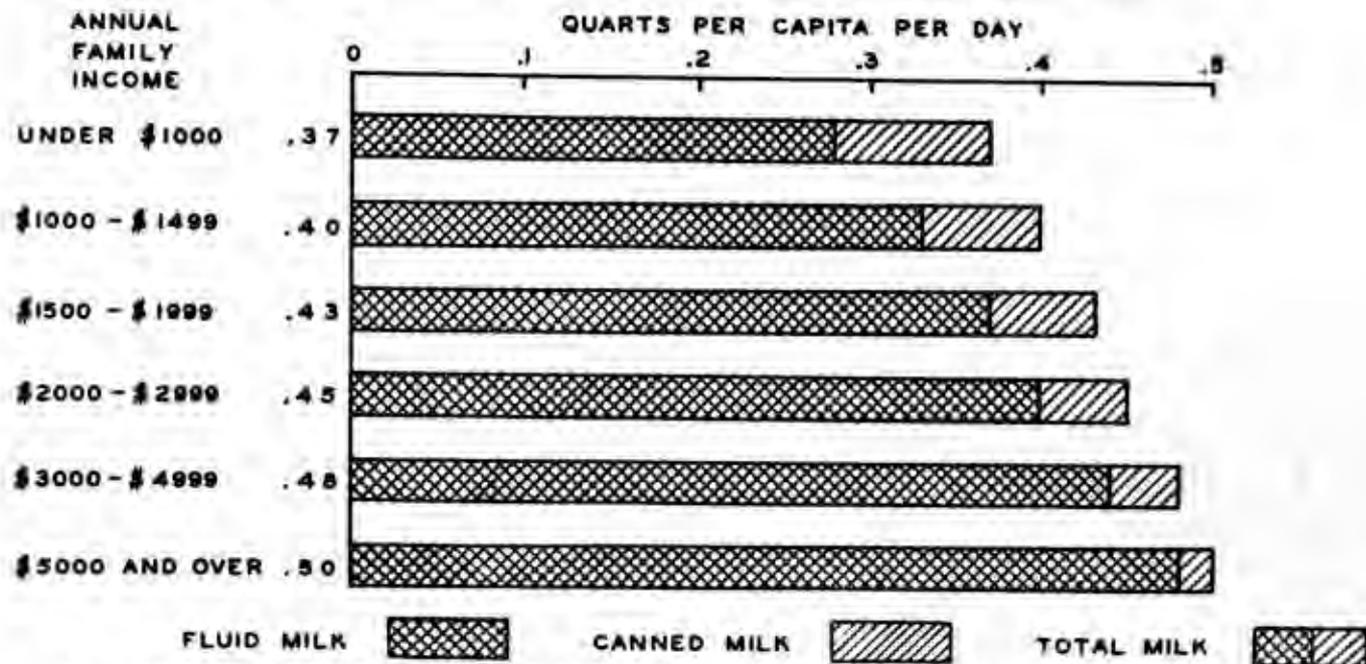


March - May 1935: GRAIN PRODUCTS: Weekly per capita consumption by families of employed wage earners and salaried workers, multiplied by 52



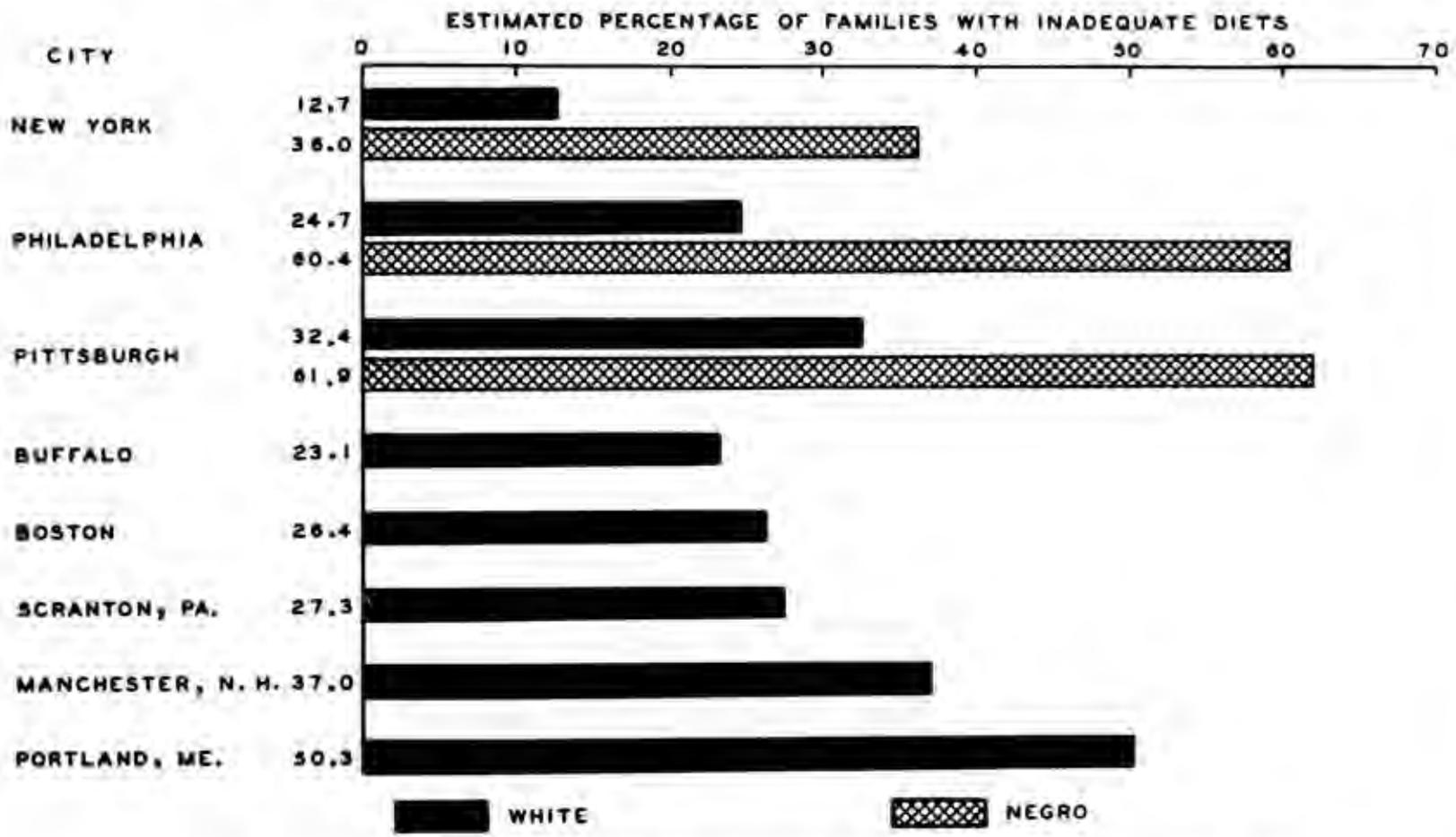
From the Bulletin of Economic Research, U.S. Department of Agriculture

FIG. 10 FLUID^{1/} MILK CONSUMPTION PER DAY IN BUFFALO, N. Y.
 CANVASS OF 26,845 FAMILIES, INCLUDING 102,841 PERSONS, 1935-1936



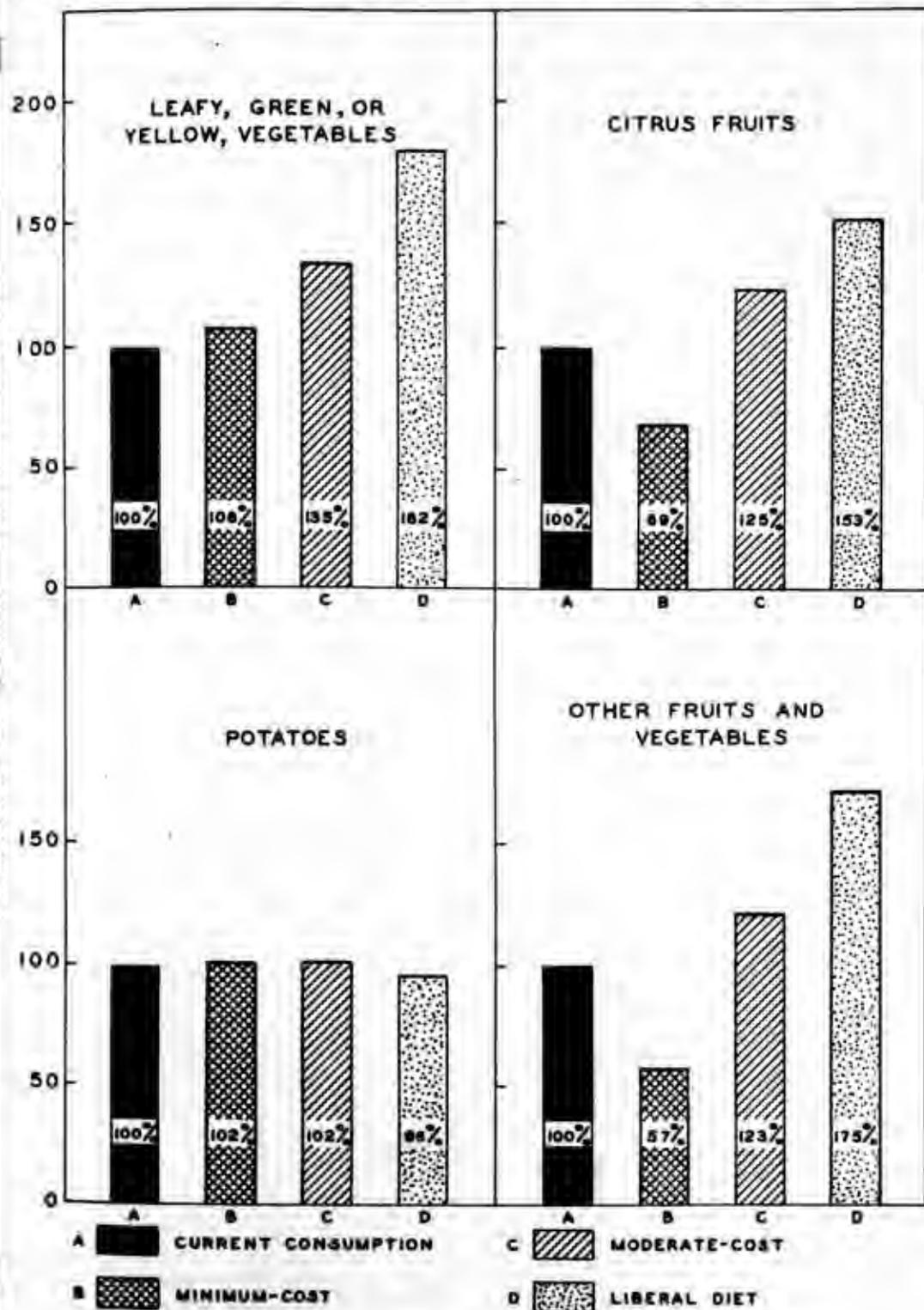
^{1/} Canned milk converted at its fluid value.

