

N.Y. Times Weekly Business Index

	<u>Weight</u>	<u>June 4 Wk.</u>	<u>Change</u>
Automobile Production	.03	33.0	off 12.9
Steel Ingot "	.10	33.3	off 5.8
Electric Power "	.49	89.4	off 1.1
Lumber "	.06	60.1	unch.
Miscellaneous Carloadings	.19	65.0	up 1.2
All Other "	.08	78.8	up .9
Cotton Mill Production	.05		

On basis of available data, NYT business index in June 4 wk. is off 1.2 from prev. wk.

Next week:

NYT index of auto production in June 11 wk. rose to 41.2 from 33.0.

*Hope springs eternal
in the human —*

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 10, 1938

TO Secretary Morgenthau

FROM Mr. Haas

SUBJECT: Factors influencing the recent upturn in commodity prices

The rise in prices of sensitive commodities which has occurred during the past week appears to have a more substantial basis than previous temporary upturns, since it derives its strength in part from actual improvement in prospective supply conditions for a number of commodities as well as from indications of a changing sentiment toward the general trend of prices.

Following the low point reached on May 31, the Dow-Jones index of commodity futures prices has risen by 4 percent, with practically all sensitive commodities sharing in the improvement. With the exception of the 4-percent rise caused by the announcement of the recovery program in April, this is the only important price upturn since the Austrian crisis early in March set in motion a chain of deflationary influences.

It is not possible to say with certainty that this rise marks the actual turning point in the price trend, since foreign deflationary influences may again become a depressing factor. From the standpoint of the domestic situation, however, several things point toward this conclusion.

- (1) Production curtailment for a number of commodities should soon exert a strengthening influence on commodity prices.
- (2) The widespread belief in a fall business upturn may lead to anticipatory buying of commodities some time in advance.
- (3) The belief that deficit spending and monetary expansion will sooner or later operate to lift commodity prices will encourage further buying and tend to perpetuate a rising price trend.
- (4) A direct stimulus will soon be given to prices by Government purchasing of materials under the spending program, and by an increase in consumer purchases resulting from W.P.A. and relief expenditures.

Secretary Morgenthau - 2

Causes of the recent upturn

A combination of influences has brought on the rise in commodity prices during the past week:

(1) The momentum of the previous decline had carried many prices into over-sold conditions, making them quickly responsive to a change in sentiment.

(2) A tendency has recently become evident in the security and commodity markets to ignore current depressed business conditions and center attention on the more optimistic fall outlook.

(3) Rumors of possible inflation moves or further devaluation of the dollar have been a factor in the commodity markets. Such rumors, which are characteristic of a rising market, may contribute to a further upturn.

(4) A more important influence is the feeling that each week brings nearer the time when Government spending will become a very real factor in commodity prices.

(5) In view of these, and other factors, the sentiment is gaining ground that commodity prices are about at bottom.

(6) An improvement in the statistical positions of a number of industrial raw materials, due to production control or export restrictions, has been a strong factor in the more bullish sentiment.

(a) A drastic curtailment is under way in copper production, with Kennecott shutting down completely for at least a month, and other companies sharply reducing production.

(b) Export quotas on tin have again been reduced, the International Tin Committee having cut third-quarter quotas to 45 percent of standard allotments, part of which, for the time being, will go into a buffer pool ("ever normal granary" principle).

Secretary Morgenthau - 3

(c) Rubber quotas for the third quarter have been cut to 45 percent of standard, as compared with 60 percent for the second quarter, which provides the market with the smallest quarterly supply of rubber in many years.

(d) Lead and zinc productions have been further curtailed as a result of recent unprofitable prices.

(e) Crude oil production has been drastically curtailed, which has caused a firming of the price structure for gasoline.

(f) Total visible stocks of all cattle hides and leather at the end of April showed a reduction to the smallest total for that month in 17 years.

(7) Curtailed production will continue to be a bullish factor for a considerable time after prices improve, owing to the slow response of production to prices, just as excessive production continued far beyond the drop in prices last spring.

(8) While the agricultural price situation continues apparently unfavorable, owing to excessive supplies, the fact that prices for certain major crops have declined to, or below, the mandatory Government loan levels tends to put a bottom under them.

(a) The decline in cotton has carried it well under the 8.32-cent level, which is the minimum mandatory loan on the new crop, suggesting that part of the crop will be taken off the market by the Government under loans, unless prices improve.

(b) Wheat prices, before their recent upturn, had declined to the minimum loan level.

(9) Recent reports of crop damage to wheat, and of unfavorable progress of the cotton crop, have had some bullish influence on prices.

REB

TELEGRAM SENT

GRAY

June 10, 1938.

6 p. m.

AMLEGATION

BANGKOK (SIAM)

17

Your 12, May 28, 1 p. m.

Please reply in the name of the Secretary of the Treasury substantially as follows to the communication from the Government of Siam.

The current practice of the United States Treasury is to purchase silver other than new production only in the form of good delivery bars bearing the stamp of a recognized refinery located in the United States. Such purchases are for delivery the day of the purchase, or the day following the purchase at the United States Assay Office in New York, or United States mints at Denver or San Francisco. The price paid for such silver is fixed every day, the price today being 43 cents per ounce .9995.

If, as is supposed, the silver is in the form of Siamese coins now in Siam, no purchase could be consummated before the lapse of considerable time, owing to the necessity of shipment and of converting the coins into

REB

2-#17, To Bangkok, June 10, 6 p.m.

into fine bars. If, however, the Siamese Government is desirous of avoiding the above-mentioned delay in disposing of a portion of the silver mentioned, the representative of the Siamese Government in Washington could be instructed as to the reasons for the request and authorized to discuss it with the United States Treasury.

Should the Siamese Government wish to buy gold from the United States Government with the proceeds of such sales, due consideration would be given to such applications at the time they were received.

HULL
(HF)

EA:FL:DJW FE

TO: MRS. KLOTZ

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I attach hereto for the Secretary's files, and for his notation if you consider it advisable, a memorandum prepared by Mr. Woolf, Acting Chief of the Intelligence Unit, covering the several conferences held, in compliance with the Secretary's instructions to me, with relation to the matter recently presented to the Secretary by Governor Stark of Missouri.

Governor Stark expressed himself to me as being entirely satisfied with the manner in which our investigation is proceeding.

From: MR. GRAVES 6/14/38

MEMORANDUM

June 11, 1938.

Governor Lloyd C. Stark, of Missouri, when in Washington on June 8, 1938, called on the Secretary of the Treasury in regard to an investigation being made by Special Agent Rudolph E. Hartmann and Internal Revenue Agents L. B. Sullivan and P. L. McGrath with respect to impounded funds of a number of insurance companies operating in Missouri, part of which funds was disbursed through Robert J. Folonie and Charles R. Street, who served as trustees for a number of insurance companies.

This investigation was instituted as the result of information secured by Revenue Agents in conducting an examination of the returns of Charles R. Street, indicating approximately \$100,000, representing money paid by seventeen insurance companies in connection with litigation, had passed through his accounts. Although Mr. Street claimed that he was not the recipient of the money, he refused to give the names of the persons who had received it.

In accordance with the direction of the Secretary, Mr. Harold N. Graves, Special Assistant to the Secretary, Mr. John R. Kirk, Deputy Commissioner, Income Tax Unit, Messrs. M. H. Dinneen and J. C. Corbley, Auditors, Special Adjustment Section, and Mr. W. H. Woolf, Acting Chief, Intelligence Unit, reported at the Secretary's office at 10:00 a.m., June 9, at which time the persons mentioned were introduced to Governor Stark by the Secretary, who also stated that Mr. Graves would act in his stead in conducting any further conferences, and that the Governor might expect full cooperation in every way practicable.

The Governor was informed on this occasion that as the Agents who were conducting the investigation had not arrived in Washington, the Department was not aware of the facts so far developed and therefore was not in a position to discuss the case intelligently. The Governor was informed by Mr. Graves that he would be contacted later when the matter could be gone into further. On this occasion the Governor also stated that Mr. Morris M. Milligan, United States Attorney, Kansas City, Missouri, would be in Washington and would attend the conference.

At 11:30 a.m., June 9, Special Agent Hartmann and Internal Revenue Agent Sullivan reported at Mr. Graves' office in the Bureau, at which time there were present also Mr. Harold N. Graves, Mr. John R. Kirk, Mr. James W. Carter, Head, Special Adjustment Section, Mr. Lawrence J. Bernard, Assistant to the General Counsel, Mr. M. E. Dinneen, Mr. J. C. Corbley, Mr. George A. Buswell, Head, Fraud Division, Intelligence Unit, and Mr. W. H. Woolf. Special Agent Hartmann outlined what had been done in connection with the investigation, but stated that they were then in the midst of the examination and had not disclosed any facts which would warrant a conclusion as to who had received the funds mentioned in the insurance company matters.

A further conference was held in Mr. Graves' office at 1:30 p.m., June 9, at which time there were present Mr. Graves, Mr. Kirk, Mr. Bernard, Special Agent Hartmann, Internal Revenue Agent Sullivan, and Mr. W. H. Woolf. This conference was principally for the purpose of discussing the manner in which the further investigation should be conducted, whether there was need for additional men, etc. It was deemed advisable to allow Special Agent Hartmann and the two Revenue Agents mentioned to proceed with their investigation without additional help at this time. Mr. Hartmann was of the opinion that after examining certain records in Chicago and New York, he would then be in a better position to determine the necessity for additional help. Mr. Hartmann advised that the examination would be concluded in Chicago on or about June 16, and that they would then proceed to New York, after which they would report at Washington when the question of assigning additional Agents could be discussed.

In accordance with arrangements previously made by Mr. Graves with Governor Stark, a further conference was held in the office of Mr. Graves in the Treasury Department at 5:30 p.m., June 10, at which time there were present Governor Stark, United States Attorney Milligan, Mr. Graves, Mr. Kirk, Mr. Bernard, Mr. Hartmann, Mr. Sullivan and Mr. Woolf. The Governor was informed that the investigation had not proceeded to the stage where evidence had been obtained indicating to whom the payments were made in connection with the insurance transactions referred to above. Certain phases of the case were discussed by the Governor, and Special Agent Hartmann also informed the Governor of information which he had obtained, not of a confidential nature but a matter of public record. The United States Attorney stated that if satisfactory evidence was obtained as the result of the investigation, he would proceed with the prosecution. The Governor

also was asked to give any information which he thought would be of value in connection with the investigation, and he made some suggestions as to persons who he thought should be interviewed. The Governor was informed by Mr. Graves that it was the purpose of the Department to cooperate fully in every way practicable. The Governor assured him he realized that there was no evidence in the Department which would be of value to him in connection with any proceedings at the present time, but expressed his appreciation of the manner in which he had been treated and the time spent in discussing the case with him.

AM 272

The National City Bank
of New York
ESTABLISHED 1814

New York June 11, 1938

SEND ADDRESS CITIZENS

IN REPLYING PLEASE QUOTE INITIALS

GBR

The Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D.C.

My dear Secretary Morgenthau:

At Mr. Rentschler's request I take pleasure in sending you enclosed latest available copies of memoranda on business conditions and commodity markets prepared in this department for circulation exclusively within our institution. As Mr. Rentschler doubtless explained to you, memoranda similar to these are gotten together on Monday of each week. At his suggestion I have marked for special attention certain passages in the past week's commodity memorandum, and will send you both business and commodity memoranda for next week as soon as prepared.

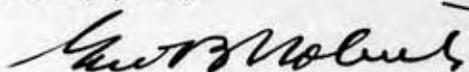
In addition to the enclosed reviews, we prepare on Friday of each week for Mr. Rentschler's own confidential use a very brief summary of business and financial developments as we see them. The following reproduction of the summary forwarded to Mr. Rentschler yesterday will indicate to you the nature of this reports:

See no change now or near future in business situation. Steel mill operations 28 per cent. Automobiles, textiles sluggish. Curtailment will continue through summer. Retail trade falling further behind last year. Summer prospects poor but local retailers say that despite lower sales they will have to buy more goods for Fall than last year due to inventory reduction. May building figures above last year for the first time. Applications for F.H.A. mortgage insurance continue heavy. The rally in commodity prices this week is encouraging. Commodities should find stronger support through production curtailment but unsafe to count on much advance until business turns up and demand rises. High grade bonds continue strong; others steadier except rails which are thin soft. Opposition of unions to wage cuts is blocking bill for rail loans. Doubt that wage-hour bill if passed will have any immediate effect on business. Banks had temporary pickup in loans to dealers on Governments; will wash out after quarter date financing. Business loans still declining.

The Honorable Henry Morgenthau, Jr.,
Page 2.

In conclusion, may I add a personal word of appreciation of your gracious hospitality to me, in company with other economists, on occasion of a conference with members of your staff at the Treasury Department a month ago.

Respectfully yours,



Geo. B. Roberts,
Vice President

WORKS PROGRESS ADMINISTRATION

WALKER-JOHNSON BUILDING
1734 NEW YORK AVENUE NW.
WASHINGTON, D. C.

Handwritten initials

HARRY L. HOPKINS
ADMINISTRATOR

PERSONAL
CONFIDENTIAL

June 11, 1938

The Honorable
The Secretary of the Treasury
Washington, D. C.

My dear Mr. Secretary:

Harry has handed to me your confidential note to him of June 9, with regard to surplus commodities in Cleveland.

I understand that the Ohio Legislature has appropriated \$1,500,000, which will, if it clears all legislative barriers, meet the immediate situation out there. It constitutes an important development in forcing the state to assume some portion of its responsibilities.

I assume you have sent the same statement to Secretary Wallace so that the Surplus Commodities' people can take some action on it.

Sincerely yours,

Aubrey Williams
Aubrey Williams
Deputy Administrator

GRAY

Paris

Dated June 11, 1938

Rec'd 9:55 a.m.

Secretary of State,
Washington.

914, June 11, 1 p.m.

FROM COCHRAN.

Reference my 892 of June 8, 10 a.m.

French and German negotiators met yesterday to discuss (1) renewal of Franco-German commercial agreement of July 10, 1937, (2) modifications to commercial exchanges between France and Austria made necessary by the annexation of Austria by Germany and (3) the service of the Austrian loans. With reference to latter AGENCE ECONOMIQUE of this morning states that the German Government has officially indicated that it does not recognize these loans and that it refused to effect the service on them. According to this source the French Government is determined to assume the reestablishment of the service of the loans but that nothing has yet been decided with respect to the solution that will be proposed in the event that the German Government maintains its refusal. This paper envisages the reestablishment of the clearing arrangement.

The following appears in AGENCE ECONOMIQUE with respect to the Haitian 1910 loan.

(END SECTION ONE)

BULLITT

CSB

FS

GRAY

Paris

Dated June 11, 1938

Rec'd 10:30 a.m.

Secretary of State,
Washington.

914, June 11, 1 p.m. (SECTION TWO)

"The negotiations which have been going on between the French Government and the Government of Haiti for the reimbursement of the 1910 gold loan are about to be concluded. In the first place the holders will receive an amount of 500 paper francs for each bond the only sum which the Government of Haiti recognizes is due by it.

In addition a pool will be constituted which will be maintained by a tax on each import license of coffee from Haiti into France.

The amount thus furnished will serve to remunerate the holders. The total amount which will be attributed to each one has not yet been determined. It will depend upon the duration of the operation of the pool, and this duration will be fixed according to the possibilities of the coffee market.

According to certain indications the amount attributed to each holder will be about \$20 for a period of ten years and \$25 for a period of fifteen years.

The

FS 2-No. 914 June 11, 1 p.m. from Paris

The international price of Haitian coffee is such that the collection of the tax envisaged may be made without giving rise to an increase in the price of coffee on the Havre market."

(END MESSAGE)

CSB

BULLITT

RECEIVED
JUN 11 1941
U.S. DEPARTMENT OF JUSTICE
FEDERAL BUREAU OF INVESTIGATION

GROUP MEETING

June 13, 1938.
10:15 a.m.