FIG. II PERCENTAGE OF FAMILIES IN CERTAIN CITIES WHICH WERE NOT SPENDING ENOUGH ON FOOD TO BUY AN "ADEQUATE DIET AT MINIMUM COST," 1934 - 38



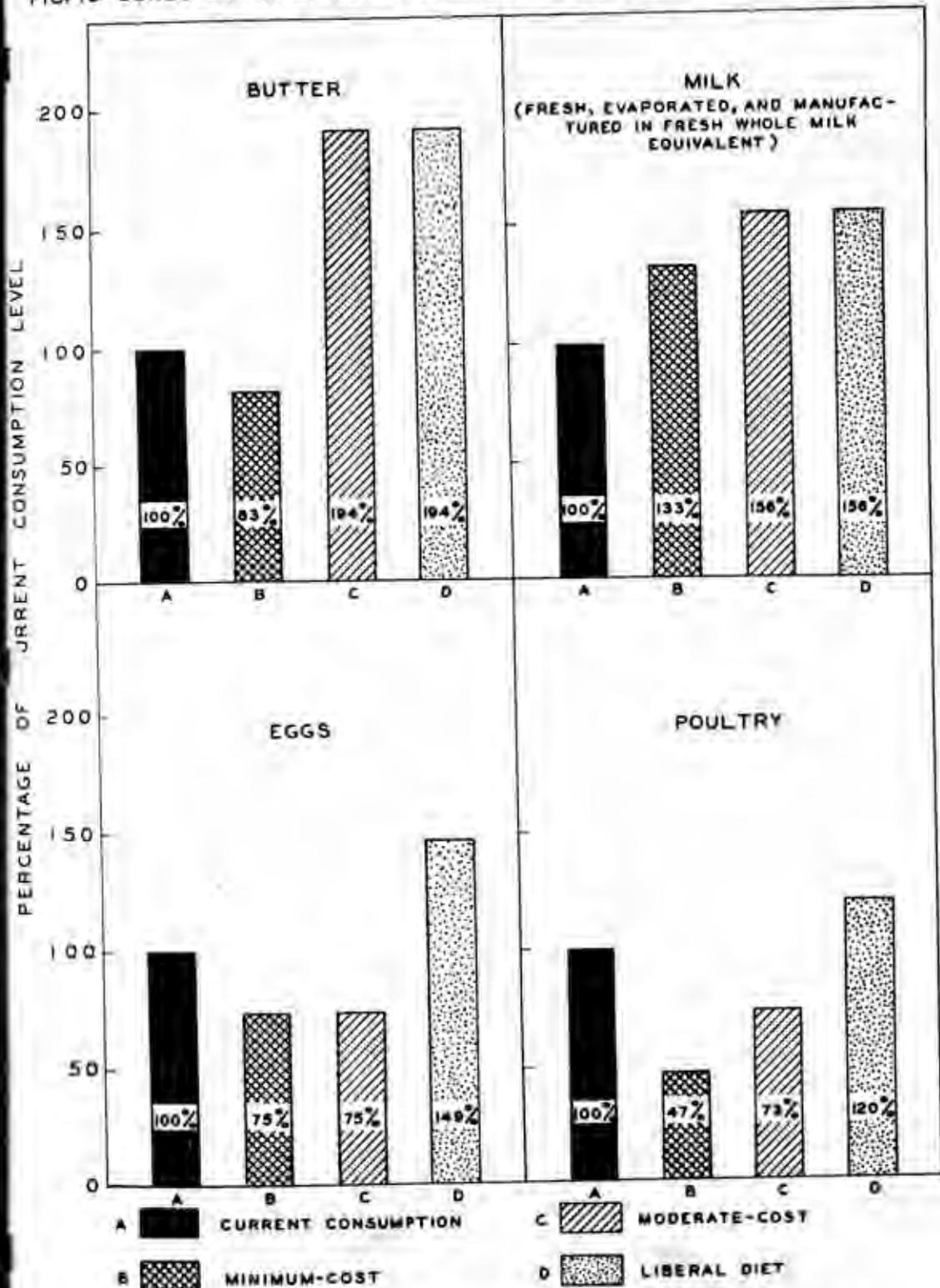
Data compiled by U. S. Bureau of Home Economics and U. S. Bureau of Labor Statistics and published in the Final Report of the Mixed Committee of the League of Nations on The Relation of Nutrition to Health, Agriculture and Economic Policy, Geneva 1937, p. 267.

FIG. 12 CONSUMPTION OF CERTAIN FOODS AT VARIOUS DIETARY LEVELS



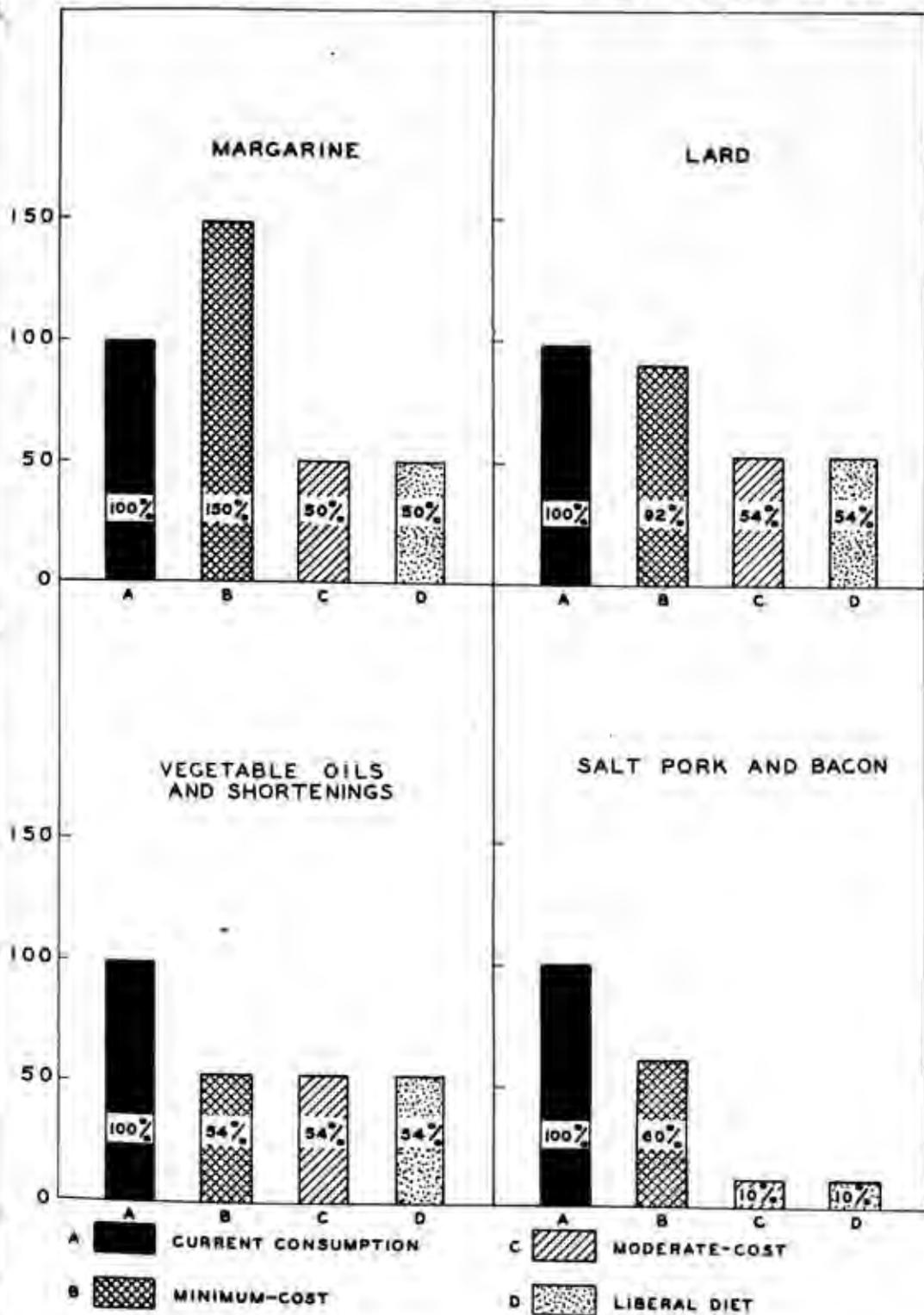
From Program Planning Division, Agricultural Adjustment Administration.