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

Oliphant: Julius Henry Cohen filed a motion for a reargument of the Port Authority case on the ground that these employees affected by that decision, since their taxes would go back to 1926, had been arbitrarily dealt with by the Supreme Court, and in effect (words not understood) .. the Court on that question that's up between Hughes and Wallace; and second, and more important and rather historic, on the ground that Court decisions in general ought not to be retroactive. And that motion will come on for argument at the opening of the October term, and in the meantime the Department of Justice has joined the stipulation staying the mandate in the previous case. So the whole thing is put on ice until October.

H.M.Jr: Well, it will be pleasant

Oliphant: What?

H.M.Jr: ... for the summer.

Oliphant: Yes. Well, it certainly relieves us of a lot of heat.

H.M.Jr: All right.

Oliphant: Takes the heat off of us.

And then, Friday we won the British American Tobacco gold case in the District Court.

H.M.Jr: Oh, grand.

Oliphant: That's our last big case.

H.M.Jr: Grand. Was that Taft? Who defended that - who was their counsel?

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Oliphant: Well, they were suing the Federal Reserve Board - the Federal Reserve Bank of New York. That was a bunch of gold that they had in this country and surrendered under protest and then tried to get it back.

Lochhead: Was that Hatfield that tried it for the British American Tobacco?

Taylor: Hartfield.

Oliphant: Yes, that's right, Hatfield handled it.

Lochhead: Yes.

Oliphant: I mean he argued it.

H.M.Jr: Hatfield or Hartfield?

Oliphant: Hartfield. In fact, they took depositions in London. He went over there.

H.M.Jr: Anything else?

Oliphant: We're hopeful that they won't appeal the case in the District Court.

H.M.Jr: O.K.?

Oliphant: That's all.

H.M.Jr: Herbert?

Gaston: I haven't anything, except Harry Butcher's office told me that Columbia had dropped any broadcasting hook- - chain hook-up.

H.M.Jr: That's all right.

Gaston: That's all.

Gibbons: Nothing.

H.M.Jr: Are you looking into these bids on these ten airplanes for Coast Guard?

Gibbons: They got - the Sikorsky is the lowest bidder now, and Captain Chalker's outfit hasn't finished going

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through the bids to see who's complied with the specifications.

H.M.Jr: Well, when they're ready, would you let Mac know, and I'd like to see them. How much are they under?

Gibbons: Oh, quite a way.

H.M.Jr: How much? Do you know?

Gibbons: Well, on the - for one plane there is a spread, I think, of about twenty-five thousand, and on the others it doesn't amount to quite that much - that's in a group of seven.

H.M.Jr: When you're ready, will you let me know?

Gibbons: Yes. It's quite an amount.

H.M.Jr: Anything else?

Gibbons: That's all.

McR: I had Peoples get hold of Chalker Friday and get in touch with the Mail Aeronautics Bureau to get the analysis of their bids on the same type of planes, so whenever you have the Coast Guard boys in - I told Peoples not to go any further with the thing, but just to get the background on it, and I think you'll find he'll have a good deal of information on it.

Gibbons: They claim they haven't got the landing that this Hall Aluminum have, and all that; but nevertheless, I told them to let me see the thing before they pass it.

H.M.Jr: George?

Haas: I have a few little things.

(Hands sheet of Surplus Commodities figures to Secretary)

H.M.Jr: Is that new?

Haas: Uh-huh, the last column.

H.M.Jr: Let's see, what did they buy? They bought butter, cabbage, cotton fabric. What's this, tobacco?

Haas: Tobacco. Not a very balanced diet.

H.M.Jr: This is Surplus Commodities. Tobacco, rice. Are you doing anything on this, getting anywhere on it?

Haas: Well, on that particular thing I haven't been doing anything - on those particular figures, because you really can't tell much about ...

H.M.Jr: I mean is Parran getting anything?

Haas: Well, Parran is - that's another point. I called Dr. Parran and I asked him - told him I thought he might want to send someone out with Miss Lonigan. He said, "Very much so." So he sent Dr. Palmer out. And Dr. Stanley was sending somebody out, but I don't know just - Saturday she hadn't selected the person, but someone was to go on Sunday evening with Miss Lonigan from Dr. Stanley's bureau. Then, Dr. Parran said he would like to see you, and Mrs. Klotz is working on that.

H.M.Jr: See him at 11:30.

Klotz: You gave him an appointment.

H.M.Jr: Make it 11:30.

Klotz: You gave him tomorrow.

H.M.Jr: I'd rather do it today.

Klotz: 11:30.

Haas: The other thing, you perhaps saw in the press over the week-end that the Dodge figures for the first time, first month - May - were above a year ago.

H.M.Jr: No, I didn't see that.

You'll be here at 11:30, too, see?

Haas: Yes.

Here's the first of the month this year - there's last year's and there's this year's.

H.M.Jr: Yes.

Haas: And here's residential last year; it's holding up. Quite a sharp increase from April, you see, of this year - April of this year compared to May of this year. That, in view of some of the other series, hasn't done badly. There's a big project up in New York, of course, but I know the area and from the figures the Government project and even residential is holding up well.

H.M.Jr: Well, I made a little statement last week to myself that we had had a drouth now for fourteen months, beginning with April 1, '37; I put my hand out, I felt a couple drops of rain. Maybe this little ***** raincloud will blow over, but if the thing keeps on the way it is for another two weeks ...

Now, all right, Harry, don't - I'm not - this is for myself. And I'll say this. You economists - nobody forecasted this thing and no one has explained it properly, and when this thing begins to turn everybody is going to not understand until it has turned. And you cite me remarks by a dozen people, and there's nobody, I don't care who it is - I dare anybody to show me that this thing was forecast in writing. Not by word of mouth, but in writing. And I'm saying this because I want to watch this thing. I'm simply saying I felt a couple drops of rain. Maybe this little cloud is going to pass over. I'm not making any forecasts. But there are certain things happened since the 31st which I think bear watching, and I'm watching. Nobody has to believe me, nobody has to follow me, nobody has to pay any attention to me, but ...

Haas: There are certain definite fundamental things.

H.M.Jr: But I'm very much interested, and I think there are certain things happening that are most - I think the most intelligent non-partisan bulletin which I read was the National City Bank bulletin of June. And I called up Mr. Rentschler and he's sending me his thing, he said he's never let anybody see before - the

(See diary entry of 6/22/38, newspaper reports of President's press conference of 6/21/38, quoting President's use of this rain-drop story.)

stuff he gets every Friday from Mr. - who's the Vice President?

Haas: Roberts.

H.M.Jr: , And then their commodity man. What's his name?

Haas: I don't know the commodity man.

H.M.Jr: Well, he's got a commodity man; somebody told me he's the best commodity man in America.

Bell: You get his reports, George.

Haas: Oh, is that who that is? I read them.

H.M.Jr: Everybody can shake their head and everything else, but I do say that since the first of - the 31st, there's something very definitely going on. Now, whether this little raincloud will go by and we'll wait another fourteen months, I don't know, but

Haas: I've got one of his bulletins - you might be interested - sounds just about the way you sound now.

H.M.Jr: Well, it will come today.

Klotz: It's here.

H.M.Jr: Is it here?

Klotz: Yes.

H.M.Jr: Would you mind getting it?

(Mrs Klotz goes out)

H.M.Jr: See, certainly I'm going to do everything I can. I was responsible for that one-page story in the Wall Street Journal, Harry, where everybody was saying that the automobile factories were going to shut down for two months, and I asked them to check up and they found they were not going to shut down for two months. They said - the publicity, all the stories were that for two months they're going to shut down. So I asked the publisher of the Wall

Street Journal whether he wouldn't check it. He found they wouldn't - the head of Chrysler for the first time has turned; they're lengthening their schedules; they're getting orders; they can't understand it. As I say, the raindrops are there. Now, it may be a little cloud which will pass over, maybe we'll come to another 14 months; but I'm watching it the way I never watched it before.

(Mrs. Klotz returns with material from National City Bank)

H.M.Jr: Well, I'll leave this until afterwards.

Oliphant: In that connection, somebody ought to take pretty seriously Stuart Chase's article in the Survey Graphic, which was reprinted in Reader's Digest. It's called "The Case Against Home Ownership" and if there's an answer to it....

H.M.Jr: Against home ownership?

Oliphant: "The Case Against Home Ownership."

H.M.Jr: You mean for renting and ...

Oliphant: And - yes - and not for home ownership. And it's a very deadly article. Since it's been reprinted in the Reader's Digest, it's got a very wide circulation.

H.M.Jr: As I say, I'm just passing this for anybody's information, and disregard it and laugh at it and anything else, but I'm watching the thing in a way I never watched it before. As I say, anything good or bad, let me have it.

Haas: Uh-huh.

H.M.Jr: But it was interesting the way the Wall Street Journal went out and they just killed this story that all the factories are going to shut down for two months.

Haas: You know, that's what they've also done there, Mr. Secretary. None of the big companies have felt they're going to close down. Now they have revised their production plans for July upward on the basis ...

H.M.Jr: Well, I asked them the middle of last week. Did you see the letter from Kellar, president of Chrysler?

Haas: Yes, sir.

Taylor: On this possibility of railroad legislation, the labor group is trying to combine this legislation with this bill that they have in for changing the method of handling retirement funds, and so on. As far as we can see, there is absolutely no connection between the two. And I said I would look it up again to be sure that I was right in my impression of that. But apparently Harrison is trying to find some way in which

H.M.Jr: Pat?

Taylor: No, George Harrison. ... so that he can support whatever little bill they may get through for loosening up the R.F.C. requirements.

H.M.Jr: Should I do anything about it?

Taylor: Well, I think that I'll have another check to be sure that our position is as I think it is, and then I'll report back to you about it. But as far as is apparent, there is absolutely no connection.

McR: Couldn't possibly be.

Taylor: What?

McR: Couldn't possibly be.

Bell: And the retirement bill is not in accord.

H.M.Jr: I'm just to sit tight, I don't have to do anything.

Taylor: Until I report back to you. But at the minute I think we'll say what I'm telling you, that there is absolutely no connection between the two.

H.M.Jr: Anything else?

Taylor: On Commodity Credit, there will be a meeting which will be held today to pass on the wheat situation.

H.M.Jr: I see.

Taylor: There are certain aspects of that which I don't

think there is anything we can do about, but - the point being the amount of farm storage for wheat which will be used for this wheat loan. There are apparently some minor difficulties there; first, as to the standards which will be applied, and the actual availability of adequate farm storage for wheat, because farm storage for wheat is an entirely different kind of thing than farm storage for corn, for example. I think you will know more about it - maybe tomorrow you may be brought into it to express an opinion.

Bell: Well, we set up more money for administration of the Warehousing Act so they could put this thing into licensed warehouses.

Taylor: Well, there is quite a movement for farm storage of wheat.

Bell: I know, but

McR: It isn't safe.

Taylor: See? And ...

McR: With farm storage, it's hard to keep it safe. Dampens the wheat.

Taylor: And the farm storage standards to be prescribed by the county agents, apparently, or administrative county units. Maybe that's possible, but I wouldn't know. But I do know that storage of wheat on the farm is an entirely different matter than the storage of corn, and if those standards are not adequate, why, you can go to the cleaners on the deterioration of wheat as quickly as anything I know.

H.M.Jr: Are you watching it?

Taylor: Trying to.

H.M.Jr: All right, anything else?

Taylor: (Nods no)

Upham: You had a telephone call this morning from Congressman McClellan of Arkansas and he wants to come down and

have a conference with you and Commissioner Helvering to report to you the situation with respect to the Internal Revenue Collector down there who is managing Mrs. Caraway's campaign for the Senate against him. I told him I'd call him back.

H.M.Jr: All right. What - have we 10:30 tomorrow, Mrs. Klotz?

Klotz: Yes.

H.M.Jr: Free?

Klotz: That is, if Parran is coming today.

H.M.Jr: Will you tell Mr. Helvering?

Upham: 10:30 tomorrow?

H.M.Jr: Yes.

Upham: And here's this document that you asked me to put on your desk this morning.

H.M.Jr: And then, if you will arrange to have McCles and Ransom for lunch tomorrow - and Taylor for lunch and yourself for lunch.

Upham: Surely.

H.M.Jr: Tomorrow. Anything else?

Upham: No. I may have to explain one or two little things in there.

H.M.Jr: All right, we'll see how we get along.

Harry?

White: Here's a table that will be of a little interest. The first three sentences give it.

H.M.Jr: (Reads table) French exports are up, aren't they?

White: Well, they've had a pretty substantial depreciation since ...

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H.M.Jr: Pardon me?

White: Well, France has devalued substantially since then.

H.M.Jr: That's in currency and not in tonnage.

White: That's in currency; this is always in currency.

H.M.Jr: You couldn't give me a

White: Volume figure? Yes.

H.M.Jr: Well, and also the net, so that it shows. You've got that - I guess that's a net.

White: The balance of trade.

H.M.Jr: Yes.

White: It's there.

H.M.Jr: And I told the President you'd have for me at noon today a memorandum on the Japanese financial situation.

White: Well try to get it out.

H.M.Jr: I told him.

White: You've already told him?

H.M.Jr: I told him I'd have it at one o'clock.

White: We're working on it.

H.M.Jr: All right.

Do you mind taking this back, and I tell you what I'd do. I've planned anyway to go over with you - I'm warning you - the export thing, go over it. I haven't looked at the import-export business for a long time. Anything else?

White: No, that's all. The rumors, as you see, are increasing on gold, will continue to increase.

H.M.Jr: Why?

White: Well, it's inevitable, so long as the recession

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continues and deepens, that it will occur to more and more people that that may be a step, unless some contrary action is taken.

- H.M.Jr: Well, I was very interested in - Kiplinger, for instance, told me that the Vice President of General Motors, who was in to see us, called on Mr. Kiplinger to try to sell him on the proposal to increase the price of gold.
- Oliphant: Was that Gibson?
- Taylor: Mooney and Smith.
- H.M.Jr: Mooney and Smith were in to see us. We tried to make them come out with what they wanted to say, but they wouldn't say. But Kiplinger says, "You haven't - don't have to look far. After all, Mr. Mooney came around and tried to sell it to me." So - I mean with their offices all over they can - one day they can start the rumor in London, General Motors; the next day, start it in Germany; the next day, start it in Paris, start it in Barcelona, every place they've got offices.
- Oliphant: He's in charge of the export business.
- H.M.Jr: Oh yes, entirely. With a plant in England, one in Germany. So I mean you won't have to look much further.
- White: Except that it has a broader base than that now. It's coming from other
- Taylor: He still wants an open gold market.
- White: But for the reason, too - at the present that's what he says - that's what he told the President.
- H.M.Jr: But then when I sent Smith back to see Harry, to pin him down - that's just window dressing.
- White: That's right.
- H.M.Jr: What they want is to raise the price of gold.
- Oliphant: Who is Smith?

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H.M. Jr: Pardon me?

Oliphant: Who is Smith?

H.M. Jr: He's - I don't know whether he's an economist or statistician.

White: He's neither.

H.M. Jr: He's the fellow that plays around with foreign exchange and gold for Mooney, and has a staff. He's directly under Mooney. Whole series of letters. What is he? Is he a statistician?

White: He says he's not an economist.

H.M. Jr: Foreign exchange.

White: He says he deals with foreign trade, and I gather his chief experience is that of an export sales manager.

Taylor: He's a good one, too?

H.M. Jr: Who, Smith?

Taylor: (Nods yes)

White: Very confused on

H.M. Jr: Awfully confused.

White: Anything else, Harry?

White: No, that's all.

Lochhead: I think it was just about last April they were going to bring criminal procedures against you for buying gold at \$35 an ounce.

White: The markets haven't developed anything since the early figures.

H.M. Jr: You saw Mr. Sloan's very pessimistic statement today on the outlook for '39?

Lochhead: (Nods yes)

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Bell: "hat are we going to do about investing Government life insurance funds?

H.M.Jr: Oh, I'd like to sit down and talk to you about it a little bit. I don't want to do it just today. I've sent Harris up to New York to try to get the story of what's behind this tremendous turnover that took place last week, something which I don't understand. I mean I think the situation is so much better than they will even tell me, see? And - couldn't I, if I wanted to, give those fellows a two percent note for the time being?