FIG. 13 CONSUMPTION OF CERTAIN FOODS AT VARIOUS DIETARY LEVELS



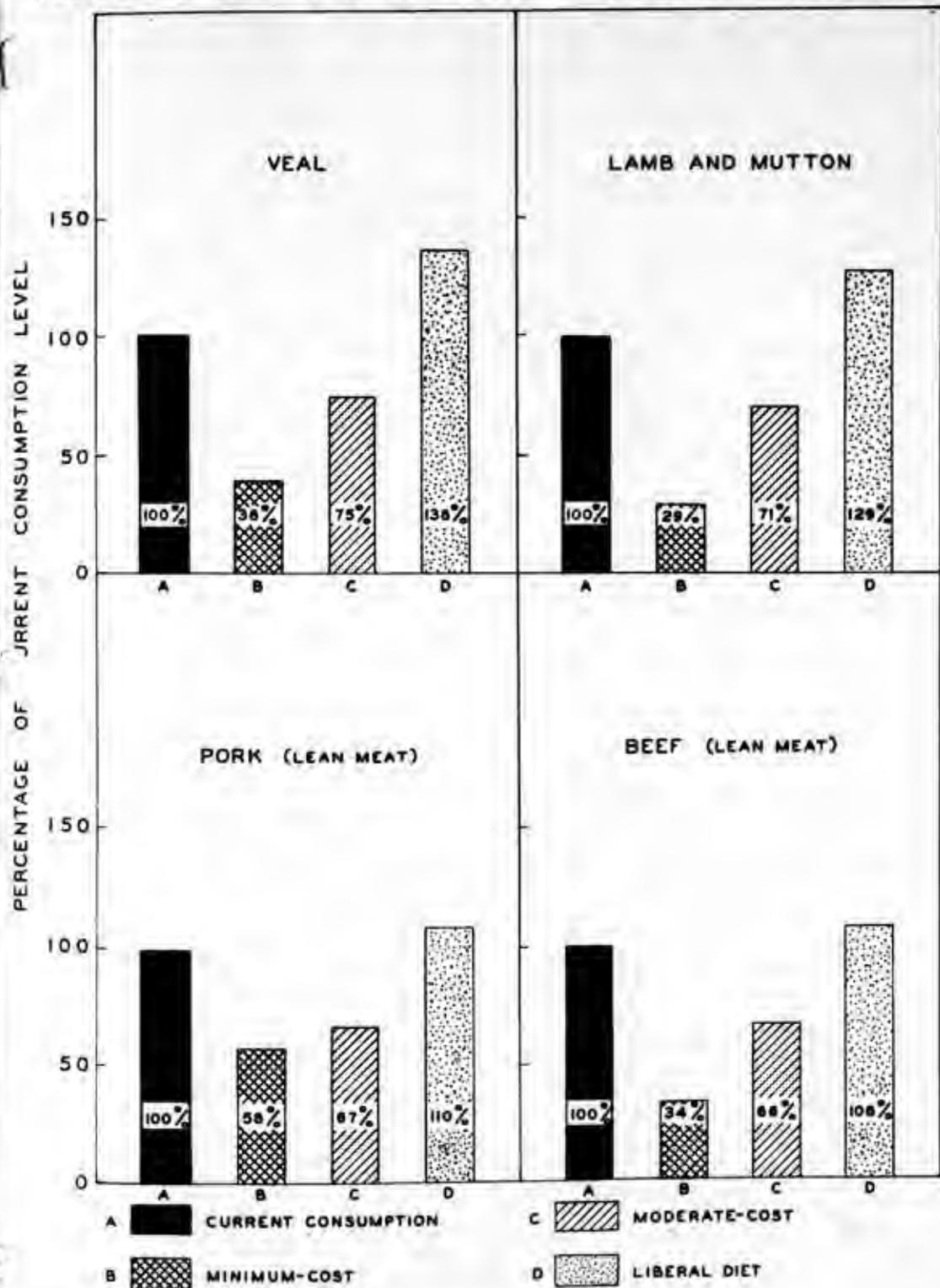
From Program Planning Division, Agricultural Adjustment Administration.

FIG. 14 CONSUMPTION OF CERTAIN FOODS AT VARIOUS DIETARY LEVELS



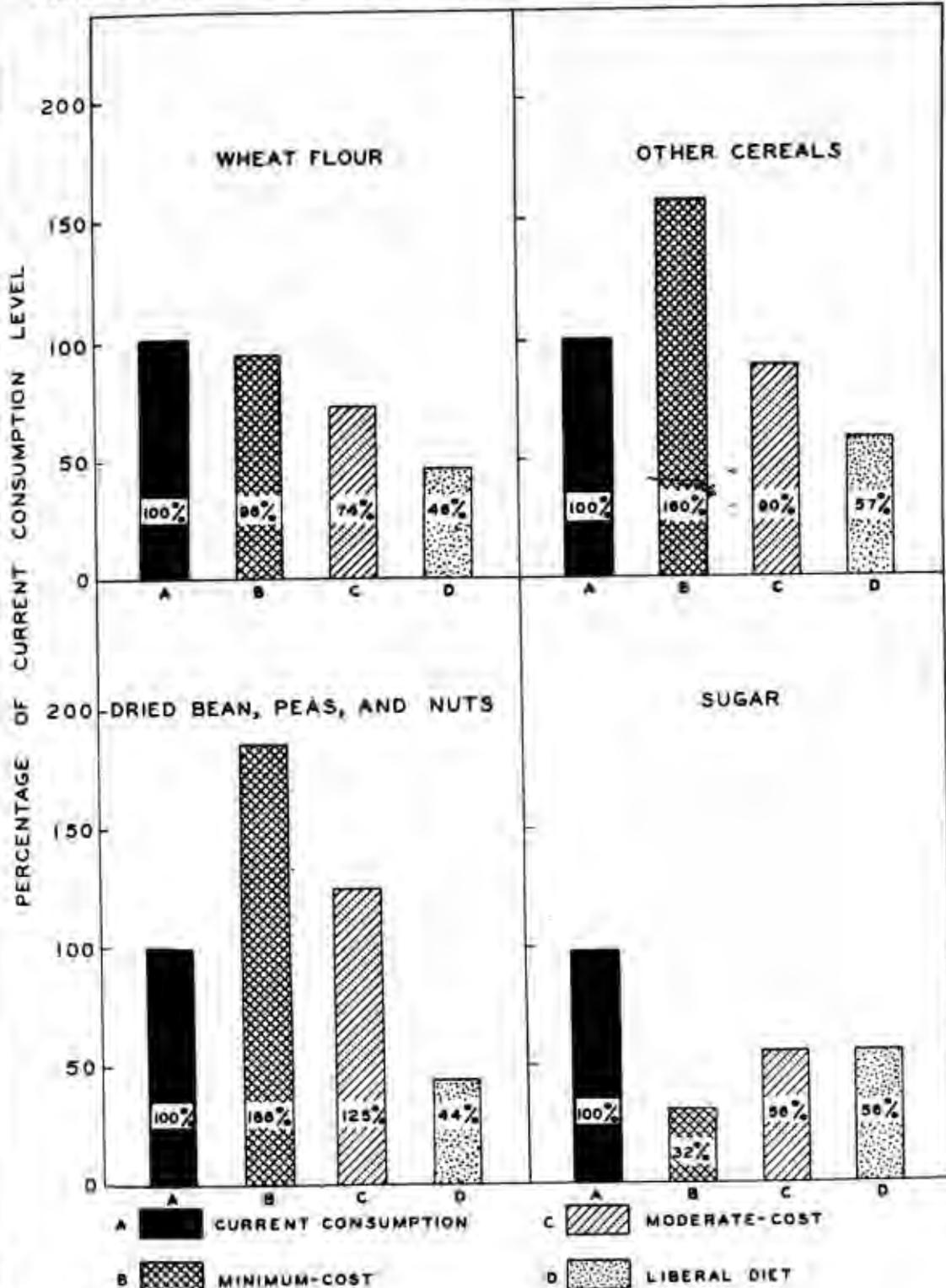
From Program Planning Division, derivations adjusted for any...
 From Program Planning Division, derivations adjusted for any...
 From Program Planning Division, derivations adjusted for any...

FIG. 15 CONSUMPTION OF CERTAIN FOODS AT VARIOUS DIETARY LEVELS



Source: U.S. Department of Agriculture, Agricultural Research Service, Washington, D.C.

FIG. 16 CONSUMPTION OF CERTAIN FOODS AT VARIOUS DIETARY LEVELS



From *Program of Feeding Children*, Department of Agriculture, Washington, D.C., 1944.



IN REPLYING
ADDRESS THE SURGEON GENERAL
U. S. PUBLIC HEALTH SERVICE
AND REFER TO

TREASURY DEPARTMENT
PUBLIC HEALTH SERVICE
WASHINGTON

160

May 25, 1938.

The Honorable,
The Secretary of the Treasury.

Dear Mr. Secretary:

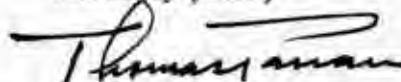
I was very glad of the opportunity to talk with Mr. E. E. Babcock this morning. It seems to me that he has worked out a very sound plan to deal with a part of the wheat surplus and at the same time to promote human nutrition.

Would it be helpful if I were to call promptly a committee of eminent nutritionists to review the material we have assembled and to make a statement concerning the extent to which there is a deficiency in food consumption in the country? A report from such a committee along the lines of the material we have furnished you would attract public attention and aid in popularizing your plan.

On the other hand, you may think it better to try to sell the idea directly to the President and let him take the initiative in publicizing it.

One further suggestion, - while the report which Mr. Babcock has submitted to you contains a sound plan, I think it could be somewhat better presented in order to catch the President's attention.

Sincerely yours,


Surgeon General.

TP:MTL

JR

GRAY

Paris

Dated May 25, 1938

Rec'd 11:04 a.m.

Secretary of State,
Washington.

829, May 25, 2 p.m.

FROM COCHRAN.

Principal features of the second series of 53 decrees issued under full powers authorized by law of April 12 are:

One. Program of public works in France and colonies representing an expenditure of eleven billion francs spread over two years;

Two. Measures designed to develop credit machinery for commerce and industry principally through lower interest rates and modification of the production tax;

Three. General economic measures of a nature to increase exports (chiefly through group organizations benefitting by fiscal and credit privileges, the granting of special facilities to certain enterprises and the extension of existing legislation relating to the assurance of export credit by the state) to develop trade with the colonies and to improve agricultural conditions.

Four. Social measures providing for the modification of the 40 hours law (while maintaining principle of the
law

-2- #829, May, 25, 2 p.m., from Paris.

law, work hours are fixed at 2000 per annum) organization of compulsory technical training and a form of pension for aged workers; (END SECTION ONE).

BULLITT

WFC:HTM

SECRET
JUN 25 1951
FEDERAL BUREAU OF INVESTIGATION
U. S. DEPARTMENT OF JUSTICE
WASHINGTON, D. C. 20535

JR

GRAY

Paris

Dated May 25, 1938

Rec'd 1:40 p.m.

Secretary of State,
Washington.

829, May 25, 2 p.m. (SECTION TWO).

FIVE. Measures designed to improve the administration of local and government finances.

With respect to ways and means envisaged of financing public works program, the Caisse des Depots has been requested to contribute to a more important degree than at present, and the state credit agencies for local bodies have been placed in a position to double their advances. Furthermore, the system of local loan issues has been strengthened through granting of state guarantee, et cetera. Of the total failure outlay of eleven billions envisaged during 1938-39-40, the state will participate to the extent of six billions. The balance will be raised by the local authorities concerned. The memorandum of the Government indicates that this participation of the state will be covered by resources which it is now possible to withdraw from the Treasury.

Measures decreed to develop credit for industry and commerce include permitting private credit institutions

-2- #829, May 25, 2 p.m., (SECTION TWO) from Paris.

to borrow more importantly from the Caisse des Depots. The latter, with the assistance of Bank of France, will be placed in a position to make one billion francs available in this connection. The Credit National will be enabled to increase present system of medium term credits by one thousand three hundred million francs. Important modifications are provided for as concerns state credit agency for aeronautic construction. Finally the existing endowment of the official hotel, industrial and commercial credit agency will be increased. Altogether these various measures will make more than three billion francs available for medium term credits for industry and commerce. System of interest rebates instituted by the decree of August 25, 1937, will be enlarged and in order to stimulate the circulation of capital a series of measures are proposed to facilitate and popularize payment by check.

BULLITT

HPD

REB

GRAY

Paris

Dated May 25, 1938

Rec'd 1:50 p. m.

Secretary of State,
Washington.

829, May 25, 2 p. m. (SECTION THREE)

In the memorandum which accompanies the decrees particular stress is laid upon the determination of the Government to follow an active policy to hasten economic development and business recovery. Stress is also laid on the fact that the Government is not resorting to the device of creating new money but that a major object of the new policy is to find immediate and profitable employment for the abundance of available and idle capital and to increase the productivity of labor.

While it is yet too early to indicate the impression made upon public opinion by these latest measures comment noted in the financial press is to the effect that the Government has set up a coherent and logical plan which takes into account the capacity of the public finances and the requirements of local bodies and individuals.

REB

2-#829, From Paris, May 25, 2p.m.
(Sec. Three)

individuals. However, one of the main features of the plan, namely, the public works program, is not favorably received by LE TEMPS. This paper recalls that previous efforts in this direction both at home and abroad have not given encouraging results. Particular criticism is made of the fact that funds will be thus taken off the market which could be used advantageously otherwise and interest rates increased to the detriment of private trade and commerce.
(END SECTION THREE)

BULLITT

GW

WWC

May 25, 1938.
11:45 a. m.

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Operator: Mr. McReynolds.

McReynolds: Yes.

H.M.Jr: Mac?

M: Yes, sir.

H.M.Jr: The Postmaster General just called me and said the post office would like to move that silver from New York to West Point, and he said they can do it.

M: Well, I told them two weeks ago, "For God's sake get busy and give us some figures", which they haven't done yet.

H.M.Jr: Well Ramsey Black.

M: Yes.

H.M.Jr: And Jim Farley says they'd like to do it and can do it.

M: Well, of course, I'd be just tickled pink to let them do it.

H.M.Jr: All right, and I says "As far as the Army is concerned, spinach".

M: Yes.

H.M.Jr: See? Let's forget the Army, and if Farley wants to do it, let the post office, they've got a swell organization, let them do it.

M: Yes. Well - there's been no hanging back on my part, if they can do it -

H.M.Jr: Ramsey Black is ready and they're ready to do it.

M: Yes.

H.M.Jr: O. K.

M: We'll undoubtedly have their figures today.

H.M.Jr: All right.

M: Because it means you've got to move that silver - pick it up and lay it down twice instead of once - if they do it.

- 2 -

H.M.Jr: How's that?

M: Because you've got to move it on the car - on a railroad train - and then got to move it from a railroad train into the -

H.M.Jr: Oh, but - but that's all right - that gives the railroad some business. God knows they need it.

M: Yes. I know, but it gives - we've got to pay for the -

H.M.Jr: Will it cost any more?

M: We've got to pay for moving a million bars - seventy two pound bars twice instead of once.

H.M.Jr: Well, does it cost twice as much.

M: It costs twice as much to move it, but you've got an offset again - they haven't given us their estimate on that and I've -

H.M.Jr: Call up Ramsey Black.

M: Yes, I will. I've been - I told his man two weeks ago.

H.M.Jr: Yes.

M: That we - that we'd be delighted to have them do it.

H.M.Jr: O. K. Mac.

M: And I'm just waiting for his figures, and I've asked for it every day.

H.M.Jr: O. K. Mac.

M: All right. Righto.

H.M.Jr: Bye.

M: Bye.

RE SURPLUS CROPS AND RELIEF

May 25, 1938.
4:00 p.m.

Present: Mrs Klotz
Mr. Haas
Miss Lonigan

Haas: We met for an hour and a half. Do you want a report on it?

H.M.Jr: Do it verbally.

Haas: And we went over several questions, but two main ones. One is this question of disposing of some of their surplus outside the United States, and the question of China - you know that problem. And Tapp - we discussed various angles - and Tapp is going to see the Export-Import Bank; he's going to make a report on that.

Went over this question of exchanging some of our wheat surplus for other strategic war materials.

H.M.Jr: Yes.

Haas: Had quite a long discussion of that. And I knew that there was some work being done over in the State Department, because one of their men - or, Livesey called me up one day and asked about getting some information with regard to financing it, and I suggested that, to start with, he might talk to Henry Murphy. So I called up Livesey and Livesey transferred me to a man named Veach, and I got quite a little background on that. There's been an interdepartmental committee working on it for some months.

H.M.Jr: Years.

Haas: All right, years. And he said to me - the occasion of Veach coming over was that several Senators and some Congressmen had worked up bills and they had opposed them. Finally Senator Thomas, of Utah, said, "Well, if you're for this thing, help us write the bill." And so they've written a bill which is called Senator Thomas's bill. And he said that it's been sent back to these departments and - State and Navy, I think he said, had sent their suggestions to the Budget Bureau for clearance. That's the status of that.

-2-

And I asked him what he thought of the idea of exchanging some of our existing agricultural surplus for some of the other things we needed, and he seemed to react favorably.

H.M.Jr: Who's "he"?

Haas: Veach, of Feis's staff.

H.M.Jr: I see.

Haas: And he said there was a bill which embodied that too. There's nothing new in the world. Also one that embodied the utilization of foreign debts. And he said Herbert Feis said the other day - said we might pull that out again, might be able to do something with it. Mentioned it before, didn't think much of it - wasn't the appropriate time.

Jesse Tapp said - he said, "I think the State Department will object to this right away because it interferes with the normal channels of trade, puts the government in it." After that I talked to the State Department man, and I said, "He seems to be all right about it."

He said, "Well, give Feis two days to think it over and he'll be on the other side of it."

Now, I don't know whether he will or not. But he is going to take up this question of exchanging agricultural surpluses for these strategic materials.

And the chairman of this interdepartmental committee, Veach told me, was a Colonel Harrison, and Feis sometimes alternating for him. So Tapp's going to get in touch with them. He's going to report back what his progress has been. There needs to be considerable study made of where the tin is - I mean these different commodities, and whether there is any possibility to get them to take wheat or some of these other agricultural products.

H.M.Jr: Well, I'd like to forget all the committee business, see? That's spinach. I'd like you to find out - ask Oliphant's shop whether through the Import-Export Bank or any other agency we can swap wheat for tin or wheat

-3-

for rubber or wheat for anything - have we got that authority now? I want him to

Haas: I went into that too.

H.M.Jr: See? You know the answer yet?

Haas: Well, Jesse Tapp thought with a couple of subterfuges and making a corporation - that it could be done.

H.M.Jr: How?

Haas: He said they exported some wheat before and

H.M.Jr: Well, look, to get the thing nailed down, give it to Oliphant. Let him give you a man to nail it down. See, George?

Haas: Yes.

H.M.Jr: Now, now does Tapp react to the general - does he get my philosophy on this thing? Is he at all interested?

Haas: Well, I tell you, he didn't specifically say, but my impression was that they may favor - they realize they've got an enormous surplus: nearly 400 million bushels carry-over next year, what it amounts to; but if this is going to be a substitute for reducing acreage, that's something else again. That was what I felt he was apprehensive about. I didn't raise that question at all with him. I raised the question of getting rid of this surplus, and I told him that a year from today they'd certainly be glad to take any kind of a suggestion, when they come around to the 400 million bushels.

H.M.Jr: Well, just for the record, when I talked to Henry Wallace today and dropped the hint that we were working to find ways to increase the consumption of wheat, he said, "Well, that's out of the question." He said, "In the first place, it can't be done. That isn't good dietetics" - is that the word? "You want to give them food which is resistant to disease. You don't want them to eat more wheat."

And he said, "And furthermore, it's bad politics." Get this. "Bad politics, because if you got people

-4-

to eat more wheat, you immediately would run into a jam with the Corn Belt. Very bad politics." All I could do was not to just curse in his face.

But just get that - "Bad politics. If people eat more wheat, you immediately fly into the face of the Corn Belt."

Well, I felt I was talking - I felt like saying, "I'm talking about feeding human beings, and not hogs."

Lonigan: You wouldn't fly in the face of the Corn Belt either.

H.M.Jr: What?

Lonigan: You wouldn't fly in the face of the Corn Belt.

H.M.Jr: He flatly turned it down, see?

Baas: I wondered - you see, these fellows, I've worked with them a long time on different occasions, and one of them said - a man named Bell, who was a wheat man in AAA, said to me, "You know, if we get rid of that surplus...." - in other words, with that hanging over the people's head, it would help promote their program of restriction - the necessity for their restricting acreage.

Miss Lonigan went in with Tapp as to the possibilities of how much wheat might be moved into consumption. She could report on that.

H.M.Jr: Very briefly.

Lonigan: That plus the other thing you asked me to get up. Their figures show - the figures that he gave you are a maximum; they're not actual commodities going in. And the amount of commodities going into Cleveland actually in April - as nearly as I can estimate them - there were five commodities went in. Per family - this is just an estimate; I have the actual commodities, but nobody has the actual number of families.

H.M.Jr: Have you got the commodities?

Lonigan: Yes, sir.

-5-

Now, the average - divided by 20,000 families -: 103 pounds of apples in the month of April; two and a half pounds of butter; seven pounds of oranges; sixty-seven pounds of potatoes, two pounds a day; and a third of a pound of rice.

H.M.Jr: May I have that?

Lonigan: I'll read you what they didn't put in. No beans, no cabbage, no vegetables, no flour, no grapefruit, no dried skim milk, no peas, and no prunes - that were in your list.

H.M.Jr: Well now, Miss Lonigan, isn't there some way - may I have that, please - isn't there some way of Wait a minute, I don't get this. What's the first - this 36 pounds, of what?

Lonigan: First column is the column they gave you.

H.M.Jr: 36 - is that potatoes? Apples.

Lonigan: Apples, yes.

H.M.Jr: Actually 103.

Lonigan: Yes, sir.

H.M.Jr: Then they sent more, did they?

Lonigan: Yes.

H.M.Jr: Beans, they claimed 3.

Lonigan: Yes. They didn't send any. And no flour.

H.M.Jr: Now, can I use that? I mean would you stand up under white heat on that?

Lonigan: Well, the only difficulty is, Mr. Secretary, that it is not the fault of the Surplus Corporation. They're doing what they're told to do.

H.M.Jr: By whom?

Lonigan: By the Secretary of Agriculture and the Relief Administration.