Bell: I think so.

H.M.Jr: What?

Bell: I think so.

H.M.Jr: Because I think that we might need a little money maybe in August to do a little buying. When is that money available?

Bell: 15th.

H.M.Jr: I'd give them a two percent note and keep that there, put it in the "kitty."

Bell: All right.

H.M.Jr: I think it's a mistake to buy now, for their sake. I think we'll buy low later on.

Lochhead: Very easy to buy

H.M.Jr: I think they'll buy low later on, probably.

Bell: Probably when you do buy, unless it's on a declining market, you ought to sell the Civil Service bonds at the same time.

H.M.Jr: You mean on a rising market.

Bell: Unless it's on a falling market. You shouldn't sell the Civil Service bonds on a falling market.

H.M.Jr: There are no orders to sell.

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Bell: No, but I say if you buy in the market for Government Life and the market is stable, then you should sell at the same time the Civil Service bonds. That would offset it.

H.M.Jr: That's right. But I'd like to sit tight for a little while and just watch this thing.

Bell: All right.

I had a conference with the T.V.A. officials and sent you a memorandum on it.

H.M.Jr: Oh, their financing?

Bell: Yes. It's a very small amount, but you have no authority to buy those securities under the section under which they intend to issue.

H.M.Jr: I have none?

Bell: No, sir. So I've suggested, as a way out, that they attach an amendment to this deficiency bill - have Senator Norris do it on the floor of the Senate - combining the two sections in the Act which give them authority to issue their obligations. It's 50 million dollars in each section. Under Section 15 under the old Act you have no authority to buy, and the bonds issued under that section will have the circulation privilege and tax-exemption features. The ones to be issued under Section 15-A you may buy, and they're just like the other obligations that are guaranteed as to principal and interest. Now, if we repealed Section 15 and combined the authority with that in Section 15-A, that would make a hundred million dollar revolving fund, and you could buy those securities and refinance them in the market.

H.M.Jr: But they wouldn't have the circulation privilege.

Bell: No, that section would be repealed.

H.M.Jr: What else would you repeal?

Taylor: Full tax-exemption.

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Bell: Yes.

H.M.Jr: You still think of that as

Bell: They went back to talk to Lillienthal. The only difficulty is the T.V.A. investigation on the Hill. Don't know what that would bring up if you brought up that amendment on the floor.

H.M.Jr: Well, will you and Mr. Taylor and Mr. Oliphant handle that for me, please?

Bell: All right. I'll know today as to what course they want to pursue.

H.M.Jr: Sounds sensible to me. Will the three of you handle it?

Bell: Yes. I've talked to Mr. Taylor before about it.

H.M.Jr: Anything else?

Bell: That's all.

McR: (Nods nothing)

H.M.Jr: Anybody want to make any suggestions that read the speech in Gaston's office?

White: Herman had some.

H.M.Jr: Yes.

White: Oh, you know about them.

H.M.Jr: Yes, I know about them.

Haas: I haven't read it. Do I still have the chance?

Gaston: Yes.

H.M.Jr: You have a chance to read it, but you won't have any chance to make any suggestions.

Haas: O.K.

H.M.Jr: How about you (Taylor)?

Taylor: Haven't had a chance to read it.

H.M.Jr: Anybody else? Well, if Gaston and White will stay now please.

June 13, 1938.
10:47 a.m.

H.M.Jr:
Ronald
Ransom:

Hello. Hello Ransom.

Over the weekend, rather late Saturday afternoon, at my suggestion, Cy Upham gave me a very clear statement of the three points at issue between these three groups that have been discussing bank examination.

H.M.Jr:

Yes.

R:

And that is perhaps the first time that I have gotten clearly, in my own mind, just exactly what was being discussed.

H.M.Jr:

Yes.

R:

That is where we were not in agreement with one another.

H.M.Jr:

Yes.

R:

That memorandum, I passed on by messenger Saturday afternoon to Mr. McKee and Mr. Davis, who have been representing the Board in the matter.

H.M.Jr:

Yes.

R:

And I got it back on my desk from them this morning showing that both of them had been over it.

H.M.Jr:

I see.

R:

We have a meeting this morning at eleven thirty. Mr. Eccles has been out of town for the past three days and Szymczak for a day or two, and this will be the first time we've had an opportunity to discuss it with the whole Board in the light of where we've gotten to at the present time.

H.M.Jr:

Yes.

R:

And I would like, after that meeting, to communicate with you, and tell -

H.M.Jr:

Why don't you do it at lunch tomorrow?

R:

At lunch tomorrow.

H.M.Jr:

I'll hold it till lunch tomorrow. I won't act

until I see you and Eccles at lunch tomorrow.

R: Thank you very much.

H.M.Jr: I'll see you in plenty of time.

R: All right, thank you.

H.M.Jr: But I want your cooperation.

R: All right.

H.M.Jr: Thank you.

R: Thanks very much.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE June 13, 1938

TO Secretary Morgenthau

FROM Mr. Haas

Meeting held in Secretary Morgenthau's office
on June 13, 1938, at 11:30 a.m.

Subject: Means for securing adequate food for those on relief

Present: Secretary Morgenthau
Dr. Farran
Mr. Haas

Secretary Morgenthau read a list of commodities purchased last week by the Federal Surplus Commodities Corporation, copy of which is attached. The Secretary remarked that one could scarcely call that list a balanced diet.

Secretary Morgenthau pointed out to Dr. Farran the need for giving some publicity to the food requirements of families on relief.

Dr. Farran replied that Secretary Wallace was opposed to giving this matter publicity, and added Secretary Wallace had stated the reason was that the States and local relief funds might dry up entirely if it was felt the Government was coming to the aid by supplying food relief.

Secretary Morgenthau said he thought Secretary Wallace's objection was more fundamental in that it related to the success of the whole program for agriculture in the last five years.

Secretary Morgenthau stated the President had indicated very strongly that he would not let people starve. But people actually are starving, and \$100 millions would go a long way toward improving this situation, and more might be spent if necessary.

Secretary Morgenthau reported he had an idea over the week-end - that the District of Columbia might be used as an example in illustrating the inadequacy of a food supply for persons on relief. In the case of the District, the problem of State and local relief funds would not be involved, and in addition the situation here is about as bad as that in Cleveland.

Secretary Morgenthau - 2 -

Dr. Parran concurred that the Secretary's idea was an excellent one, and stated he would proceed at once to set up a project to secure the necessary information with regard to the food consumption, etc., for relief families - Dr. Stanley, Chief of the Bureau of Home Economics, to cooperate with Dr. Parran on the project.

Dr. Parran favored including some other cities in addition to the District in the outline of the proposed program of study.

Dr. Parran agreed to furnish the Secretary with an outline of the proposed project within the next few days.

Federal Surplus Commodities Corporation
Summary of Commodities Procured -
July 1, 1937 to June 8, 1938

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Apples (Dried)	Pounds	14,449,700	144,000	180,000	-	-	-	-	14,773,700
Apples (Fresh)	Bushels	5,603,648	46,200	7,800	2,400	-	-	-	5,660,048
Apricots (Dried)	Pounds	2,990,000	-	-	-	-	-	-	2,990,000
Beans (Dried)	Pounds	52,990,000	450,000	400,000	100,000	2,090,000	60,000	-	56,090,000
Beans (Snap)	Bushels	-	-	-	-	9,000	6,480	-	15,480
Butter	Pounds	8,320,208	918,040	753,828	513,712	663,544	1,451,152	1,734,052	14,354,536
Cabbage	Pounds	10,167,386	7,020,000	5,808,000	7,272,000	1,294,000	1,968,000	96,000	33,625,386
Celery	Crates	166,540	6,570	20,075	2,555	-	-	-	195,740
Cotton fabric	Yards	629,536	26,279	-	92,000	400	-	237,678	985,893
Cottonseed oil	Pounds	9,780,000	-	-	-	-	-	-	9,780,000
Eggs (Shell)	Cases	270,164	-	-	-	-	-	-	270,164
Flour	Barrels	-	-	-	7,000	3,000	124,800	-	134,800
Grapefruit	Boxes	155,499	48,000	69,000	48,000	37,500	42,042	18,500	418,541
Grapefruit juice	Cases	-	-	40,500	4,660	-	-	-	45,160
Grapes	Tons	7.915	-	-	-	-	-	-	7.915
Milk (Dry skim)	Pounds	8,642,250	-	-	-	-	7,940,000	-	16,582,250
Milk (Fluid)	Quarts	8,082,385	459,090	472,325	482,584	494,587	477,520	497,184	10,965,675
Onions	Pounds	3,000,000	-	-	-	-	-	-	3,000,000
Oranges	Boxes	1,563,626	87,514	78,972	49,934	31,280	13,860	10,164	1,835,350
Paper bags	Bags	-	-	-	-	-	8,400,000	-	8,400,000
Peaches (Dried)	Pounds	2,534,000	-	-	-	-	-	-	2,534,000
Pears (Fresh)	Boxes	317,982	-	-	-	-	-	-	317,982
Peas (Canned)	Cases	927,026	-	-	-	-	-	-	927,026
Peas (Dried)	Pounds	6,000,000	-	-	-	-	-	-	6,000,000
Potatoes (Sweet)	Bushels	440,304	-	-	-	-	-	-	440,304
Potatoes (White)	Bushels	4,149,756	117,325	63,365	7,337	-	-	-	4,337,783
Potato starch & flour	Pounds	2,561,720	280,280	-	-	-	-	960,000	2,842,000
Prunes (Dried)	Pounds	45,105,650	-	1,400,000	-	-	-	-	47,465,650
Rice (Milled)	Pounds	70,550,000	3,360,000	2,080,000	560,000	-	-	-	76,550,000
Tobacco	Pounds	-	-	-	-	1,000,000	-	1,600,000	2,600,000
Tomatoes (Canned)	Cases	50,000	-	-	-	-	-	-	50,000

June 13, 1938.

Treasury Department, Division of Research and Statistics.

* Dates shown are those reported by Federal Surplus Commodities Corporation. Actually, however, no purchases have been counted twice because of this discrepancy.

TREASURY DEPARTMENT

Washington

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FOR IMMEDIATE RELEASE
Monday, June 13, 1938.

Press Service
No. 13-63

Secretary of the Treasury Morgenthau today announced the final subscription and allotment figures with respect to the current offering of 2-3/4 percent Treasury Bonds of 1958-63 and 1-1/8 percent Treasury Notes of Series A-1943.

Subscriptions and allotments were divided among the several Federal Reserve districts and the Treasury as follows:

2-3/4 PERCENT TREASURY BONDS OF 1958-63

<u>Federal Reserve District</u>	<u>June notes exchanged</u>	<u>September notes exchanged</u>	<u>Total exchanges</u>
Boston	\$ 22,296,900	\$ 8,610,550	\$ 30,907,450
New York	405,885,800	250,970,550	656,856,350
Philadelphia	4,752,100	7,219,600	11,971,700
Cleveland	5,416,300	15,896,950	21,313,250
Richmond	5,702,800	5,160,650	10,863,450
Atlanta	3,083,900	2,711,900	5,795,800
Chicago	73,070,800	35,698,400	108,769,200
St. Louis	12,999,200	2,741,650	15,740,850
Minneapolis	3,247,100	3,950,150	7,197,250
Kansas City	7,831,000	7,010,950	14,841,950
Dallas	5,946,900	930,600	6,877,500
San Francisco	18,356,600	5,342,450	23,699,050
Treasury	3,150,800	865,000	4,015,800
TOTAL	\$571,740,200	\$347,109,400	\$918,849,600

1-1/8 PERCENT TREASURY NOTES OF SERIES A-1943

<u>Federal Reserve District</u>	<u>June notes exchanged</u>	<u>September notes exchanged</u>	<u>Total exchanges</u>
Boston	2,551,000	5,549,000	8,100,000
New York	21,659,300	212,617,300	234,276,600
Philadelphia	1,262,300	3,162,900	4,425,200
Cleveland	2,423,200	3,160,000	5,583,200
Richmond	230,000	379,400	609,400
Atlanta	275,500	441,000	716,500
Chicago	1,834,700	3,496,700	5,331,400
St. Louis	3,620,100	922,400	4,742,500
Minneapolis	254,500	117,700	372,200
Kansas City	200,000	750,200	1,030,200
Dallas	569,000	71,000	640,000
San Francisco	976,500	909,400	1,885,900
Treasury	17,600	51,000	68,500
TOTAL	\$ 36,153,600	\$ 231,620,000	\$ 267,771,600

Total June notes exchanged \$607,893,800
 Total September notes exchanged 578,737,400
 Total exchanges \$1,106,631,200

Federal Surplus Commodities Corporation
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Beans (Dried)	Pounds	52,990,000	450,000	400,000	100,000	2,090,000	60,000	-	56,090,000
Beans (Snap)	Bushels	-	-	-	-	9,000	6,480	-	15,480
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Grapes	Tons	7,915	-	-	-	-	-	-	7,915
Milk (Dry skim)	Pounds	8,642,250	-	-	-	-	7,940,000	-	16,582,250
Milk (Fluid)	Quarts	8,082,385	459,090	472,325	482,584	494,587	477,520	497,184	10,965,675
Onions	Pounds	3,000,000	-	-	-	-	-	-	3,000,000
Oranges	Boxes	1,563,626	87,514	78,972	49,934	31,280	13,860	10,164	1,835,350
Paper bags	Bags	-	-	-	-	-	8,400,000	-	8,400,000
Peaches (Dried)	Pounds	2,534,000	-	-	-	-	-	-	2,534,000
Pears (Fresh)	Boxes	317,982	-	-	-	-	-	-	317,982
Peas (Canned)	Cases	927,026	-	-	-	-	-	-	927,026
Peas (Dried)	Pounds	6,000,000	-	-	-	-	-	-	6,000,000
Potatoes (Sweet)	Bushels	440,304	-	-	-	-	-	-	440,304
Potatoes (White)	Bushels	4,149,756	117,325	63,365	7,337	-	-	-	4,337,783
Potato starch & flour	Pounds	2,561,720	280,280	-	-	-	-	-	2,842,000
Prunes (Dried)	Pounds	45,105,650	-	1,400,000	-	-	-	960,000	47,465,650
Rice (Milled)	Pounds	70,550,000	3,360,000	2,080,000	560,000	-	-	-	76,550,000
Tobacco	Pounds	-	-	-	-	1,000,000	-	1,600,000	2,600,000
Tomatoes (Canned)	Cases	50,000	-	-	-	-	-	-	50,000

June 13, 1938.

Treasury Department, Division of Research and Statistics.

* Dates shown are those reported by Federal Surplus Commodities Corporation. Actually, however, no purchases have been counted twice because of this discrepancy.

June 13, 1938.

At lunch to-day the President said, "I hope we get the 212 million in the bill. We need that extra money to spend".

* * * * *

I got Mr. Hill approved by the President to succeed Bill Myers.