-6-

- H.M.Jr: Well, look, somebody in the United States ought to know how much went into the City of Cleveland, say, last week.
- Lonigan: Yes, sir. Well, that's last month. Last week - I don't know if - they didn't have it in the Corporation - they have it here in Washington. I think he said he gave you a report, an emergency report he worked up for you on commodities that went up. He told me he did. I didn't know. I hadn't seen it. He said they worked up a special report on five or six cities on commodities for you.
- Klotz: I never saw it.
- Lonigan: I didn't have it, so I just said I didn't know.
- H.M.Jr: Well, why not write a letter for me and say, could they, beginning now, give me each week what went into
- Lonigan: They'll do that. They'll give it to you each month. I mean I've already asked it for each month. If you want it each week, we'll ask for it.
- H.M.Jr: Well, how about this 103 apples - but would that stand up, or is that an estimate on your part?
- Lonigan: That's an absolute figure - absolute table of the actual commodities. I have to divide it by an estimate of families.
- H.M.Jr: Where did you get that from?
- Lonigan: Well, there are 27,000 families on relief, and I took 20,000.
- H.M.Jr: Oh, I see.
- Lonigan: There is no rhyme or reason - the actual commodities I got from them - it's so low that you could take 10,000 families and it still would be shocking.
- H.M.Jr: All right.
- Haas: There's a very important paragraph on the second page

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of that. I'm not sure the Secretary has got it.

H.M.Jr: What's that?

Haas: That one about using that in place of relief money. That's worth explaining. In other words, the cities

H.M.Jr: Where is that?

Lonigan: I think you were reading it, Mr. Secretary.

Haas: The cities and local subdivisions have been trying to cheat on Federal Surplus Commodities.

Lonigan: Got a reason for being cautious.

Haas: Use their money and hold back the other.

Lonigan: If they weren't careful, they'd be the goats.

H.M.Jr: Who would be the goats?

Lonigan: If the Surplus Commodities Corporation wasn't careful, they'd be the goats for the whole relief program.

H.M.Jr: I see.

Well, they shouldn't be.

Lonigan: No, sir.

H.M.Jr: Hopkins, if it's anybody - it's his responsibility.

Lonigan: That's why I didn't want you to use it and have someone

H.M.Jr: Well, I want - now just let me ask you another question. This memorandum of Babcock, have you got that?

Haas: On Parran?

H.M.Jr: Babcock.

Haas: Yes, I got that.

-8-

H.M.Jr: I had it copied and sent it back to you.

Haas: Yes, I've got that.

H.M.Jr: Are you sure?

Haas: A photostat copy.

H.M.Jr: I'd like Miss Lonigan to see it. That's a brilliant piece of work.

Lonigan: He's a grand person. Oh, he was magnificent.

H.M.Jr: (Laughs)

Lonigan: Oh, it was exciting to sit here.

H.M.Jr: You're not the first one he hit like that.

Lonigan: He knew his stuff.

H.M.Jr: What?

Lonigan: If a man knows his stuff, he tells it in the first three sentences.

H.M.Jr: Did you see the memorandum of yesterday?

Lonigan: No.

H.M.Jr: For heaven's sake let her see that.

Haas: I just got it.

H.M.Jr: There's a - it's politic, and he's easing us into the thing, rather than bulling his way into the thing.

Haas: I think I only got the enclosing letter, though. I'll check with

H.M.Jr: Well, I don't know who copied it.

Klotz: That was the thing you gave Kieley to have photostated.

H.M.Jr: Yes, a memorandum.

-9-

Haas: I just got the front sheet. Looked like an enclosure. I mean looked like the covering letter.

Klotz: I know what you mean.

H.A.Jr: I'd send two copies back.

Haas: Let me check.

H.M.Jr: That's all right, we'll get around to it.
You (Klotz) didn't handle it.

Klotz: No, I didn't, but I'll look.

H.M.Jr: I told him to do it. Maybe he did do it. Let's just settle it. Did I do it through Kieley?

Haas: I got it marked "Personal and Confidential" - one sheet.

H.M.Jr: There's a letter which he sent me, and an accompanying memorandum.

Haas: I got the first.

H.M.Jr: Well, the letter was unimportant. The memorandum is what I want you to get.

Haas: Well, you held that up.

H.M.Jr: That's the thing.
Now, anything else on this?

Haas: I gave Babcock a preliminary report from Dr. Collins and you gave Dr. Parran until noon today to have his statement, and I've got it - the final. Here it is.

H.M.Jr: Thank you.

Haas: I'll give Miss Lonigan the other copy.

H.M.Jr: Babcock thought that Parran's work was so good

Haas: He's put quite a few charts in there because he thought you were chart-minded, and he said, "If he

-10-

brings it over to the President, the President is also chart-minded." So he's really done himself well on the charts.

H.M.Jr: All right. Now, what else?

Hans: That's all I've got.

Lanigan: I talked with Mr. Brickett after I finished with what you asked me to do yesterday, and we cleared on this question of giving commodities to the self-help exchange throughout the whole program, if it goes through.

Mrs. Morgenthau says she was working on Governor Myers at the same time.

H.M.Jr: How she worked on Governor Myers?

Lanigan: And he was all prepared this morning, and he went right to work. And we called him up and asked him if he was still on the Corporation. Now I think we have him a little ashamed, and they're going to have a meeting.

H.M.Jr: She just kidded him last night.

Lanigan: I believe it. I've seen her work.

There was one other point, Mr. Secretary. It was beautiful - Mr. Brickett - Mr. Tapp mentioned today the possibility of 25 millions of this wheat moving into domestic consumption through leading channels. Now, of course, that's nonsense. If they wanted to move it and the thing was worked out right, it could possibly be a hundred millions. The Department of Agriculture has got a curious idea that they call inelastic demand. Their economists talk about it and say you just can't move more agricultural products, it just isn't - there's nothing to it, it's nonsense.

And you can move all of them if you move them into the people that really need them. There's the pellagra in north Texas, all these people in the mountains in Tennessee - all over the country.

-11-

- H.M.Jr: I imagine that's covered in the Public Health report.
- Lonigan: I mean the places to which you can move this, if you want to - 25 millions of wheat is nonsense.
- H.M.Jr: Well, the point is, after I get the President's and Mrs. Roosevelt's interest - the reason I'm hurrying - I'm going to see Mrs. Roosevelt at 4:30 on this. After I get this thing going, then the President can get a committee. But this trying to change five years' philosophy around - it's not easy. I mean it has to be done - a sort of hedging into this thing. But keep moving.
- Haas: I think you're making
- H.M.Jr: The fact that Wallace is sending people over - we'll get people stirred up.
- Haas: He sent the best men he had, too.
- Lonigan: Do you want to include Mr. John Carmody's name on this electric refrigeration? Don't know whether he would be helpful.
- H.M.Jr: Well, this is - I do know about Carmody, and Myers said he's limited to lending on electric lines; he can't do the other.
- Lonigan: Yes, but he hasn't quite the same limits as Governor Myers. He might be of use.
- H.M.Jr: Well, Babcock is going to start a hundred of them, and he's getting the money from a co-op - National Co-op. So he's starting a hundred himself. But he's borrowing his money from Myers, you see.
- Lonigan: Oh.
- H.M.Jr: Yes, so he doesn't need Carmody. But he said he's starting a hundred right away.

May 25, 1938

These matters were discussed with the Secretary by Commissioner Helvering at a conference in the Secretary's office.

Handwritten notes:
St
L



TREASURY DEPARTMENT
WASHINGTON

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE
REPORTS MADE TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO:

My dear Mr. Secretary:

I have carefully considered the suggestion made upon the occasion of our recent discussion that immediate action be taken to establish further units in the field alike to that recently established in the Pacific Coast area. For the reasons outlined below, I have concluded that I would be derelict in my duties and responsibilities to you and to the Administration if I should fail to recommend against any enlargement of the test arrangement until we have obtained sufficient statistical advice to establish that the benefits claimed for the new plan are actual rather than estimated or hoped for. When and if we have this proof, there will be no more earnest advocate of the plan and no one more concerned to accomplish the rearrangement of procedure and personnel than the present Commissioner of Internal Revenue.

In substance, the plan of complete decentralization of authority and responsibility to the regional division is recommended as one that will (a) provide a more immediate contact between the Bureau and the taxpayer, (b) save costs to the small taxpayer, and (c) result in the more expeditious settlement of the disputes.

There are now approximately 3400 field agents stationed at various posts of duty throughout the country. These men are assigned to 38 division headquarters. The cost of the field force is nearly \$13,000,000. These agents obtain agreements in respect of approximately 85 per cent of the cases in respect of which they recommend changes. An additional 10 per cent of the cases changed by agents are settled in Washington after the customary routine here, without correction of the agents' findings. In all, 95 per cent of the cases changed by agents are settled without the necessity for consideration by a settlement group such as is established in Los Angeles. The field forces have now full authority to negotiate settlements, and except in cases where grave error is apparent, their conclusions are not disturbed. In this connection, your attention is invited to the paragraphs marked in the attached copies of my letters to Revenue Agents in Charge under date of June 29, 1935, and July 24, 1936.

The additional assessments of income taxes during the fiscal year 1937 amounted to in excess of \$250,000,000. Nearly

one hundred million dollars, representing additional taxes in 176,873 cases, was agreed to with the field forces. About \$130,000,000 was assessed after consideration in Washington. Between \$30,000,000 and \$40,000,000 was assessed in consequence of stipulations before or determinations by the Board of Tax Appeals.

Upon the basis of the Los Angeles plan, or the plan of management of all settlement efforts through regional offices, if the cost (approximately \$150,000 per year) of that division (which represents roughly 6 per cent of the job) may be used as a measure, the total cost will be roughly \$2,500,000 annually. This is the amount to be spent in the field offices for the benefit of 5 per cent of the taxpayers who do not agree with the agents' offices and who often refuse to discuss their cases with those offices.

The sources from which the personnel for the new field groups is to be recruited is suggested to be the Washington groups in the Income Tax Unit, the Technical Staff, and the Office of the Chief Counsel. These men located in new environments are expected to prevail with taxpayers who will not agree with the regular organization costing nearly \$13,000,000 and who are actually home folks.

I outline for your information in the following paragraphs considerations which have created in my mind certain doubts that I would wish to have satisfied by known results after a fair test. I am not prepared to concur in a recommendation based solely upon an opinion, however honestly that opinion is conceived, for so drastic a change in the management plans heretofore followed, which has produced since I took office more than \$1,000,000,000 of additional income tax collections.

We must recognize the dangers to which we will subject members of the settlement groups who will be distant from the support of Bureau and Department superiors. They will be subject to the attempted coercion by local politicians who will be able occasionally to obtain the support of Members of Congress. These men (and the settlement men will become field men) to whom is to be delegated all of the Commissioner's authority may agree to results in some cases that will be damaging to the revenues and embarrassing to the Administration. This danger is particularly present in respect of cases involving fraud or negligence penalties where prominent men are involved or may be interested.

It is often true that field agents give more evidentiary weight to occasional self-serving statements by taxpayers and their business associates than would officers removed from contact with interests local to the field division. The new settlement group may likewise be persuaded, and statements by men of local prominence, sometimes in affidavit form, that upon close inspection could not be sustained, might be given undue weight and unwarranted credence. In a respectable number of cases, especially where the amount of tax involved is large, in order to have the advantage of local sympathetic consideration, taxpayers even now elect to pay taxes and to sue in local Federal courts. It is not always

easy for a member of the local community, even when he assumes the character of a settlement officer, to maintain a viewpoint unbiased by local influence.

There is some justifiable complaint under our present management plan that our decisions in respect of security and other valuation questions lack uniformity. The matter of depreciation has caused our field officers and our Washington forces great difficulty. That subject became one of major importance in recent years and you advised Congress that you would undertake to so manage it administratively as to avoid a necessity for legislation that you considered unfair to taxpayers and inimical to the best interests of the revenues.

Certain records of other Government Bureaus have been of inestimable value to the Washington forces and have aided materially in the recovery of taxes due the Government. They are of easy access to the Washington forces who more or less constantly consult the records of the Interstate Commerce Commission, the Federal Trade Commission, the Bureau of Mines, and of other Bureaus. The Securities and Exchange Commission records have been very valuable in certain cases, and of course will be more so in future years. These records will be inaccessible to the field forces.

To place the plan in more or less immediate effect throughout the country, it has been suggested that the Washington forces must be sent to field stations. These people, interested in the continuous and steady move to have cases settled in the field, have been wholly conscious that there would be a reduced force in Washington, but they have had no reason to suspect such drastic immediate action. Most of these men and women who would go to the field must sacrifice considerable, if not all of their life's savings, which is usually represented by an equity in a home. They must interrupt and readjust plans for the future of their families, and with no hope or expectation of increased compensation. Probably a substantial number of the more valuable employees would retire from the Service to private employment or transfer to some other Government branch. The morale of the force, now seriously impaired, would be further damaged, if not destroyed.

I am frank to state that there is a humanitarian aspect here that gives almost complete pause to any inclination I might have to take a chance based upon the flattering reports of the benefits claimed to be apparent during the very short period of the operation of the Los Angeles experimental office.

There are 40,000 tax practitioners enrolled before the Treasury Department. There are other thousands not enrolled. There are approximately 4,000 technical employees in the Income Tax Unit, field and Washington. We think there is a gain in strength through the grouping of our forces. It is elemental that a divided group cannot maintain the strongest defense, and distance from the directing head will weaken any force both in its offense and in its defense.

It is to be observed that no cases are reserved from the application of the proposed management scheme. I have every wish to help

the small taxpayers settle their cases without undue expense, but I feel assured that you and I would want positive assurance that we were not endangering the opportunity of the Bureau to protect the Government against the tax avoiders and chiselers and against the designs of selfish men to defeat the revenues to their own benefit.


Commissioner

COPY

TREASURY DEPARTMENT

WASHINGTON

June 29, 1935

OFFICE OF
COMMISSIONER OF INTERNAL REVENUEADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TOPersonal Attention

Mr. E. P. Hutchinson,
Internal Revenue Agent in Charge,
Old Post Office Building,
Columbia, South Carolina.

My dear Mr. Hutchinson:

It seems appropriate as we approach the close of the present fiscal year to consider the objective for the coming year when we are to have a very substantial addition to our investigating force. We may properly estimate our opportunity to do more and better work during the fiscal year 1936.

Long ago we reached the conclusion that as most tax cases involve but fact questions, and the Government's case must depend upon data and evidence obtained by field employees, more closings should be obtained by the field officers. A very persuasive argument leading to that conclusion was that taxpayers should not be required to pay the costs incident to travel of their counsel or themselves to Washington. We need to consider the results obtained since we adopted that policy to determine if the objective has been accomplished.

A consideration of the results obtained by officers representing the Bureau before the Board and courts in cases appealed after the release of final deficiency letters should be helpful to our conclusion. Cases litigated are often cases for earlier years, and a case involving an attempt to collect a tax for a year long past is never a popular cause before a judicial or quasi-judicial body. Courts are not particularly sympathetic to claims which may appear to be stale or late. This unfavorable reaction is not capable of identification in tangible form, but it is an especially natural impulse to arbiters in tax cases, and alert counsel will have all possible benefit to be derived in consequence.

In the management of our work we should consider all of the risks that are incident to delayed settlements, and our efforts to settle should contemplate all known hazards. We will have in mind cases where the settlement after appeal or suit has not been as favorable to the Government as would have been settlements that were offered to us prior to litigation. It is but reasonable to estimate our chances and to have due regard for the risks of litigation during the earlier stages of case development.

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The employment of additional field forces should result in more positive efforts to obtain agreements in field offices and an increased percentage of tax agreed to in the field. Men assigned or to be assigned as group chiefs, as conferees, as reviewers, or in other key positions, should be men of judgment and vision who can estimate the probable results of continued effort to obtain agreements from taxpayers to proposed deficiencies and who will have the courage to recommend positive action. The subject is one of great importance and deserves your first consideration.

We may not safely close our eyes to the arguments of the taxpayers. It is only good sense to have every regard for the contentions offered by the opposition. We, of course, have no wish to assess or collect a tax that is not due, and have always maintained an impartial view which most certainly requires that we consider both sides of a tax question. It is so very essential that we have respect for the views of the taxpayer and so much a part of our philosophy of management that we do so that it is probably not necessary that I mention it, but the principle is so important that I cannot neglect to call it to your attention. And it is most necessary I think that I remind you that it will be desirable that you consider carefully the costs that may result to the Government in an attempt to establish and collect taxes based upon too technical interpretations of the statutes.

We are to make a great many more examinations during 1936 than have been made in prior years. The opportunity to do this is the basis upon which we predicated our request for an additional appropriation. The increase in our force justifies us in the expectation of a better and larger product. The comment by field men to the effect that hundreds of thousands of investigations which could not be made with the inadequate force provided for earlier years would have produced each year many millions of dollars of additional revenue has borne fruit. The appropriation has been provided, the men have been hired and are being trained, and it is now our opportunity to make good our promises.

There ought to be no need for Washington to question and no opportunity for it to adjust or change a record as to fact questions. And the field forces are well equipped to apply the law to the facts. We must make every effort in the field to convince taxpayers that our conclusions are sound and in conformity with the law. Please see that agents' reports in respect of items concerning which your agents and officers may be in doubt are most carefully prepared and that the data concerning such questions are as complete as good management will permit.

The tax services and other reference material furnished to the field forces are ample and it is expected that agents will study tax decisions and acquaint themselves with precedents established by the courts and the Board of Tax Appeals. Ours is a Service that

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requires that we keep constantly abreast with changes, and the agent who fails to keep up with the procession becomes a liability.

We close in the field (in numbers of cases) a large percentage of the work handled, and we have from time to time pointed to that result as indicative of having progressed toward our objective of more complete decentralization in fact. But we have not made the progress we should make in securing agreements in respect to cases involving large sums of proposed deficiency taxes. Our effort in the future must be to improve our record in that respect.

Our records show that field parties representing the Commissioner's Technical Staff or the Office of the Assistant General Counsel close a large percentage of cases assigned to them without trial, and by agreement with taxpayers or their counsel. Every case so closed should be very carefully examined by the originating division. This study will assist us in our management of cases developed in the future since we will learn what circumstances prevented that settlement by our own forces before the release of the final deficiency letters.

I have in mind, I think, your reaction to the suggestion just above. At times we will be disappointed with the results obtained by settlement. Very earnest and well-informed men will often entertain very different views as to what may constitute a good and proper closing of a tax case. Certainly it is but good, sound sense to estimate, in our consideration of a case, the risks of litigation, and our efforts should be to secure settlements that seem reasonable in view of all the circumstances, of which we must all agree an appraisal of our chances before the courts is an important feature.

Our interest in the successful management of the work of the Income Tax Unit must be subordinate alone to our interest in the success of that of the Bureau as a whole. We should manage our affairs, at all times, in such a manner as will add to the prestige of the Income Tax Unit and meet the wishes of the Bureau and Department executives to whom we report. We will be criticized if our task is not well done since our undertaking is not one which will attract complimentary comment. No one likes the "tax gatherer." This fact, it seems to me, must be the signal to all members of the Unit sincerely interested in the Service to be most careful of their official actions.

When records that are not the best that can be developed and that will not stand up are released by field offices, the Government is definitely handicapped in its subsequent management of the cases. It is our responsibility to protect the Bureau of Internal Revenue from justifiable criticism. A positive effort in that respect is represented by the preparation in the field of the best and most complete record in support of a tax case developed.

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I realize that there are temptations to forward records to Washington that are not as fully developed as may be possible upon unusual effort. All of us will become impatient at times upon an inability after earnest effort to obtain the cooperation of taxpayers or their counsel. At times the field men will feel that recommendations more or less drastic in character are necessary to obtain the proper response to their efforts. When we reach that conclusion, it may be well to pause and consider the effect of arbitrary action upon the Government's case. A poor record is dangerous to the Government's interests and helpful to the taxpayer's case. It affords the opposition immediate opportunity for criticism and attack. It must be our purpose to give especial attention to reports suggesting arbitrary action. A case recommending arbitrary action should not be forwarded to Washington until it has had the personal attention of the Agent in Charge.

I wish to write you very frankly concerning another most important aspect of our work. We maintain statistics designed to show the total amount of tax recommended, and at appropriate intervals, we chart the results. This offers an opportunity to compare the yields from the different divisions. This record is interesting but not particularly persuasive to any sound conclusion in comparing the relative efficiency of the several divisions.

We, of course, continue to study the results of the further management of our cases, to ascertain the percentage of the recommended tax that is sustained, either before or after the release of final deficiency letters. We do not as a rule have a basis for sound conclusion over any comparatively short period. But over a period of years we will arrive at a point where, having proper consideration for unusual incidents, we are able to reach a satisfactory comparative basis. After all, as in any private business, we must have an appropriate regard for the profits accruing to the Government for the dollar we spend. Our problem in a large sense is perhaps no different from that of the average business concern, except that we represent all of the people and are at the same time their servants. Obviously it is our duty to obtain the best profit result possible. The size of the project often imposes upon us a necessity to select what we consider the most productive work, although upon occasions in a particular case where the amount involved is not large, a principle may be involved.