June 13, 1938

MORGENTHAU SAYS HE HAS HAD NO CONTACT WITH
KENNEDY ON MONEY MATTERS - TREASURY BILL RATE
DROPS

WASHN - SECY MORGENTHAU SAID TODAY
THAT HE HAD HAD NO CONTACT WITH JOSEPH P
KENNEDY AMBASSADOR TO GREAT BRITAIN ON THE
SUBJECT OF A NEW MONETARY OR DEVALUATION
AGREEMENT SUCH AS HAS BEEN RUMORED IN NEW YORK
AND LONDON

WHEN PRESSED FOR A FURTHER STATEMENT THE
SECRETARY REPLIED -HAVING HAD NO CONTACT WITH
MR KENNEDY ON THAT SUBJECT I CAN-T GO BEYOND
THAT STATEMENT-

SECRETARY MORGENTHAU AGAIN DEPRECATED DE-
VALUATION RUMORS BUT SAID THAT HE HAD NOT HAD
TIME TO INVESTIGATE THE SOURCE OF THE

-THERE ARE SO MANY PEOPLE WHO CAN START
THESE RUMORS AND MAKE MONEY ON THEM THAT I
GUESS THEY WILL JUST GO ON - LAST YEAR THE
RUMORS WERE THE OTHER WAY AND IT TOOK THE PRESI-
DENT AND MYSELF A MONTH TO CONVINCE PEOPLE THAT
WE WEREN-T GOING TO DROP THE PRICE OF GOLD -
FINALLY WE CONVINCED PEOPLE THAT WE MEANT
WHAT WE SAID- THE SECY REMARKED

THE SECY SAID THAT THE SPEECH WHICH HE WILL
DELIVER AT TEMPLE UNIVERSITY WHERE IS TO BE
GIVEN AN HONORARY DEGREE JUNE 17 WOULD BE
ENTITLED -THE ROAD AHEAD- BUT HE DECLINED AT
HIS PRESS CONFERENCE TO DISCUSS THE BUSINESS
OUTLOOK - HE ADMITTED THAT HE HAD BEEN RECEIVING
WEEKLY SALES REPORTS FROM SEVERAL INDUSTRIES ON
A CONFIDENTIAL BASIS -FOR MY GUIDANCE AND FOR
THE GUIDANCE OF THE PRESIDENT- BUT HE REFUSED TO
SAY WHETHER THESE REPORTS INDICATED A SUMMER
SHUTDOWN IN THE AUTOMOBILE INDUSTRY

THE DISCOUNT RATE ON TREASURY BILLS
EVIDENTLY DROPPED TO A NEW LOW FOR 100 000 000
DLS OFFERINGS TODAY WHEN NEW YORK BANKS BID FOR
AN ISSUE OF TREASURY BILLS AT AN AVERAGE DIS-
COUNT OF 0 027 PC AGAINST 0 042 PC ON A
SIMILAR ISSUE A WEEK AGO THE SECY ANNOUNCED

UNDERSECY ROSWELL MAGILL WILL HAVE A FORMAL
STATEMENT ON HIS FUTURE POSITION IN THE TREASURY
WHEN HE RETURNS FROM HIS VACATION JULY 5 SECY
MORGENTHAU SAID

3,30

JUN 13 1938

TREASURY DEPARTMENT

Washington

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FOR IMMEDIATE RELEASE,
Monday, June 13, 1938.

Press Service
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<u>Federal Reserve District</u>	<u>June notes exchanged</u>	<u>September notes exchanged</u>	<u>Total exchanges</u>
Boston	\$ 22,296,900	\$ 8,610,550	\$ 30,907,450
New York	405,885,800	250,970,550	656,856,350
Philadelphia	4,752,100	7,219,600	11,971,700
Cleveland	5,416,300	15,896,950	21,313,250
Richmond	5,702,800	5,160,650	10,863,450
Atlanta	3,083,900	2,711,900	5,795,800
Chicago	73,070,800	35,698,400	108,769,200
St. Louis	12,999,200	2,741,650	15,740,850
Minneapolis	3,247,100	3,950,150	7,197,250
Kansas City	7,831,000	7,010,950	14,841,950
Dallas	5,946,900	930,600	6,877,500
San Francisco	18,356,600	5,342,450	23,699,050
Treasury	3,150,800	865,000	4,015,800
TOTAL	\$571,740,200	\$347,109,400	\$918,849,600

1-1/8 PERCENT TREASURY NOTES OF SERIES A-1943

<u>Federal Reserve District</u>	<u>June notes exchanged</u>	<u>September notes exchanged</u>	<u>Total exchanges</u>
Boston	2,551,000	5,549,000	8,100,000
New York	21,659,300	212,617,300	234,276,600
Philadelphia	1,262,300	3,162,900	4,425,200
Cleveland	2,423,200	3,160,000	5,583,200
Richmond	230,000	379,400	609,400
Atlanta	275,500	441,000	716,500
Chicago	1,834,700	3,496,700	5,331,400
St. Louis	3,820,100	922,400	4,742,500
Minneapolis	254,500	117,700	372,200
Kansas City	200,000	750,200	1,030,200
Dallas	569,000	71,000	640,000
San Francisco	976,500	909,400	1,885,900
Treasury	17,500	51,000	68,500
TOTAL	\$ 36,153,600	\$ 231,620,000	\$ 267,781,600

Total June notes exchanged \$607,893,800
 Total September notes exchanged 578,737,400
 Total exchanges \$1,186,631,200

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 13, 1938

TO Secretary Morgenthau

FROM Mr. Hass

Subject: The Business Situation, week ending June 11, 1938

Summary

While business currently continues depressed, some brightening of the horizon is beginning to appear, leading many to take for granted the near-term prospects and center attention on the more optimistic fall outlook.

(1) Sensitive commodity prices show some evidence of a turn in the general trend, based upon substantial improvements in the supply outlook for many commodities and on an apparent change in speculative sentiment toward the trend of commodity prices.

(2) The belief is growing that the Government recovery program will before long become an important factor in commodity prices and business activity.

(3) Some tentative signs of business improvement have begun to appear in certain sections.

(4) Automobile output is holding up better than earlier forecasts had suggested, and expectations for July are being revised upward.

(5) The prospect has become more favorable for a downward adjustment of steel and automobile prices, which would tend toward expanding production.

(6) A level of consumption which continues about 10 points higher than the current level of industrial production provides a strong basis for increased production as soon as inventories have reached a proper adjustment with sales. The point of adjustment is largely a psychological one, and may be reached soon if commodity prices continue to rise.

The current business trend

The New York Times index, for the week ended June 4, declined to a new low for the year at 75.1, comparing with 75.7 during the previous week. Declines in steel output and automobile production more than offset a sharp improvement in cotton mill activity and some rise in carloadings. For the following week, the index will be favorably affected by a rise in automobile production to 40,200 units, as compared with 27,000 units during the week of June 4.

The price situation

The upturn in sensitive commodity prices this month, considered in the light of evidence that basic supply conditions are improving for a number of commodities, provides an important strengthening factor in the business outlook. Previous upturns, notably those on the President's price statement in February and on the announcement of the recovery program in April, were based more on speculative possibilities than on fundamental improvement. During the current week some weakening of the dollar has occurred, though not as pronounced as in the two instances mentioned.

It is logical to expect some setback in prices during the next few weeks, following a 4-percent rise in 10 days in the Dow-Jones futures price index. Factors which make for a strengthening in the general trend of commodity prices are these:

- (1) A direct stimulus will soon be given to prices by Government purchasing of materials under the spending program, and by an increase in consumer purchases resulting from W.F.A. and relief expenditures.
- (2) Production curtailment for a number of commodities should soon exert a strengthening influence on commodity prices.
- (3) The effect of the increase in excess bank reserves should sooner or later operate to raise commodity prices, particularly when business activity and deposit turnover increase.
- (4) Depleted inventories, coupled with buying in anticipation of a fall business improvement, should operate to raise commodity prices.

Secretary Morgenthau - 3

Large supplies of agricultural products will continue a depressing factor, though their effect will be minimized by (1) Government loans, which will tend to prevent declines from current levels; (2) recent unfavorable crop developments for cotton and reported crop damage to wheat; and (3) the fact that by the end of July the peak of market pressure from the hedging of the large wheat crop will probably be past.

Some improvement in South

Some tentative signs of regional business improvement appear in the trends of department store sales (See Chart 1). In the 11th (Dallas) Federal Reserve district an improvement in recent weeks has been particularly marked. The Kansas district showed a sharp upturn last week. In the 6th and 11th districts, which include the larger part of the Southern region, sales are continuing noticeably better than for the country as a whole.

A recent letter from Mr. Keller, president of the Chrysler Corporation, mentioned that "in some sections of the country business seems to be much better than it is in others." We note that steel activity in the South has been running at a rate twice as high as the average, operations currently being about 52 percent of capacity, as compared with the national average of 26 percent. In other depression periods, Southern output has at times been below that for the country as a whole, due to the preponderance of heavy steel manufacturing in that section.

The steel situation

The widening price disparity between steel prices and other commodity prices in recent weeks has been accompanied by a drying up of new orders for steel. For the week ending June 1, new orders of the U. S. Steel Corporation reached a new low for the year, equivalent to about 22 percent of capacity. The rate of steel operations has accordingly declined, running this week and last at 26 percent of capacity. Operations have been maintained somewhat above the level of new orders because of some surplus of orders previously booked.

Steel companies are said to be coming to the conclusion that price reductions may be necessary for stimulating demand, following the obvious failure of their announcement of unchanged prices to release the supposed pent-up volume of orders. Price-shading on various steel products is reported

Secretary Morgenthau - 4

to be increasing. The steady decline in steel operations and employment, with further shutdowns in prospect, are giving concern both to steel executives and labor leaders, and increasing the prospect of some cooperative arrangement between labor and management that will lead to a reduction in fourth-quarter prices.

With operations at present low levels, furthermore, it is becoming increasingly difficult for steel companies to justify in the eyes of steel buyers and the public the maintenance of prices at a level higher than at any time since 1924. Pressure for a reduction will undoubtedly come from the automobile companies as soon as they are ready to place their steel orders for 1939 models.

The widespread postponement of steel buying on the expectation of reduced prices may result in a heavy volume of orders when prices are reduced. Commenting on the similar situation in the pig iron market, the Journal of Commerce mentions that "at no time in history have buyers so postponed until the last minute their purchases. Therefore when sentiment does change for the better all consumers of pig iron should be coming into the market at once, and old times will return to the pig iron market."

The brightest spot in the current steel outlook is the possibility of increased orders for steel for Government-financed projects. This week's awards for structural steel, while continuing at a low level, were double those of last week, and largely for Government projects.

Automobile, construction, and
textile prospects better

Automobile sales recently have been better than had been anticipated and have led to an upward revision of production estimates for June and July. General Motors' new-car sales during the period from May 21 to 31 were well maintained at 34,768 units, as compared with 30,752 units during the period from May 11 to 20.

Ward's Reports have raised their June production estimate to about 170,000 units, which compares with about 195,000 units in May. Production of about 130,000 units in July is now regarded as a reasonable possibility, contrasting with recent estimates ranging from a complete shutdown to a production of about 95,000 units.

A sharp increase in construction contract awards, as reported by the F. W. Dodge Corporation for the last period of May, represents a continuation of the steady improvement in such awards that has been taking place over the past several months. The increased total, which reached the high daily average of \$18,842,000, as compared with \$8,421,000 in the previous period, reflects a sharp rise both in public and private projects. Public works and utility awards during May totalled much above those of May last year, while residential awards were about 1 percent lower.

A marked upturn in textile sales has occurred this week, reported to have been stimulated by recent heavy Government orders for cotton goods. Sales of cotton gray goods for the week were ~~about~~ twice the volume of current production. It is generally felt in the trade that the low bids at which the Government is buying its huge order of some 57,000,000 yards of cotton goods for W.P.A. sewing rooms will establish the extreme bottom for cloth prices.

Consumer demand well maintained

The level of consumer demand continued through April at an equivalent level of about 90 for the F.R.B. index, while production averaged slightly under 80 (See Chart 2), indicating that the time is rapidly approaching when inventories will have been reduced to a level that will force a rise in production to meet current requirements. Studies of inventory trends which we are now making confirm the fact indicated by our basic demand study that inventories began to be reduced last October and have been steadily decreasing since then.

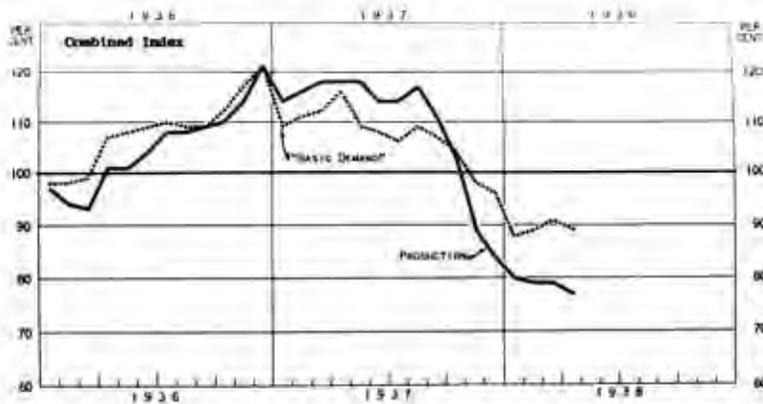
In this chart (Chart 2) it will be noted (1) that a high level of basic demand throughout 1936 anticipated the rise in industrial production in that year; (2) that a decline in basic demand beginning in January 1937 anticipated the later decline in industrial production; and (3) that a relatively high level of basic demand in 1938 suggests a higher level of industrial production later in the year.

Among the various industrial groups, of which the 8 leading ones are shown on the chart, it will be observed (1) That a low level of basic demand for crude and refined petroleum in 1937 has been followed by a sharp downward adjustment of production. The production of crude petroleum during May will also be sharply lower. (2) That relatively low levels of production for leather and cement several months ago have been followed by a rise in production to the level of demand. (3) That increased production

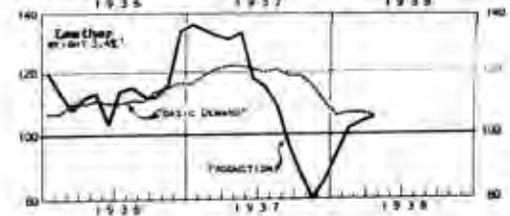
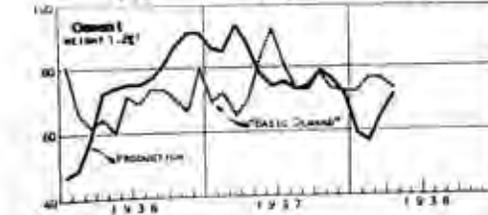
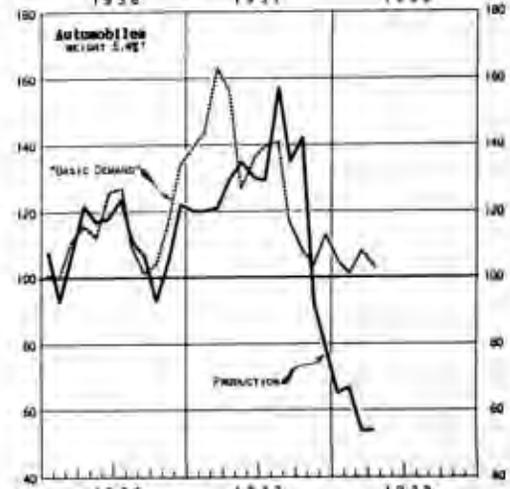
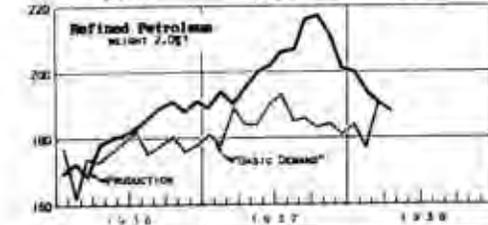
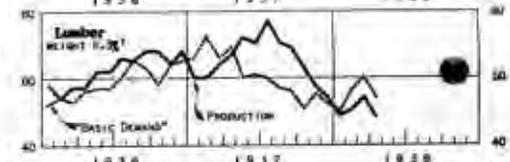
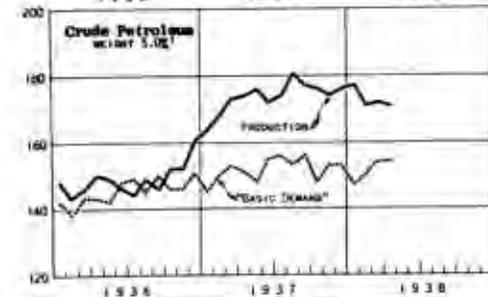
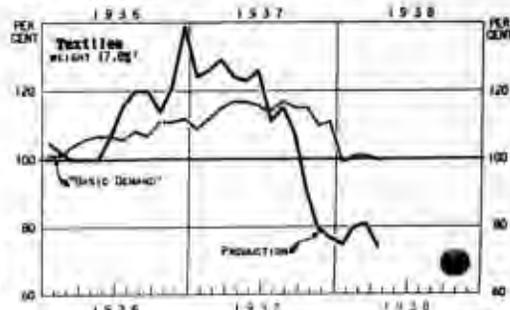
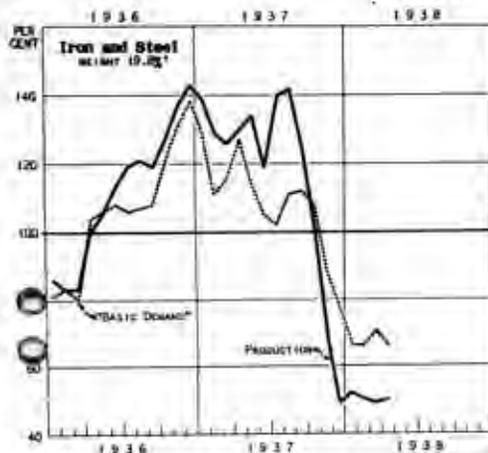
Secretary Morgenthau - 6

of iron and steel, textiles, and automobiles appear to be indicated by the relatively high levels of basic demand. The failure of steel and automobile production to improve more quickly has apparently been due partly to excessive inventories and partly to rigid price policies. Textile production has been handicapped by excessive inventories in the hands of spinners and wholesale merchants, but substantial progress in adjusting these inventories has recently been made.