One of our principal objectives during the coming year will be to obtain a better result in recommended tax that will stand up under attack than we have ever had in prior years. You may be assured that the Washington units will stand behind the record that you prepare if it permits, and in the last analysis, our opportunity to improve the record in respect of tax to which the field forces obtain agreements will depend upon our ability in Washington to successfully defend your recommendations.

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Let me remind you that I am always anxious to have your frank comment, criticism, and recommendation in connection with any matter that concerns our mutual interest. I hope you will not fail to submit suggestions for changes either in Washington or the field which in your judgment would improve our Service. I should be glad to have from you a very complete statement in review of the work accomplished by your office during the past fiscal year and in explanation of your plans for the coming year.

Very sincerely yours,

(Signed) Guy T. Halvering

Commissioner.

COPY



TREASURY DEPARTMENT

WASHINGTON

THE USE OF
COMMISSIONER OF INTERNAL REVENUE

APPROVED BY THE
COMMISSIONER OF INTERNAL REVENUE
AND BY THE

July 24, 1936.

Mr. J. C. Wilmer,
Internal Revenue Agent in Charge,
Baltimore, Maryland.

My dear Mr. Wilmer:

We looked forward on July 1, 1935, to an opportunity during the year to undertake more examinations than ever before in a similar period in the history of the Income Tax Unit. We anticipated the preparation of more adequate reports designed to aid more prompt closings of tax cases developed. We had secured a substantial addition to our force of agents and were assured that many thousands of returns of the type that in previous years, because of lack of agents had been returned to Washington not examined, could be investigated. It was as well our expectation that more time could be devoted in efforts for settlement in the field.

An examination of our statistical studies in description of the work done during the year will be helpful to ascertain whether our ambitions were realized. I know you will be as well pleased as I am to note that during the fiscal year revenue agents examined 129,448 more cases than during the last previous year. They recommended \$79,067,897.91 more in deficiency taxes than during the fiscal year 1935, and submitted better and more complete reports than in prior years.

Under date of November 8, 1935, we directed that returns for the 1934 tax year be completed not later than June 30, 1936. Secretary Morgenthau reached the conclusion that taxpayers should be advised promptly when their returns were to be questioned. He felt that it was not fair to taxpayers to be approached for the first time for purposes of investigation toward the close of the limitation period. You have responded to that demand with the zeal and intelligence that we have learned in Washington to expect from our field forces. The taxpayers and the Service will benefit as a consequence of the opportunity we have obtained as a result of the successful management of the accelerated program. We may now commence our work upon returns for 1935 and subsequent years three and one-half months after filing.

There will be available a full year within which to examine the returns filed for 1935 and a like period for each subsequent year. Our task is a recurring one and in the final analysis we can have

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Mr. J. C. Wilmer.

but twelve months within which to do our work upon any one tax year. The step forward toward our objective ideal of quick contacts and early settlements is well worth the splendid effort and sacrifices you made in the little over six months permitted for the examination of 1934 returns.

During the fiscal year 1936 the field forces secured agreements from taxpayers to the assessment of additional taxes in the total sum of \$77,367,187.18. That sum is greater than for any previous year in the history of the Unit and more than \$32,000,000 in excess of the amount to which agreements were obtained by revenue agents during the fiscal year 1935. In my letter to you of June 29, 1935, I stressed our interest in obtaining a better result in agreed taxes in the field and indicated my conviction that your close attention to that phase of your responsibility would result in improvement. I am very much pleased to have my confidence in the field service thus justified.

Let me assure you that the purpose of the Washington organization will be to support your settlements and I am sure you will appreciate that in order to permit us that opportunity, your description of the incidents of adjustments should be as precise and clear as is practicable.

It is reasonable to anticipate that with the more than one year's experience most of them have had, the men added to your force during 1935 will render more adequate return than during the first year of service. We have reason to feel quite well satisfied with what they accomplished during their first year of service and I congratulate you and the members of your staff for the excellent manner in which you inducted them into the work and brought them into production.

It may be well that when you contemplate your task upon 1935 returns to be completed during the fiscal year 1937, you undertake an examination of the results of the work in the Baltimore Division over the preceding five year period, and estimate the opportunities for improvement. This study should supply a record that will aid you to chart the way for 1937. I know of no better advice that one may obtain than is afforded by a study of the history of past performance in any line of endeavor. The Bureau has diagrammed this record for you through periodical statistical tabulations, and it has been our practice and your practice to study the data thus presented in connection with the management of our work during years subsequent to the periods thus described. While a comparison of the results obtained as between Divisions of approximately equal personnel is always interesting, I feel that there should be at least an equal

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Mr. J. C. Wilmer.

interest in comparing the results for the current year with those of previous years, and I recommend that you have this thought in mind during 1937.

Referring further to our occasional habit to compare results of divisions of like size from the standpoint of the number of agents employed, it is quite doubtful whether such a comparison may always be depended upon as a sound basis. It is essential, I think, that we have in mind also the different economic or business conditions in the several divisions, and that we consider the relation of income within the territory served to the national income and to the income of the divisions compared. The deficiency tax yield upon a proper servicing of a section of the country, over a representative period of years, should theoretically approximate in relation to the total deficiency yield the percentage the income of the locality bears to the national income.

We intend to determine tax liability. Our zeal is not alone to collect additional taxes. We will not recommend the assessment of taxes that have no sound basis. It has been pleasing to note that the field service does not hesitate to recommend the refund of taxes when upon examination the record indicates an overpayment. If we are to have the confidence of the taxpayers, we must be as scrupulous in our efforts to ascertain and return amounts overpaid as in the undertaking to collect amounts due but not declared by taxpayers. I am assured, however, that you will appreciate the importance of a very exact record in support of overassessments recommended.

We must as representatives of the Government convince the public that the laws have no bias either for or against any individual, and are intended for application alike to all. Our responsibility permits no fear and no favor, but demands meticulous regard to the rights of the Government (the people as a whole) to the taxes levied by Congress, but in the management of our work we have a positive duty to protect individual taxpayers against unnecessary annoyance.

Occasionally the suggestion is heard that the efficiency ratings and prospects for promotion of revenue agents depend upon the amount of deficiency taxes recommended. We know there is no foundation in fact upon which to base any such charge. It must be our concern to be sure that in no single instance can there be basis for such a criticism. It is my intention to have you understand that I am especially well pleased with the success we have had during the past year, and no part of this communication should be discordant with that purpose. However, I know you will be quite as anxious as I am to have your agents understand that neither their ratings nor their opportunity for advancement may be said to depend upon the

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Mr. J. C. Wilmer.

amount of deficiency taxes recommended. Common sense alone will indicate that given the run-of-the-mill cases, the average agent will, over a representative period, have a result in deficiency taxes which will be of interest to the Agents in Charge, but I am sure that they are not in any instance permitting the dollar result in recommended taxes to govern an individual agent's efficiency rating.

Should your reviewers or conferees find indications that any one of our Agents has an impression that his future in the Service depends alone upon the amount of deficiency taxes he recommends, please take immediate steps to protect the Service against the very natural unfavorable public reaction to be expected as a result of such an impression being created in the public mind. An agent who fails to realize that his duty to earn the respect of the public for this Service is of the utmost importance and who suggests to anyone, either in or out of the Service, that his welfare in the Service depends upon the amount of additional tax he recommends, should have your attention in an effort to correct his viewpoint.

The records over a period of years show that approximately 70% of the tax you recommend is eventually assessed. I hope that this percentage may be increased. I have sufficient confidence in you to believe that it can and will be, and I know you and your associates during the coming year will bend every effort consistent with good management to better the record in this respect. I advocate your very serious consideration to your review processes to the end that only taxes of sound bases be recommended for assessment.

Real progress in the management of our field task will be represented by the extent to which in future years you are able to negotiate settlements in your offices. Within the past year more cases involving the larger sums in additional taxes have been settled by you than ever before in the history of the Bureau. This most certainly promises well for the future and should serve to encourage your settlement men to further efforts.

I know quite well that you, in common with your Washington associates, view always with anxiety the record of cases on which such time is spent and thorough examinations conducted, where "no change" reports result. It is unnecessary, I am sure, that I request that you and your supervisors, and more especially your group chiefs, give this phase of our work positive and continued attention during the present fiscal year, with the hope that we can reduce appreciably our unproductive effort as represented by the annual grist of "no change" cases.

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Mr. J. C. Wilmer,

I consider the Internal Revenue Agent in Charge as my personal representative in the management of the work under his supervision. We have made great strides in our joint effort to improve the Service in the field. This progress is proven by the increased amount of the deficiency taxes proposed by you, to which you have obtained agreements, and I know you are as unwilling as I am to have the result for the next year any less satisfactory than that for the year just past.

I feel assured that you will appreciate the paramount importance of selecting for assignment to the key positions in your office men of unquestioned ability and integrity. A supervisory responsibility in the field service of the Income Tax Unit requires a man of capacity if the Bureau, the Department, and the Administration are to be protected from justifiable criticism. Our duties require that we inquire intimately into the affairs of corporations and individuals, and the officers to whom the investigating force are to look for advice and guidance must be the men best qualified by experience and native ability to assist them and to direct their efforts. I shall expect that your selections will be governed by a consideration alone for the welfare of the Service, and that you will be guided by no other concern.

I shall appreciate your comments upon this communication and your extended report upon your plans for the conduct of the work in your Division during the present fiscal year.

Sincerely yours,

(Signed) Guy T. Helvering.

Commissioner.

May 5, 1938

To: Commissioner Helvering
From: The Secretary

I received today a letter from Mrs. Marie S. Macneil of Sands Point, Long Island, New York, complaining of the delays and reversals of opinion by the Bureau which had occurred in the case of her claims for refund of overpayments of income taxes for 1934 and 1935. It is my understanding that checks have now gone forward to Mrs. Macneil for the amounts of the refunds in question. If Mrs. Macneil's case had been handled as it should have been she would doubtless feel assured that the Bureau was fair and efficient in returning to her overpayments which she had made; indeed, overpayments in excess of what she had claimed. As it is, she feels, with a good deal of justification, that the Bureau has been unusually inept and inefficient.