ESTIMATED BASIC DEMAND COMPARED WITH PRODUCTION, BY INDUSTRIES
1923 = '25 = 100, Adjusted



Selected Industrial Groups



NOTE: LATEST FIGURES ARE PRELIMINARY IN MOST CASES

WEIGHT IN COMBINED INDEX

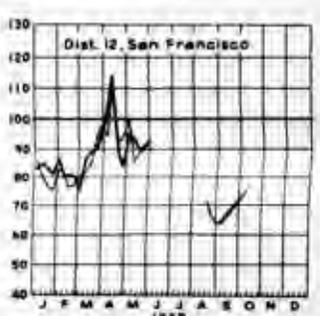
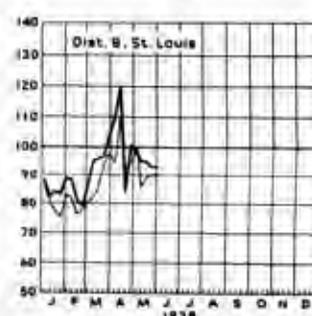
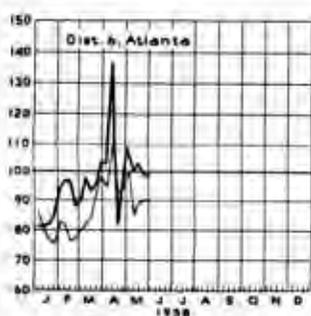
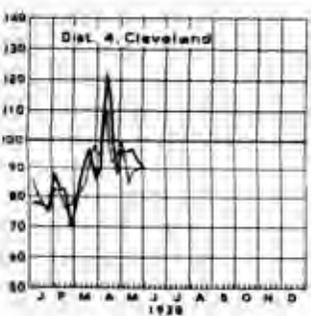
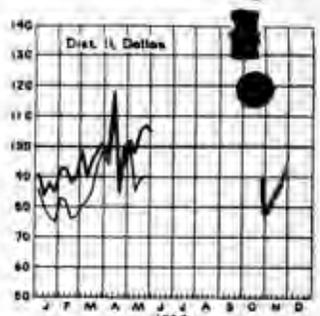
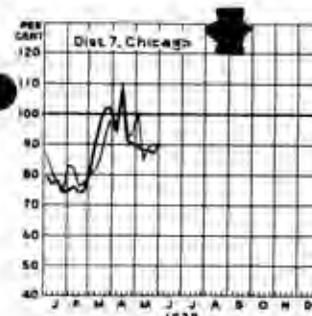
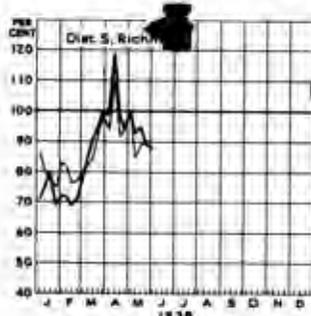
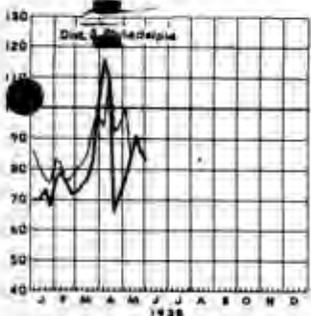
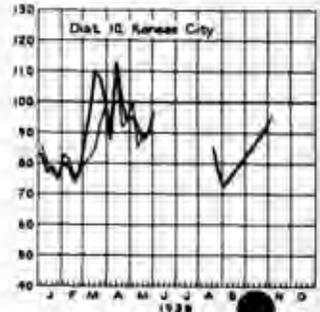
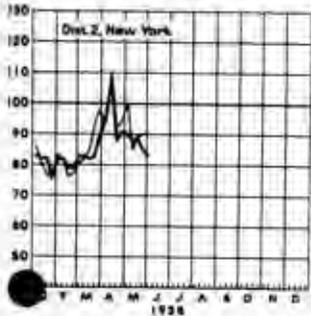
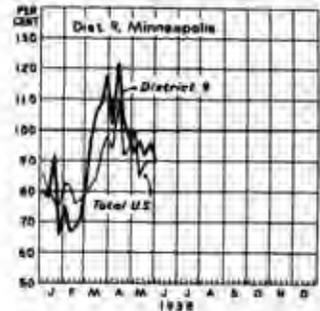
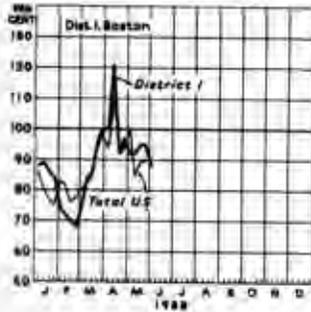
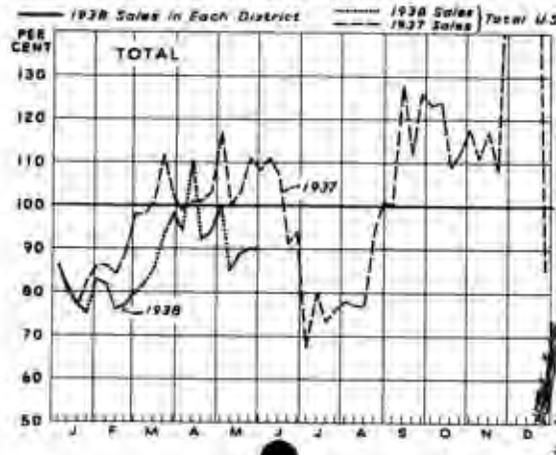
DEPARTMENT STORE SALES

By Federal Reserve Districts



WEEKLY INDEX OF SALES

1936 = 100 for Each District



TREASURY DEPARTMENT

311

INTER OFFICE COMMUNICATION

DATE JUN 13 1938

TO Secretary Morgenthau
FROM Herman Oliphant

For your information

On April 28 the President asked Mr. Altmeyer, Chairman of the Social Security Board, to give attention to extending and liberalizing the Old Age insurance system to permit the commencement of Old Age annuities at an earlier date than January 1, 1942; the payment of larger benefits than are now provided during the earlier years of the system; the payment of benefits for aged wives and widows; and the payment of benefits to young children of insured persons dying before reaching retirement age. Recommendations are to be submitted to the President before Congress reconvenes in January.

Mr. Altmeyer wrote you on May 17 that he was sailing for Europe but wanted to discuss the situation with you after he returned with a view to obtaining your cooperation and the assistance of the Government Actuary and members of the Treasury Research and Statistics staff in connection with the study.

Mr. Tate and Mr. Willcox, of the legal staff of the Social Security Board, have asked to have lunch with Ed Foley and me on Tuesday to discuss the proposed legislation.

Attached are copies of the President's letter to Mr. Altmeyer and Altmeyer's letter to you.



Attachments

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C O P Y

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May 17, 1938

The Honorable
The Secretary of the Treasury
Washington, D. C.

My dear Mr. Secretary:

I am sorry that we have not had an opportunity to discuss personally the letter of the President dated April 28, a copy of which I am enclosing. This letter, as you will note, relates to possible amendments to the Social Security Act which I originally discussed with you last September. Since that time we have carried on sustained research and have had a number of discussions with the Social Security Advisory Council. The Government Actuary and members of your Research and Statistics staff have been kept informed of the progress of this research and have attended meetings of the Social Security Advisory Council. As our research has progressed, it appears that it will be possible to accomplish some of the objectives suggested in the President's letter with a relatively small increase in cost because of other readjustments that can be made in the present basic benefit schedule.

We recognize, of course, the Treasury's responsibility as regards the financial aspects of any change in the Social Security Act. We also recognize that any considerable extension of coverage of the old age insurance system would probably require important modification of the type of taxes and the methods of tax collection that would be employed. Therefore, we would appreciate it very much if the Government Actuary and the Division of Research and Statistics of the Treasury Department could give rather intensive consideration to Social Security problems during the next six months.

I am going abroad on May 18 and expect to be back in the early part of July. In the meantime, of course, the research work being carried on by the Social Security Board staff will go forward. As soon as I return, I am hopeful that it will be possible to confer with you personally.

Sincerely yours,

Chairman

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April 28, 1938

Mr. Arthur J. Altmeyer,
Chairman,
Social Security Board,
Washington, D. C.

My dear Mr. Chairman:

I am very anxious that in the press of administrative duties the Social Security Board will not lose sight of the necessity of studying ways and means of improving and extending the provisions of the Social Security Act.

The enactment of the Social Security Act marked a great advance in affording more equitable and effective protection to the people of this country against widespread and growing economic hazards. The successful operation of the Act is the best proof that it was soundly conceived. However, it would be unfortunate if we assumed that it was complete and final. Rather, we should be constantly seeking to perfect and strengthen it in the light of our accumulating experience and growing appreciation of social needs.

I am particularly anxious that the Board give attention to the development of a sound plan for liberalizing the old age insurance system. In the development of such a plan I should like to have the Board give consideration to the feasibility of extending its coverage, commencing the payment of old-age insurance annuities at an earlier date than January 1, 1942, paying larger benefits than now provided in the Act for those retiring during the earlier years of the system, providing benefits for aged wives and widows, and providing benefits for young children of insured persons dying before reaching retirement age. It is my hope that the Board will be prepared to submit its recommendations before Congress reconvenes in January.

Very truly yours,

(signed) Franklin D. Roosevelt

REMARKS BY AMERICAN REPRESENTATIVE CONCERNING
SITUATION IN FAR EAST.

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June 13, 1938.

We have before us today for consideration and study the annual report of the Chinese National Government on the traffic in opium and other dangerous drugs for the calendar year 1936. In the past, I have been one of the severest critics of the Chinese annual reports. I have criticized them drastically, because I know that their incompleteness and inaccuracies caused them to present to the public a thoroughly misleading picture of the sincere efforts which were being exerted in China to combat the drug evil. Today I take pleasure in expressing appreciation of the completeness and of the informative nature of China's 1936 report. I think that the members of the Committee will undoubtedly agree with me that this report is unquestionably the best which the Chinese Government has yet presented and that it could well serve as a model of completeness to many other

Governments. Detailed discussion of that report I leave to my colleagues of the Committee and turn now to the condition in China as it was in 1937 and as it is today.

In considering the conditions in China today, I propose, for convenience, to discuss ~~the~~ subject by areas, as follows:

- (1) Manchuria and Jehol,
- (2) China North of the Yellow River,
- (3) Central China,
- (4) Southwest China,
- (5) Southern China.

With regard to Manchuria and Jehol, from all of the information that I have been able to obtain, there has been no real or effective improvement during the past year in the conditions obtaining in respect of addiction, illicit import, illicit traffic or opium production. The régime still functioning in that area promulgated an elaborate law and regulations thereunder, but both of these appear to be designed

solely

solely to secure to the Government Monopoly the profits from manufactured drugs as well as those from raw and prepared opium, and neither contains provisions that would tend to discourage addiction or would effectively hamper promiscuous distribution. In the last of March, the monopoly shops were selling opium freely to all and sundry without restrictions and without the production of permits.

Where is this opium coming from -

As was pointed out in this Committee last year, Chosen (Korea) has for some years past been one of the principal suppliers of raw opium illicitly introduced into Manchuria and this movement has been openly encouraged, aided and abetted by the Government General of Chosen. In 1932, in reply to an inquiry made by the American Government, the Japanese Government stated that the Government General of Chosen had made arrangements to give to the Governments General of Taiwan and Kwantung a portion of the raw opium produced in Chosen in exchange for morphine produced as an

incidental

incidental in the manufacture of smoking opium in Taiwan and in exchange for morphine confiscated in the Kwantung Leased Territory. The reply further stated that there had been no change in the policy previously followed in regard to the production of raw opium in Chosen, that policy being to produce no more than the quantity necessary for consumption in Chosen, and that there would be no increase in the area devoted to poppy cultivation.

But there seems to have been a quick change in that policy, for the area so cultivated rose from 1068 hectares in 1932 to 2240 hectares in 1933. In February, 1937, the Chosen authorities publicly admitted that they had for some years been shipping some 41,000 pounds of raw opium annually to Manchuria and stated that they proposed further to exploit this illicit traffic, would subsidize it, and expected to add, in the years 1937, 1938 and 1939 to the area already devoted to poppy cultivation, some 995 hectares. As importations

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of raw opium from Chosen into Manchuria between January and April, 1937, totalled 29,000 lb. it appears that the Government General of Chosen is continuing to increase its contribution to the illicit opium traffic. Chosen appears to have reported exports directly to Manchuria as follows:

1933	1,899 kg.
1934	6,808 kg.
1935	3,752 kg.
1936	11,238 kg.

The quantities which went by way of the Kwantung Leased Territory are not clearly known.

Opium has also been imported from Iran and, apparently, from Turkey. In League document No. O.C.1564(f) there were embodied certain tabulations (apparently based on the publications known as "Annual Returns of the Foreign Trade of Manchukuo" and as "Monthly Returns of the Foreign Trade of Manchukuo") which had been drawn up to show the import of opium into Manchuria and Jehol. Some of these tables carry the figures through 1936 and others through 1935

only.

only. Figures have now been published through 1936 and, in some particulars, through 1937.

Examination of the published returns for 1935, 1936 and 1937 however indicates that the opium imported from Turkey and from Iran has been reported under two categories, (viz.: "Opium" and "Medicinal Substances and Spices") so that the true value of opium imported into Manchuria from Turkey in 1936 and 1937 is represented not by the figures under the specific item "opium" but by those under the general category "medicinal substances and spices". The imports from Turkey are thus thought to have been:

1935M.Y. 504,475
1936M.Y. 829,156
1937M.Y. 926,814

Similarly, the imports from Iran are thought to have been:

1935M.Y. 360,000
1936M.Y. 484,497

The Iran figures for 1937 did not appear in the monthly returns and are not yet available.

This

This picture is somewhat different from that presented in document O.C.1564(f).

I am not in a position as yet to present exact figures for the export to Manchuria in 1937 of Iranian raw opium, all of which is illicit, but there are indications that the quantities of such opium were greater than in 1936.

The opium crop harvested in Manchuria and Jehol in 1937 is reported to have been a good one. The poppy was cultivated in twelve of the sixteen provinces and, from a cultivated area of 177,000 acres, there was collected a total quantity of 2,796,000 lb. or 1,271,000 kilograms. A large part of this crop went to supply the heroin factories in Hopei, particularly in and around Tientsin. The production in Jehol has been estimated at three times that of 1936. The crop collected in Hsingan West has been estimated at double that collected in 1936.

League document No. O.C.1564(g) which was circulated March 1, 1938 lists certain areas in which poppy cultivation is to be

permitted

permitted in 1938, according to the publication known as "The Manchukuo Official Gazette". These quoted statements appear to be thoroughly misleading. It is not clear whether or not such cultivation will be permitted elsewhere and inquiries have been made with a view to obtaining information on that subject. The conversions from mou to acres in this document have not all been made at the usual rate of six mou to the acre whereas the conversion for 1937 (in "The Manchukuo Government Gazette" No. 758 of October 1, 1936) was made at the rate of six mou to the acre. This difference would appear to render misleading the comparison which appears in League document No. O.C. 1564(g). The correct figure for 1938 would appear to be 118,000 acres instead of 113,500. In other words, League document No. 1564(g) would seem to indicate nothing more definite than a proposed reduction of poppy growing areas in Jehol by 50,000 mou or 8,333 acres and a proposed increase in such areas in West Hsingan of 10,000 mou or 1,666 acres. A

comparison

comparison for the whole of Manchuria and Jehol cannot safely be made until further information becomes available concerning Sankiang and Pinkiang and possibly other provinces.

Furthermore, it should be pointed out that the areas actually under poppy cultivation in Manchuria and Jehol have in the past been far from identical with the authorized areas, a fact which has been publicly admitted by the régime at present functioning in that part of China. It is reliably reported that, in 1937, 52,560 acres which had not been authorized therefor were devoted to poppy cultivation.

As to the manufacture of narcotic drugs in this area, it is reported that the Opium Monopoly Administration continues to maintain and operate narcotic drug factories in Mukden and Chengteh, the output of which is far beyond all possible medical needs of Manchuria and Jehol, and a laboratory in Harbin. The Mukden factory has been reported as turning out from 75 to 100 kilograms daily of morphine and heroin. The

Chengteh

Chengteh factory is stated to be turning out mostly base or crude morphine for export to factories at and near Tientsin there to be used in the manufacture of heroin. Private manufacture of opium derivatives has apparently migrated from Manchuria, Jehol and the Kwantung Leased Territory to Tientsin and other parts of Hopei Province.

When we come to the abuse of narcotic drugs, there appears to be no decrease whatever in Manchuria or in Jehol in either pipe addiction or addiction to manufactured drugs, nor does it appear that the business interests concerned anticipate any decrease. The budget estimates for 1938 anticipate that receipts from sales by the opium monopoly will increase from the estimated MY 47,850,000 of 1937 to MY 71,045,200 in 1938, an increase of 48 4/10%.

The "Manchukuo" Opium Monopoly appears to have been doing a lucrative and constantly increasing business. According to a series of articles by Mr. Kei Miyakawa which was circulated to the members of the Committee

at

at this session and which had been published in the Manchuria Daily News in February, 1938, the monopoly, in the first five years of its existence (1933-1937 inclusive) expended Manchurian Yuan 86,852,558 in the purchase of opium and received in payment for opium sold Manchurian Yuan 134,671,662. This represents a gross profit of 55%. The author states that in 1933 and 1934 the monopoly's operations showed Manchurian Yuan 22,630,345 expended for the purchase of opium as against Manchurian Yuan 19,883,759 received in payment for opium sold, representing a deficit of Manchurian Yuan 2,746,586 or 12% on the cost of the opium purchased. The article, however, states that the operations of the succeeding three years were very much more successful, opium purchased having cost Manchurian Yuan 64,282,113 and opium sold having brought in Manchurian Yuan 114,747,903 - a gross profit of 78 1/2%. The article states that in the five years 1933-1937 inclusive, the Government purchased 41,000,000 taels of opium and sold 35,000,000

taels.

taels. It does not state what became of the balance of 6,000,000 taels (500,000 lb. or 227,363 kilograms).

While the funds prosper, public health continues to suffer.

The municipal sanitary authorities at Harbin state that, in the seven months January to July, 1937, inclusive, 1793 unclaimed corpses were picked up in the streets and alleys of that city, of which 1485 had died as a result of narcotic addiction. In Mukden, police statistics showed 67 deaths in November, 1937, reported to be due to narcotic addiction. By October, 1937, addiction among the Japanese in Manchuria had increased to such an extent that the Sanitarium maintained at Mukden by the Kwantung Bureau was crowded and became obliged to limit its admissions to Japanese, refusing longer to care for Chinese. The increasing addiction among the Japanese is reported to be heroin addiction, which is more difficult to detect than opium smoking. I have been unable to learn of anything real being

done

done about the ash heaps of Mukden and Harbin, the final resting places of thousands of victims of narcotic addiction, which were described to you last year.

In China between the Yellow River and the Great Wall, which has for some time past been controlled by the northern Japanese army, conditions are far worse than they were a year ago. A sort of civil government set up and maintained in Hopei by that army took a hand in narcotics control shortly after its establishment. The Chinese Central Government's provisional anti-opium and anti-narcotics laws and regulations were rescinded by order No. 33 of the Peiping "Provisional Government" dated February 24, 1938. All persons who were being detained under these regulations were promptly released from prison. There has been no legal control of the narcotics trade in North China since the beginning of August, 1937, and, except for the possible future establishment of a monopoly and for possible minor Chinese police regulations, no control of the trade seems likely under

present

present conditions. Illicit traffic is flourishing like the green bay tree and clandestine manufacture has increased and has extended its operations beyond the wildest dreams of its promoters. The manufacturer has at his command a seemingly unlimited supply of raw material in the shape of crude morphine from the "Manchukuo" Opium Monopoly factory in Jehol and Iranian opium brought in from Manchuria. To illustrate to you the particular interest which my Government has in the continuance in North China of this disgraceful state of affairs, I need cite but one case out of several illicit traffic cases which had their base and origin in the Japanese Concession in Tientsin.

In seizure reports and in statements before the Illicit Traffic Sub-Committee, particulars have been presented showing how, in a period of some fifteen months, 650 kilograms of heroin were exported to the United States from the Japanese Concession in Tientsin by a single one of

the

the several gangs operating in this trade. They experienced no difficulty whatever in purchasing in that Concession all of the heroin that they desired. As you are aware, 650 kilograms constitutes about two-thirds of the entire world's legitimate need for heroin for a year. It represents, in round figures, ten million grains. Adulterated to the 10% purity now generally met with in the illicit traffic in the United States, this would amount to one hundred million grains of the adulterated product, enough to supply some 10,000 addicts for a year,--ten thousand of my countrymen held for a year in a slavery worse than death because those in control of North China fail to meet their obligation to limit the manufacture and control the distribution of narcotic drugs, while the régime in control in Manchuria itself manufactures and supplies the raw material.

Pure heroin has an illicit value of

one

one dollar per grain in the United States. Ten thousand poor wretched addicts pay three dollars per day each for three grains of heroin -- thirty thousand dollars per day or approximately ten million dollars a year wasted as a result of the operations of only one of several gangs, operations made possible by complaisant disregard by the responsible authorities in North China of local law and of treaty obligations.

The Japanese Government shares with the American Government and with other Governments a well recognized obligation to limit to medical and scientific needs the manufacture of narcotic drugs and to cooperate in the effort to prevent the use of those drugs for purposes other than medical and scientific. The actions in respect of narcotic drugs of the provisional régime at Peiping and of the régime at present functioning in Manchuria and Jehol can hardly be regarded as limiting the manufacture or controlling the distribution of narcotic drugs; and it should be pointed out that, in the light of the

situation

Pages 322-331
skipped in numbering
by faulty machine

situation existing in North China, the Japanese Government has an inescapable responsibility for the importation of opium into that territory in contravention of the laws of China..

I put it to you that there is no legality or legitimacy in the assumption of authority by the provisional régime at Peiping, and that it is to be profoundly regretted that the Japanese Government has not exercised that restraining influence which it is in a position to exercise upon the authorities of the provisional régime, who have been proceeding in contravention of existing conventions and in disregard of local law. I venture to express the hope that the Japanese authorities, both civil and military, will lose no time in putting an end to the state of affairs now obtaining in the parts of China under their control or of which they are in military occupation.

The situation in the Yangtsze Valley east of Hankow is far from clear. Due to the hostilities which have taken and are

taking

taking place in that region, it is probably premature to attempt observations on the situation there.

In Shanghai, control appears to have broken down completely except in the French Concession and in the International Settlement, in both of which areas the police have continued their efforts to prevent illicit traffic. Shanghai has been full of rumors and apprehension is felt lest the City, unless definite measures are adopted before long, will suffer the narcotic plague that has been brought to Harbin, to Mukden, to Tientsin and to Peiping. In Shanghai, however, what has to be faced is now becoming clearer and the prospect is such as to cause all foreign nations as well as the Chinese deep concern.

Huge quantities of Iranian opium are reliably reported to have arrived in North China and in Shanghai consigned to the Japanese Army and to Japanese firms, while further large consignments are en route to those destinations under similar

auspices

auspices and still others are on order. In addition, a large quantity (1000 chests) of Iranian opium is reported as being held in Macao to the order of the Japanese Army and Japanese firms, intended eventually for sale in either South China or in Shanghai.

On December 29, 1937, the Japanese S/S MUKO MARU is reliably reported to have left Bushire for the Far East carrying 1500 chests of Iranian opium shipped to the Far East by Japanese interests. This means 240,000 pounds or 109,000 kilograms. I should like to ask the Japanese representative whether he can give us information as to the destination and eventual use of this 109 tons of raw opium of high morphine content, which was shipped under unusual circumstances.

I am reliably informed that, during the first three months of 1938, orders were placed in Iran by Japanese interests for 2900 chests of Iranian opium of which 1128 chests went forward to the Far East

in

in the first seventeen days of March, 1938. It may be mentioned that 2900 chests is, roughly, 464,000 pounds or 211,000 kilograms. The 1128 chests already shipped is, roughly, 180,500 pounds or 82,000 kilograms. The balance of the order, 129,000 kilograms, on March 17 remained to be shipped.

Included in the shipments made in March was one of 428 chests (or a little over 31 tons) reliably reported to have been shipped from Bushire to Tangku by a well known Japanese commercial house, one of the largest corporations in Japan, on March 14, 1938, by the Japanese S/S SINGAPORE MARU. In the case of this shipment, I am reliably informed that Wang Ke-ming, acting in the name of the so-called "North China Provisional Government" issued, under date of March 12, 1938, to Isamu Fugita, the Mitsui Bussan Kaisha agent at Macao, a secret administrative order which purported to authorize the importation. It should be noted that this order was dated only two days before the

shipment left Bushire. I am reliably informed that the SINGAPORE MARU arrived in Shanghai at 11 A.M. April 12 and sailed the same day at 3:15 P.M. Flying the Japanese military transport flag, she had anchored in the river section known as No. 35 Buoy, which is about three miles down river from the Customs Jetty on Shanghai Bund. As far as has been ascertained, no cargo was landed on this occasion, but ship stores may have been taken aboard. The lot of 428 chests from the SINGAPORE MARU is reported to have arrived in Tangku and to have been distributed under the control of a Japanese army officer at Tientsin, 300 chests having been sent to Shanghai where they arrived April 22nd, via Dairen, and were taken over by the Japanese Army. I should like to ask the Japanese representative whether he can give us any information in regard to this transaction and any information as to what became of the additional 550 chests carried by the SINGAPORE MARU.

I am also informed that efforts have

been

been under way for some time to sell, under the control of a colonel of the Japanese Army who has been entrusted by that army with arrangements for the sale of opium in the Shanghai region, 460,000 pounds of Iranian opium which was consigned in care of the Mitsui Bussan Kaisha at Shanghai. This is 2875 chests. I am informed that delivery of these sales is to be against cash and will be made under Japanese military supervision to any part of central China now occupied by the Japanese Army.

As the country for miles around Shanghai has been completely devastated, all business is at a standstill, and the purchasing power of the people has disappeared, there is actually no market at all for these huge quantities of Iranian opium unless it is disposed of in the form of heroin and that mostly for export to Europe and America. What the Japanese Army will do with this vast quantity of Iranian opium remains to be seen. The report is that the Colonel referred to,

through

through his Japanese assistant and with the aid of representatives of the Mitsui Bussan Kaisha is negotiating with the so-called Consolidated Tax Bureau of Tatao (or provisional régime set up by the Japanese Army in Shanghai) to establish a large heroin factory in Shanghai.

Cheap heroin cigarettes which sell at prices lower than opium are already making their appearance for sale to the Chinese in the parts of Shanghai under Japanese control and offers are being made to sell heroin in large quantities for export to the United States and Europe.

I have been furnished with particulars of one sale of Japanese owned Persian opium in Shanghai under circumstances which point to intention to use it for the manufacture of heroin.

In addition to the 428 just mentioned as shipped by the Mitsui Bussan Kaisha, the SINGAPORE MARU also carried 550 chests of Iranian opium destined for Tangku, a total cargo of 978 chests for China shipped by Japanese companies in a Japanese ship

to a country the law of which prohibits the import of opium. Three days later, another Japanese ship, the SHANGHAI MARU, is reliably reported to have left Bushire with 150 chests destined for the Far East.

I wonder if the Opium Advisory Committee, to whose attention the Japanese representative last year called the newly enacted laws for punishing Japanese who import opium into China or who deal in opium therein, would be willing to suggest to the Japanese representative that these transactions of Japanese subjects in China should be investigated and reported upon even if they cannot be adequately punished.

Lest it seem strange that I make no inquiry of the Iranian representative, I may explain that it is because his predecessor has repeatedly made it clear to the Committee that the Iranian Government, while asking for import certificates, makes no inquiry into their authenticity and retains no record of documents which may have been presented as purporting to be such certificates.

AS

As to South China. In addition to the 320 tons of Iranian opium to which I have referred as being on order or already in China for Japanese account, Japanese interests are reported as having on storage in Macao 1,000 chests of Iranian opium, or 72 3/4 tons. It is not yet clear whether this is a shipment that recently left Iran or whether it represents a purchase from Macao stocks. The Committee will recall that the stocks left from the Old Macao Opium Farm have never been fully accounted for and were a few years ago offered for sale by an officer of the Macao Opium Monopoly who was later discharged. It will also recall that my questions as to those stocks, reputed stored in the Banco Ultramarino at Macao have never been answered. I should like again to inquire whether the Portuguese representative can give us any information on this subject or will endeavor to have it investigated.

Now we come to Southwest China. It will be recalled that, a year ago, available information indicated that, in the

crop

crop year 1936-37, there had been a very material reduction in the quantities of raw opium produced in Southwest China, i.e. Yunnan, Kweichow and Szechuen, provinces which are under control of the Chinese National Government. Information available at present in regard to production in those provinces in the crop years 1937-38 is far from complete. I may say, however, that it does not indicate any increase nor does it indicate any decrease.

To conclude, I may point out that, in brief, the situation in the parts of China under control of the Chinese National Government continues to give evidence of sincere effort with encouraging results. The situation in Macao continues to call for explanation. The situation in the parts of China under Japanese control is worse than ever and gives cause to the entire world for serious apprehension.

ADDITIONAL STATEMENT

June 21, 1938.

I am reliably informed that, about April 3rd, 1938, an armed Japanese vessel reached Macao from Iran carrying something over two thousand chests of raw Iranian opium. Of these, eleven hundred chests were landed at Hak Sha Wan (Black Sand Bay) a suburb of Macao. The report is to the effect that, under cover of night, these 80,000 kilogrammes of opium were escorted by Portuguese troops to the Banco Nacional Ultramarino in the City of Macao, where they were left for safekeeping. Prior arrangements had been made by Chinese opium traffickers and the Japanese owners of the opium with high Macao authorities for the landing and storage of the drug.

The transaction is reported to have been carried out under the personal direction and supervision of the head of the Macao Opium Monopoly. Of these eleven hundred chests disembarked at Macao, five hundred chests or 38,363 kilogrammes were later

shipped to Japanese consignees at Shanghai.

The vessel is reported to have gone from Macao to a port in Formosa, where the balance of the opium, about one thousand chests (72,727 kilogrammes) was landed.

I should like to inquire whether the Portuguese, Japanese and Iranian representatives will undertake to ask their respective Governments to report on this case under the terms of Article 23 of the Narcotics Limitation Convention of 1931.

From White

June 13, 1938.

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Japan's Foreign Exchange Situation

1. If Japan continues military operations in China on the present scale she must increase her supply of foreign exchange.

Her present stock of foreign exchange is being depleted, we estimate, at the rate of from \$15 to \$25 million a month. Her total assets quickly convertible into foreign exchange resources (including securities, gold, silver, foreign balances, etc.) are in the neighborhood of from \$400 to \$500 million.