Mrs. Macneil wrote to me on January 7th regarding these claims for refund. Mr. Magill referred her letter to Deputy Commissioner Russell with the request that he should be promptly advised regarding the status of the claims. Mr. Magill's office endeavored to get prompt action; but it was not until March 1, 1938 that I received a memorandum from you to the effect that certificates of overassessment in excess of Mrs. Macneil's claims had been recommended by the Revenue Agent, subject to verification of the value of certain depreciable property. On March 10th I signed a letter prepared in the Income Tax Unit and initialed by yourself, among others, on March 9th, to the effect that the Bureau had determined that overpayments in stated amounts had been made and that Mrs. Macneil would receive "in due course" from the Bureau a statement showing the details of the computations of tax liability and a check for the amounts due. On March 11th a more detailed letter was sent to Mrs. Macneil by Deputy Commissioner Kirk.

Mrs. Macneil apparently had no further communication from the Bureau on the subject until April 20th, when she received a form letter notifying her that her claims for refund had been disallowed. If she had been a trained tax lawyer it is conceivable that she could have worked out the technicalities of the situation by comparing the letter of March 11th with the letter of April 20th, but since she is simply a taxpayer and not a lawyer she evidently, and naturally, assumed that the Bureau had reversed itself. Hence, she felt it necessary to call on the Internal Revenue Agent at Brooklyn, who went over the whole matter again and advised her that she had

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overpaid her taxes for 1934 and 1935. However, since she had received no further communication from the Bureau at Washington after the letter of April 20th disallowing her claims for refund, she finally wrote me on April 27th and again on May 2nd, as I have indicated above. Mr. McGill was advised this afternoon that the refund checks had been sent to the Collector at Baltimore on April 30th. At his direction Deputy Commissioner Kirk told the Baltimore Collector to send the checks forward this afternoon.

Here you have a record of nearly two months delay between the time that Mrs. Macneil was advised that refund checks would be forthcoming and the time when they were actually sent to her. Indeed, if she had not written me directly about the checks I presume they would have been held up at Baltimore for several days or several weeks more. Worse than that, Mrs. Macneil is first informed that the refund checks will be sent and is then informed that her claims for refund have been disallowed. Although her case finally is disposed of satisfactorily she is subjected to wholly unnecessary inconvenience, uncertainty and delay.

I am most disturbed by the fear that there are many other similar situations which never come to your attention or mine. You know how important it is for the Bureau to foster good public relations. It is little wonder that taxpayers openly criticize us, if incidents of this sort are common occurrences.

We cannot assume that all taxpayers are in daily conference with competent tax lawyers who can readily advise them of the meaning of Bureau letters. I think it would be well worthwhile for the Bureau to undertake at once a careful survey of its procedure and of the letters which it is using in communicating with taxpayers to the end that they may be made as simple and understandable as possible and that such confusion as occurred in this case may be obviated for the future.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE MAY 25 1938

TO Secretary Morgenthau
FROM Herman Oliphant

For your information

Mr. Douglas has replied to our letter of May 10 in which we approved the proposed plan of reorganization for Genesee Valley Gas Company, Inc. The attorney for Genesee is now taking the position, as a result of the dissolution of Citizens Public Utilities Company and Eastern Utilities Service Company, that Genesee is no longer subject to the provisions of the Public Utility Holding Company Act. For the purpose of determining the status of the application, the attorney for Genesee has been requested to submit a brief to support his contention.

In the event it is determined that Genesee is no longer subject to the SEC jurisdiction, it is probable that a plan, substantially similar to the one suggested by SEC, will be insisted upon by Judge Caffey in the reorganization proceeding now pending before him.

We shall keep you advised of developments.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE MAY 25 1938

TO Secretary Morgenthau
FROM Herman Oliphant



Supplementing the suggestion contained in yesterday's memorandum to you that we do mass purchasing for Straus in connection with United States Housing Authority projects, I am reliably informed that such a move has a very good chance of finding support in unexpected quarters. My information is that such men as Green, of the American Federation of Labor, Hamilton, President of the American Radiator Company, and Murphy, Head of the Master Plumbers Association, have indicated that they realize the benefits of and are willing to go along with such a plan to stimulate production.

It is not unreasonable to suppose that the reaction of these individuals is typical of those whose support would be helpful, if not in fact absolutely necessary, in making the thing work. Conceivably Mr. Hanes would be interested and most useful in this.

Herman Oliphant

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE MAY 25 1938

TO The Secretary
FROM Herman Oliphant

For your information -

You may be interested in the volume and types of legislation handled by this office during the present session.

This office was called upon to handle the Administration's Reorganization and Aviation Bills at all stages, including drafting and appearances at hearings in behalf of the bills. You are thoroughly familiar with all features of the Reorganization Bill and its present status. The Aviation Bill creates an independent Civil Aeronautics Authority which will exercise over the aircraft industry authority comparable to that exercised by the Interstate Commerce Commission over railroads. This bill has passed both Houses of Congress in slightly different form. It will, therefore, go to a Conference Committee and should be ready for the President's signature within a week or ten days.

Another bill of considerable importance is the Department's Omnibus Customs Bill, which contains many complicated and technical amendments to certain administrative provisions of the Tariff Act of 1930. This bill would increase efficiency in the administration of the customs laws and would remove certain inequities in the customs laws. It has passed both Houses and is now in conference. It is interesting to note that this bill is listed on the House Calendar as one of the 9 major legislative bills before Congress.

Another bill which Coast Guard has been seeking for several years and which was finally enacted during this session is that which provides a system for retiring involuntarily Coast Guard officers who are not suited to the service.

In addition to the foregoing, approximately 10 bills sponsored by the Department have been enacted during this session. Included among these are the Act creating the Smithsonian Gallery of Art; the Stamp Bill, authorizing the reproduction of illustrations of foreign and United States postage stamps; the amendment to the Second Liberty Bond Act, which raises the "ceiling" on long term bonds; and the Act extending the area within which sites may be selected by the Department for Federal building projects.

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Furthermore, there are approximately 15 measures sponsored by the Department now pending in Congress. A number of these have passed one House. Some of the more important of these bills are the bill granting preference in court proceedings where fraud upon the revenue is involved; the Wire-Tapping Bill, authorizing Federal law enforcement officers, under certain circumstances, to intercept radio and wire communications of gangsters and racketeers; the bill providing additional compensation for death or disability of Federal law enforcement officers; and the bill authorizing the Departments to request the Procurement Division to undertake certain construction work and to transfer to the Procurement Division building funds which have been appropriated to the requesting Department.

A more detailed report of the legislative business transacted by this office during this session of Congress will be sent to you immediately after adjournment.

Thomas O'Connell

*Per Kester at
my request.*

FEDERAL HOUSING ADMINISTRATION
WASHINGTON

201

STEWART McDONALD
ADMINISTRATOR

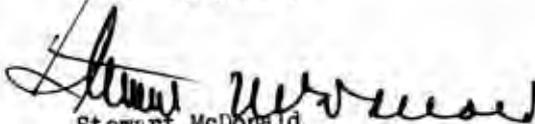
May 25, 1938

My dear Mr. Secretary:

The F. W. Dodge reports do not cover the eleven states west of the Rocky Mountains, in which district the FHA shows an even larger gain than this.

We are confident that the residential building permits from now on will show continual gains over last year. This is because of the increase in our mortgages selected for appraisal, as shown by accompanying chart, and giving effect to the lag between the time of making the application and actual construction.

Sincerely yours,



Stewart McDonald
Administrator

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

JOURNAL.

Wednesday, May 25, 1938.

Entered as Second Class Matter
the Post Office, New York, N. Y.

Home Building Up 27% First 15 Days of May In Midwest and South

Residential building contracts let during the first half of May in 11 middle western and southern districts were up 27% over the corresponding 1937 period, according to F. W. Dodge Corp. On the other hand, four districts comprised of New England, metropolitan New York, upstate New York and the middle Atlantic states lagged behind a year ago.

The combined residential contract total for the 11 middle western and southern districts in the first half of this month was \$24,948,000, compared with \$19,561,000 in the corresponding period of last year. The four northeastern districts had a combined total in the first 15 days of May amounting to \$14,746,000, compared with \$18,867,000 in the corresponding period of 1937, a decrease of 21%.

The combined total for all 15 districts gives this year's half-month period a net gain of nearly 4%. The gain is somewhat more impressive when it is noted that the first 15 calendar days of May, 1938, included 12 business days, as against 13 business days in the first half of May last year. This month's record does not include any important large-scale housing projects.

Non-residential building contracts in the first half of May were \$28,066,000, 29% behind the corresponding 1937 period; heavy engineering contracts for public works and utilities projects amounted to \$32,616,000, an increase of 17% over last year.

May 26, 1938.
9:25 a. m.

H.M.Jr: Good morning.

Knoke: Knoke. Good morning, sir. I just spoke to London.

H.M.Jr: Yes.

K: Very calm and quiet.

H.M.Jr: Good.

K: Situation, if anything, a little better on the continent, everybody, on account it's a holiday, taking it easy.

H.M.Jr: Yes.

K: One interesting thing - change the Japan Cabinet announced.

H.M.Jr: Oh, really.

K: The Foreign Minister and the Minister of Finance have been replaced.

H.M.Jr: Uh-huh.

K: As regards the latter the Minister of Finance, it's a man - the new man is

H.M.Jr: Yes.

K: supposedly been very
of late.

H.M.Jr: Yes.

K: And the impression is that the effect of this will be a moderating influence on the military party.

H.M.Jr: I see.

K: That is the hoped for effect.

H.M.Jr: Uh-huh.

K: That is the most interesting he told me.

H.M.Jr: It is. What - The recent movement has been about fifty million of gold, hasn't it? I mean since

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February 1st. That's the figure I carry in my mind.

K: Fifty million.

H.M.Jr: Yes.

K: Yes, That's -

H.M.Jr: Gold from Japan.

K: Yes. There's ten million of that still on the water - five arriving today.

H.M.Jr: Right.

K: Now the other day, Mr. Secretary, you asked about Security operations.

H.M.Jr: Yes.

K: I indicated that I thought the figures for the week ending May 18, would be practically in balance. Why that's precisely what happened. The foreign purchase - foreigners on balanced for the week - sold four hundred thousand dollars.

H.M.Jr: Yes.

K: And since then it has been running much the same.

H.M.Jr: I see. So - I see sterling is 4.95 - they just showed me.

K: That is right. Well, it was higher in London. It's always been pushed up a little higher just prior to gold fixing during the last week and then it has eased off. It is still higher than last night's closing.

H.M.Jr: I see. And the franc is lower.

K: Well the franc is unchanged in terms of sterling.

H.M.Jr: I mean it's getting cheaper isn't it?

K: Well the francs are really at the moment - they are higher than yesterday. We bought a small amount at 2.76 yesterday and they are 2.76 3/4 at the moment.

H.M.Jr: I see. All right.

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K: All right, sir.

H.M.Jr: Thank you.

K: Yes, sir.