Japan could continue her present scale of operations in China for at least 18 months. But Japan should maintain large foreign exchange reserves to meet her essential requirements in event of an outbreak of war with U.S.S.R. She cannot afford to let her foreign exchange resources drop much below present levels so long as the character of Japan's present foreign policy continues.

2. Japan can increase her supply of foreign exchange only by increasing her merchandise exports.

Japan cannot further reduce her imports -- in fact, she has reached the point where she must permit her imports to increase.

Japan has been able to keep her losses of foreign exchange down to the low level of \$15 to \$25 million a month only by using up her stock of raw materials and cutting her imports to the bone. Her curtailment of imports has been so severe that it is seriously affecting her export markets as well as her store of materials. She must relax to some degree her restrictions on imports. (The new government formed last month announced that it would relax some of the restrictions.) There is no other item in Japan's balance of payments that can be expected to yield substantial supply of foreign exchange in the near future, other than exports.

3. Japan will find it extremely difficult to increase her exports without resort to drastic measures.

Her exports to foreign exchange areas for the first four months of 1938 were about one-third less than last year and about one-fifth lower than they were in 1936.

The barriers which face Japanese attempts to increase her exports are:

- (a) Sharply declining world trade;
- (b) Rising prices in Japan and falling world prices;

- 2 -

- (c) Increased competition among industrial countries for narrowing markets, and
- (d) The anti-Japanese boycott shows no signs of letting up.

Together these factors make it very difficult for Japan to increase substantially her sales without resort to drastic measures. Japan must resort to either or a combination of the following:

- (a) Depreciation of the yen;
- (b) A program of barter transactions;
- (c) Adoption of multiple currency system as practiced by Germany.

4. The simplest method for Japan to employ is depreciation of the yen.

Development of barter transactions or employment of multiple currency systems cannot be built up in a short period of time, particularly by Japan. Hitherto Japan has attempted to keep the yen stable chiefly in order to prevent her cost of living at home from rising too rapidly. The necessity for increasing her supply of foreign exchange may soon force her, however, to adopt currency depreciation despite its effect on the cost of production and despite the retaliatory measures adopted abroad. There are already signs that the pressure toward depreciation is increasing in Japan.

5. Japan must make every effort to end the acute stage of hostilities with China during the next few months.

The only measures open to Japan to increase her export trade will cause more political trouble for her. Substantial depreciation of the yen in the near future will greatly disturb the international currencies and will also give rise to increasing anti-Japanese sentiments throughout the world.

June 13, 1938

I showed this to the President at lunch today and he looked at it and said nothing.

GOLD AND SILVER *8105 L JUN 10 1938*

LONDON - REUTERS - IN GOLD MARKET AT TIME OF PRICE FIXING THE REVIVAL OF NERVOUSNESS ANENT EVENTS IN SPAIN AND RESURRECTION OF THE RUMOR FROM NEW YORK THAT AMBASSADOR KENNEDY IS ARRIVING IN AMERICA WITH A TRI-PARTITE DEVALUATION AGREEMENT CAUSED A SHARP EXPANSION OF HOARDING DEMAND FOR GOLD FROM THE CONTINENT - WELL INFORMED IN LONDON HOWEVER CONTINUE TO REGARD DEVALUATION TALK AS -RIDICULOUS-

SILVER MARKET WAS QUIET BEFORE TIME OF PRICE FIXING - LITTLE CHANGE IN PRICE IS EXPECTED

-0-

Memorandum of Conference held in Secretary Morgenthau's
Office at 4 p. m., June 13th, 1938.

Present: Secretary Morgenthau
Mr. Thurman Arnold, Assistant Attorney General
Mr. McReynolds

The Secretary stated that at the President's request he had asked Mr. Arnold to come over to discuss the rumor that had been brought to the President, presumably by Earlee Branch, that the automobile companies were refusing to fill orders received from their dealers in the South. The Secretary stated that the President had directed him, in order to conserve the President's own time, to say to Mr. Arnold that it was his desire that he, Arnold, have United States attorneys contact postmasters in various states in the South for the purpose of ascertaining through them whether there is substance to this report. The Secretary stated that he had suggested as an alternative that the Postmaster General himself, on his own stationery, write to a hundred representative postmasters in the South directing them to make this inquiry and report directly to him, but that the President abandoned this in favor of the plan indicated above.

Mr. Arnold stated that the President had already called him and told him what he desired in this matter and also told him that he had directed the Secretary of the Treasury to discuss the matter with him. Mr. Arnold stated he had reported to the President that the Secretary of the Treasury had already called him and made an appointment for that purpose.

The conference closed with a statement of the Secretary, concurred in by Mr. Arnold, that there was no occasion for the Secretary to be connected further with this project.

MR

June 13, 1938.
3:45 p.m.

Operator: Go ahead.

H.M.Jr: Hello.

Cong. Cliff Woodrum: Hello, Mr. Secretary.

H.M.Jr: How are you?

W: We've just about completed our labors and I think we'll take that conference report up in the House tomorrow.

H.M.Jr: I see.

W: On that parity payments we couldn't do anything, of course, the Senate was - was adamant and the House I expect will accept it though, we're going to make a fight on it.

H.M.Jr: I see. Would it come up for special vote?

W: Yes, I'm going to - I'm going to make them go on record on it, if they're going to do that, why let the people take the responsibility for it who are doing the job.

H.M.Jr: I see.

W: Don't you think so?

H.M.Jr: I should think so.

W: Well, of course the House is in the mood they'll take most anything they can get hold of now -

H.M.Jr: And go home -

W: : In the way of expenditures.

H.M.Jr: Yes.

W: Now on the W.P.A. accounting we accepted the Senate amendment which leaves that in the Treasury.

H.M.Jr: Fine.

W: That's what you wanted, wasn't it?

- 2 -

H.M.Jr: Very much.

W: All right, sir. And what else were you interested in?

H.M.Jr: Well I was interested in this question of having the money available for the President if he needs it for direct relief.

W: Well we've put twenty five million in that - for that.

H.M.Jr: Twenty five.

W: That's for direct relief, and then we gave him the - we gave him a hundred and seventy five million that he can manipulate for work relief.

H.M.Jr: For work relief?

W: Yes.

H.M.Jr: But not for direct.

W: No, twenty five that he can use for direct relief.

H.M.Jr: I see. Now what happened to that fifty million that they had in there for surplus commodities.

W: We're leaving that in.

H.M.Jr: Oh you're leaving that in?

W: Yes.

H.M.Jr: Is that mandatory?

W: No, not mandatory.

H.M.Jr: It's optional.

W: It's optional. He said he wanted that.

H.M.Jr: He did.

W: Yes. Told me he'd like to have that. I asked him about it.

H.M.Jr: And so there's fifty million optional for surplus commodities.

W: Yes.

H.M.Jr: Twenty five million optional for direct relief.

W: Right.

H.M.Jr: And a hundred and seventy five that he can manipulate on work relief.

W: Any time, anywhere he wants it.

H.M.Jr: I see.

And the Treasury gets the accounting.

W: Yes.

H.M.Jr: And you're going to put it up to the House to vote on parity payment.

W: Yes. Now the - we - we got the money for the National Emergency Council and for the National Resources Committee.

H.M.Jr: Oh, you did.

W: He was very anxious about that.

H.M.Jr: I know.

W: The House cut that.

H.M.Jr: Yes.

W: The Senate put some of it back, but the Senate conferees would have receded, but we accepted our amendment before they could recede.

H.M.Jr: Fine.

W: So that saved that.

H.M.Jr: Fine.

Well, thank you so much for calling.

W: Yes, sir, any time.

H.M.Jr: Thank you very much.

W: All right, sir.

June 13, 1938.
3:53 p.m.

Operator: Go ahead.

H.M.Jr: Hello.

Nathan
Straus: Hello Henry, awfully glad to hear from you.

H.M.Jr: How are you coming along?

S: Pretty good.

H.M.Jr: Nathan, do you get out anything there that I could see, that would show when you people are actually going to start some buildings?

S: You mean in the terms of actual expenditure?

H.M.Jr: Yes.

S: Where or when?

H.M.Jr: When.

S: I can show you not only that a detailed draft made out according to our best estimates of how the money is going to go out.

H.M.Jr: Yes.

S: And I can tell you that it's going to be disappointingly slow.

H.M.Jr: Well -

S: I will send you over that draft. I'll check up if we've got it, tomorrow.

H.M.Jr: That will be grand.

S: Fine.

H.M.Jr: Will it show when and where, or just when?

S: This only shows when.

H.M.Jr: Does that mean actually when the money is going to go out?

S: Yes, it shows two different lines - dates when contracts are signed and dates when we are going to call upon you for the money. In other words, pay out the money.

- 2 -

- H.M.Jr: And how much.
- S: Yes, and how much in each State, as far as we can project it for a whole year ahead. I'm afraid - the next few months, it's very small Henry.
- H.M.Jr: Yes. How are you coming on your amendments on the Hill?
- S: I think we're all right, but I think we'll break - we'll not break the bottle of champagne until after Congress has adjourned.
- H.M.Jr: I see. Will that help you much? Getting - at the speed it's starting.
- S: Oh, Henry, perfectly enormously because it's just those authorities that are best equipped in the big cities to go ahead in a big way that we're stopped. Places like Cleveland, Ohio- Los Angeles - where we're cut down, you see, by the ten per cent to one state. Oh, yes, very very materially.
- H.M.Jr: Well -
- S: Almost
- H.M.Jr: Well will that change the grant?
- S: No, the grant is in terms of that, I had that as soon as I thought there was a chance of the amendment, I had that.
- H.M.Jr: You mean this is - the grant is in terms that if you get your amendment.
- S: Yes, sir, that's correct.
- H.M.Jr: Right.
- S: And, of course, it's obviously until the amendment goes through completely confidential but I'm glad to send it over to you.
- H.M.Jr: I - I'd like to have it, and if there are any - if you find in a week or ten days you have to change it to any degree I'd appreciate the changes.

- 3 -

S: I'll keep you right in touch with it, Henry, I'll see you get some of it tomorrow morning.

H.M.Jr: O.K.

S: Fine.

H.M.Jr: Thank you Nathan.

S: Good luck.

June 14, 1938

I called Mr. Hull and asked him if he knew anything about these rumors about Kennedy bringing back a new tripartite agreement, which would result in an increase in the price of gold. Mr. Hull said he knew absolutely nothing about it and he said at his press conference this morning they asked him if he knew anything about the rumor that Mr. Kennedy had been discussing with England the question of the settlement of debts. He said he knew nothing about that. He said in the case of Mr. Kennedy or Mr. Bullitt he always refers all inquiries to the White House.

I said that I knew nothing about either of the two above questions and had been denying for a week that there would be no increase in the price of gold, but I wondered if I was letting myself out on the end of the limb. He said he was in exactly the same boat as I was.

June 14, 1938

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AMBASSADOR KENNEDY NOT RESIGNING ^{July 24 1938}

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3/1
4/1
BOSTON - AMBASSADOR JOSEPH P KENNEDY IN AN EXCLUSIVE TRANSATLANTIC COPYRIGHTED TELEPHONE INTERVIEW WITH THE BOSTON EVENING AMERICAN DECLARED THAT HE IS NOT RESIGNING AND HAS NO INTENTION OF RESIGNING - HIS EMPHATIC DENIAL REFUTES A STORY APPEARING IN LORD BEAVERBROOK-S LONDON DAILY EXPRESS AND WIDELY REPRINTED IN THE UNITED STATES TO THE EFFECT THAT AFTER THREE MONTHS AS AMBASSADOR MR KENNEDY -WANTS TO QUIT HIS JOB WITH A BLAZE OF GLORY AND FOR THAT REASON HE IS ARRANGING A SETTLEMENT OF THE BRITISH DEBT TO THE UNITED STATES-

MR KENNEDY TOLD THE BOSTON EVENING AMERICAN-
-THERE IS NOT ONE WORD OF TRUTH IN THAT STORY -
I HAVE NO INTENTION OF RESIGNING AS THE UNITED STATES AMBASSADOR AND I HAVE NOT HAD ANY SUCH THOUGHT - I HAVE NO PLANS ABOUT THE BRITISH WAR DEBT TO THE UNITED STATES AND I HAVE NO INTENTION OF DISCUSSING THE WAR DEBT WITH PRESIDENT ROOSEVELT WHEN I GET OVER THERE-
-0-

June 14, 1938

Mr. Eccles, Mr. Ransom and Mr. Upham had lunch with Mr. Morgenthau.

There was some discussion of the possibility of railway legislation at this session of Congress, particularly the possibility of loans by the RFC without the approval of the ICC. Mr. Morgenthau was hopeful that something might be done for the railway equipment business which is about as depressed as any in the country.

Mr. Eccles said he understood Mr. Jones was willing to make some loans at four per cent but no one was interested in borrowing at that figure. Mr. Morgenthau suggested that after Congress has adjourned, and it is determined what legislation, if any, there has been on the subject, that he and Mr. Eccles get Jones over and "put the heat on him" to see just how much he can do and how much he is willing to do.

In response to a statement by Mr. Eccles about the pressure of work, Mr. Morgenthau commented that surely the Federal Reserve Board was having a much easier time this spring than last and that their problems for the last

- 2 -

few months have not been particularly difficult. Mr. Eccles replied that the things which were their direct responsibility had not been so troublesome but that because he "is still a citizen of this country," he cannot do other than make his views known and his influence felt in fields other than those which are a direct responsibility of the Board of Governors.

Mr. Morgenthau referred to the conferences that had been under way looking toward a degree of uniform practice in bank examination and suggesting that since Mr. Ransom's conversation with him, he had postponed action until today in the hope that the Federal Reserve would find itself willing to go along with the agreement. Mr. Ransom then read the attached statement which had been prepared, representing the attitude of the Board in its approach to the problem. He said that he was sure neither the Comptroller of the Currency nor the members of the FDIC Board could do other than agree with the statement. When he had finished reading the statement, Mr. Morgenthau said that he thought it just a lot of spinach, that he didn't agree with it, and that he thought it was definitely a criticism of the other agencies, and that he hoped it would not be

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distributed. Mr. Upham said that he did not agree with it and that he thought neither the Comptroller of the Currency nor the Chairman of the FDIC would agree with it.

Mr. Eccles said that the majority and the minority in the matter of bank examination practices were poles apart. Mr. Ransom said that he thought they were pretty close together. Mr. Morgenthau said when the Chairman and Vice Chairman of the Board of Governors held such diverse views, how could they expect any agreement. Mr. Ransom said that he thought whether there was an agreement or not the conferences had been definitely of value. He said that he thought the wrong people had been conferring, that the ones who should talk the thing out are Mr. Eccles, Mr. Crowley and Mr. Diggs. He said that he had kept out of it, the matter having been handled for the Federal Reserve by Mr. McKee and Mr. Davis, and that when he had directed his attention to it at the end of last week, he could not even tell what the issues were. He said that Mr. Upham had prepared for his use a statement of the issues which he regarded as very helpful and that he had now a pretty clear idea of the differences which existed. He said that they had had a preliminary discussion

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of it at the Board on Monday and Tuesday and the statement which he had previously read was the outgrowth of that. Mr. Morgenthau said he understood there was a divided opinion in the Board and Mr. Ransom replied that the Board is unanimous on the necessity for liberalizing examination and investment policy. Mr. Morgenthau said he was amazed that the Board should not have discussed it before yesterday since the conferences had been going on for six weeks.

Mr. Morgenthau said that the gossip, as he got it, is that the Federal Reserve is hopeful that no agreement will be reached and that their attitude is one of opposition to agreeing because of the possible deterrent effect that it would have upon the larger and more ambitious program of change which they hope to see come about, particularly the unification and consolidation of banking agencies into one. Mr. Eccles characterized that rumor as "a damned lie." Whereupon Mr. Upham reminded him that after lunch three weeks ago, Mr. Eccles had stated that he hoped no agreement is reached because it would just mean that it would take that much longer to secure any real or substantial reform. Mr. Eccles asserted that what he said was something quite different from that--that we

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must work for the more important thing involved in a real liberalization of bank examination policies. Mr. Upham insisted and reinsisted that he had stated exactly what Mr. Eccles had said to him. Whereupon, Mr. Eccles continued his conversation, ignoring Mr. Upham's remarks. Mr. Upham said that Ronald Ransom was present and heard what was said. Mr. Ransom made an inconclusive statement to the general effect that Mr. Eccles had said something about half way between the conflicting reports.

The discussion digressed somewhat and Mr. Morgenthau said that he had been hopeful that for once we could get an agreement on something, no matter how minor--if not more than that the reports be printed on pink paper with green ink. He said he couldn't understand why important Washington officials couldn't agree and not be continually working against each other. He said that if he were all the time going around criticising what Jesse Jones and John Fahey and Stewart McDonald and other Presidential appointees are doing, he wouldn't think he was doing much to help the President. Mr. Ransom said that the questions

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involved were more important than the kind of paper or kind of ink that would be used and he told the Secretary that if he could have fifteen minutes of his undivided attention some day, he would be a poor salesman if he couldn't convince the Secretary of the absolute necessity for a consolidation of Federal banking agencies into one. He said he didn't care which one it was but his own opinion is that it must be the Federal Reserve System.

Mr. Morgenthau said that he could not accept the contention that bank examination should be a function of the business cycle with loose examination in bad times and strict examination in good times. Mr. Ransom commented that the way it works now is there is strict examination in bad times and loose examination in good.

Mr. Upham stated that he could not permit the meeting to break up without having said one other thing. He said that in the fourteen years he had been in Washington he had at various times been very close to the Federal Reserve Board and its staff, that he was and is very fond of them and that it was partly because of his interest in them that he had gone to Mr. Ransom last week and told him that he regarded their attitude in not

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being willing to agree as (a) unfair to the Secretary of the Treasury, particularly in view of the fact that the President's suggestion about coordination had been made at their instance and taken seriously by the Secretary in his attempt to translate it into action once the President had indicated his wish; and (b) that the Reserve Board was doing itself and the System a disservice by adopting a hold-out attitude. He said that under those circumstances he felt that it was a very serious matter for the Chairman of the Board of Governors to tell the Secretary of the Treasury that he, Mr. Upham, was a liar. He said he was sure that he had reported accurately to the Secretary what Mr. Eccles had said, and that in view of the circumstances he didn't feel as though he would be of any use to the Secretary in inter-agency relationships. Mr. Morgenthau said that he thought Mr. Eccles had been a little unfortunate in his choice of words and that he believed he was big enough to apologize. Mr. Eccles said he would be glad to do so, and that he had had no intention of calling Mr. Upham a liar. Mr. Morgenthau said that Mr. Upham had taken the part of Mr. Eccles so many times

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in the last four years that he had on several occasions asked him whether he was working for Eccles or for the Treasury. He said Mr. Upham was one of the best friends the Reserve System had in Washington. Mr. Ransom commented that Mr. Eccles had told him just that when he first came to Washington.

Mr. Morgenthau then said that there were other incidents which led to his feeling that the attitude of the Federal Reserve was one of not wanting to cooperate. He referred particularly to the resolution which had been passed by the Federal Advisory Council and the statements made by Mr. Eccles and Mr. Ransom at lunch three weeks ago to the effect that no such resolution had been adopted. Mr. Ransom attempted to explain that by saying that the secretary of the Council not being there, they had not received the resolution from the acting secretary until later. Mr. Upham commented that several others in the city had known that it was adopted and had seen copies of it, and that it was curious that the members of the Board should be the only ones who didn't know.

Mr. Ransom suggested that Mr. Eccles, Mr. Crowley and Mr. Diggs should get together and discuss things. He said that at least they could state positively and in black and white what the points of differences were. Mr. Morgenthau said he had no interest in a further statement of the points of issue, that what he wanted was for them to agree on something, no matter if it was only one little insignificant thing. Mr. Eccles said that they would like to have twenty-four hours or so to put down in black and white their decisions on the matters under discussion, and it was left to Mr. Upham to arrange a meeting of the heads of the three agencies, at which he also would be present.

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The next day Mr. Upham called Mr. Eccles on the phone to arrange a meeting, which, at Mr. Eccles' request, was to be luncheon on Friday at the Federal Reserve Board. During the course of this conversation, Mr. Eccles said that his whole attitude had been one

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not of refusing to cooperate but he is in the impossible position of where he cannot consistently agree to the proposals that are agreed to by the other agencies. It has been his long-standing view that no attention should be paid to market prices of securities in the reports or to their ratings by rating agencies, and that since the Banking Act of 1935 none of these tests of liquidity are of any importance, since banks can and should rediscount with the Federal Reserve banks when they are in need of liquid funds. The same old crowd is in charge of bank examinations that were in 1932. They are not doing what the President wants done. He thinks their position as well as the majority agreement should be put up to the President for his decision.

Mr. Eccles referred to and read over the telephone a couple of articles, one in the Goldsmith letter and one in the Wall Street Journal, reporting that Secretary Morgenthau had said at his press conference that it made very little difference whether the Federal Reserve went along on the bank agreement since the Comptroller of the Currency and the FDIC and the State Bank Commissioners

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included all banks under their supervision. Mr. Goldsmith had added that Mr. Morgenthau regarded the supreme court of finance as of very little importance in this matter. Mr. Eccles said that everybody down at the Federal Reserve Board were pretty sore about this and that it had operated to influence them to be less interested in cooperation. The attitude in their Board and staff seems to be as a result of this a sort of "what the hell's the use" attitude.

Mr. Eccles said that bond profits must be segregated in special reserves. Mr. Upham told him that Mr. Paulger had presented his views on those points faithfully and that the others just did not agree to them. Mr. Upham told him that he had been hearing those views and both sides of the case presented and argued about for days until he was dizzy. What he was interested in was not statements of inflexible adherence to position or policy but compromise.

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In his message to Congress on April 14th, the President declared his purpose "immediately to make additional bank resources available for the credit needs of the country", and announced the desterilization of approximately \$1,400,000,000 of Treasury gold accompanied by action on the part of the Federal Reserve Board to reduce reserve requirements by about three-quarters of a billion dollars, stating that "these measures will make more abundant the supply of funds for commerce, industry and agriculture." He stated: "As a part of better administration, I hope that Federal banking supervision can be better coordinated."

Pursuant to the latter suggestion, the Secretary of the Treasury initiated a series of conferences among the three Federal banking supervisory agencies, namely, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Board of Governors of the Federal Reserve System.

The purpose of this portion of the President's message and of the conferences, as understood by the Board of Governors, was, first, that there should be no question whatever as to the abundance of credit available for sound business enterprise, and, second, that the policies, practices and regulations of the three Federal agencies should be reexamined in order to determine wherein they might be improved with a view to furthering this objective, consistent with sound banking principles.

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As a result of consideration of the problem before and subsequent to the President's message, the Board of Governors had concluded that certain existing policies, practices and regulations with respect to bank examination and supervision tend to be unnecessarily restrictive, working a hardship particularly upon small business enterprise and the banks with which they deal. Thus, deflationary forces tend to be accentuated in periods of business depression when criticisms by examining authorities encourage forced liquidation of existing loans and investments.

Experience following 1929 justifies the view that depressions are made worse and recovery delayed when banks are led to liquidate loans that are needed by borrowers to carry on business, and that are earning assets of the banks, but that may be temporarily slow in a time of severe economic downswing. Similarly, to apply the test of current marketability and rating to bank holdings of securities is to give disproportionate weight to current market quotations that do not necessarily reflect the true value of the securities, or the experience, record and character of the issuers.

Under such circumstances, banks are unable to sustain the existing volume of credit, let alone extend the new credit needed for recovery, and pressures naturally accumulate for creation of competitive governmental agencies to render the services to the public and to extend the credit which the banks are either discouraged or prevented from giving.

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Therefore, the Board is of the opinion that such restrictions hamper the Government's policy of making credit abundantly available on terms and conditions that would encourage sound private enterprise. The Board is also of the opinion that such restrictions result in unjustified criticism of the banks of the country and prevent them from performing essential public services in accommodating business, agriculture and industry, thus hindering them in adequately serving their communities; and that such restrictions cannot be justified on the basis of protecting either the banks or their depositors against speculation and other unsound banking practices.

With these broad considerations in mind, the Board of Governors approached the problem of reviewing the existing bank examination and supervisory policies, practices and regulations from the standpoint of (1) arresting further contraction of existing credit and encouraging the banks to extend credit to sound borrowers on terms and conditions that would encourage production, provide employment and at the same time yield returns that would enable the banks to earn a living; (2) to protect the banking system against the pressures for establishing competitive governmental agencies and at the same time to create and maintain sound and enduring principles of banking operations in the general public interest; and (3) furthering economic recovery.

June 14, 1938.

Dear Senator Vandenberg:

Your letter of May 17 is of much interest to me and to the other members of the Board of Governors, for it raises fundamental questions of public interest. I appreciate, as I know my colleagues do, your interest in having a correct statement of the facts with which to meet misleading and damaging propaganda that jeopardizes not merely our banks but our entire economic structure and, in the final analysis, our democratic institutions.

You state that in your part of the country there is agitation to abolish the Federal Reserve System and to substitute greenbacks for bonds, and that the advocates of this course make two main points: first, that, although the Constitution gives Congress the power to "coin money and regulate the value thereof", Congress has abdicated this power; and, second, that in consequence of this abdication, private banking, operating through the medium of the Federal Reserve System, is the actual controller of coinage and values and thereby takes a profit to itself through the exercise of this power.

We are constantly bombarded, as you are, by those who imagine that all the complicated problems of our economic life can be solved by monetary magic. Unfortunately, the problems are not so simple. The failure on the part of many groups to understand how our economic system functions increases the difficulty of finding practical solutions to the vital problems that confront us.

One of the most conspicuous and arresting facts of the situation as it exists now and has existed since the banking holiday is that we have an abundance, not a scarcity, of money and of funds seeking investment in profitable and productive outlets. It would be supposed that in the presence of this fact those who imagine that a mere increase in the volume of money would assure full employment and prosperity would at least reexamine their arguments. I doubt whether in all history there has ever been such a convincing demonstration of the falsity of the theory that mere creation of a vast volume of funds will of itself produce or maintain prosperous conditions.

The vital point which is so strangely overlooked by the quantity of money theorists is that in order to have prosperity we must not only have an adequate supply of money but it must be put to active use for productive enterprises.

The great need now, as has been the case ever since the late twenties and, indeed, throughout much of the so-called prosperous era is to draw upon our existing human and material resources and put them to productive use. Our problem is not and has not been in any sense one of an inadequate supply of money and credit. We have today, for example, as you are aware, a larger volume of currency and bank deposits than we had at the peak of the boom in 1929. Interest rates have been and continue to be at unprecedentedly low levels. This would not be the case if there were a scarcity of money. It is a scarcity of money, together with demand for it, that makes interest rates rise.

Excess reserves of the banking system are and have been very much greater than they were throughout the period of the twenties. At present they exceed \$2,500,000,000, and by the end of the year they are likely to exceed \$3,500,000,000, which is greater than they ever have been in all history. Excess reserves represent idle money. In their present proportions, they represent credit resources on which business could draw practically without limit if business were able or willing to use these resources for productive purposes.

In my judgment, one reason why bank credit is not flowing adequately into productive business channels is because the banks are under too severe restrictions in their lending and investing operations. This is due both to Federal and State bank examination policies and to the Regulation of the Comptroller of the Currency governing investments by member banks. As to loans, many would-be borrowers cannot get deserved accommodation by the banks, not because the bankers are necessarily at fault, but because of the restrictions imposed upon them. While larger units of business can obtain ample bank credit, there are numerous cases where sound local businesses need working capital or fixed capital on longer terms than the banks can make without being criticized by most bank examiners who have been trained in the school which identifies liquidity with soundness. Similarly, the Comptroller's Regulation in effect confines permissible bank investments to registered securities that are given approved ratings by recognized rating firms and that have a wide and active market. Thus many local industries of small and

medium size, which cannot stand the costs of registering and issuing securities for general public offering but which are perfectly sound risks, are denied access to that type of credit which is available to larger business units through the purchase of their securities by banks. Without questioning the necessity for regulations in the field of investment securities, I am confident that it is a mistake to prohibit member banks from purchasing sound securities of local businesses. I have urged that the Comptroller's Regulation be revised so that bank lending and investment policy can meet changed conditions and present day requirements of business and industry. In a recent address, I stated: "Bankers cannot justly be held responsible for such restrictive governmental banking policies as confuse soundness with liquidity or true worth with current depressed market values. I favor modernization of these practices and regulations, to encourage the bankers to meet changed credit conditions and needs within their own communities, and thus to discourage the alternative which is multiplication of governmental agencies set up to provide credit accommodation that the banking community could and should in normal times be adapted to extend to the public."

Thus while the actual and potential supply of funds is unprecedented, and the trouble is by no means a lack of such resources, monetary policies which have aimed at providing this abundance of money are frustrated when, at the same time, examination and investment policy remain restrictive and, indeed, are exactly contrary to monetary policy. It is for this reason that I have likewise contended that bank examination and investment policies must be closely coordinated with monetary policy. Otherwise, the result is likely to be the stalemate that now exists in the case of many sound but small business men who would obtain credit and put it to productive use, and to whom the bankers would make loans, but for the fact that the Government's underlying policy of creating ample credit at reasonable rates for the encouragement of legitimate business is balked, in the cases I have indicated by restrictive rules and regulations.

I have digressed from discussion of the specific points raised in your letter since I felt it necessary to emphasize that even in the field of credit control, which is generally entrusted to the Federal Reserve authorities, improvement and coordination of the activities of different branches of the Government is necessary. This situation indicates the urgent need for amendments to the banking laws to insure correlation of policies among the various banking and other financial supervisory authorities.

But, aside from the obstacles just described to the flow of money into productive enterprise, the principal reason why this flow is held back is that business and industry generally see no way to use funds profitably. They are not sure of finding a profitable market for their products. And this condition cannot be remedied until consumers have sufficient incomes to buy those products.

Lack of recognition of this fact lies behind much of the monetary agitation, particularly that directed against the banking system and against the methods of financing the requirements of the Government.

Our banking system has developed its present pattern since the beginning of the Republic and while no one familiar with it would contend that it has attained perfection or has yet approached the ideal, it has been adapted, step by step, in accordance with American principles and traditions of democratic government and to avoid too great a concentration of or an abuse of power. So many safeguards against these evils have been established over the years as to present other difficulties, such as those arising from divided responsibilities. Yet, with all of the admitted faults, the system is infinitely preferable to one which completely abandons the basic principles upon which democratic governments were long ago established and have since been maintained. Similarly, the procedure whereby the Government issues its securities, pays interest upon them, and repays them at maturity, has been established out of long experience.

The Government represents all of our people. Its debts are the debts of all of our people. When we as a people, acting through our collective medium of government, borrow money, we are borrowing from ourselves, and when we pay interest on or pay back the principal of the debt thus created, we are paying ourselves. The money required to pay the interest and to pay back the principal is raised by taxation levied broadly on the basis of ability to pay.

What is to be gained by doing away with this established process? If the Government is not to pay interest, then it can no longer borrow from its citizens. Certainly they cannot be asked to lend their savings without any return whatsoever—not if we are to preserve a democratic system of private capital. The Government would have to fall back, then, upon issuing currency. Currency is used only for a small part, not more than 10 per cent, of our business transactions. The heart of our system is the extension and contraction of credit in accordance with the requirements of commerce,

industry and agriculture. But let us suppose that the Government were to issue more and more currency in order to meet its current obligations and also to pay off its bonded debt entirely, as some of the advocates to whom you refer have proposed. The recipients of the currency, if they are on the relief rolls, for example, would spend the money as they do the cash they receive now, but ultimately it would find its way into the hands of some merchant or producer who would deposit it in his bank, and the bank in turn would forward the cash to the Federal Reserve bank where it would add to excess reserves. Or, if the recipient is the holder of a Government bond which he is obliged to exchange for currency, he might possibly spend some of the currency, or he might endeavor to buy some other security which would return a yield on his capital, or he might deposit the currency in his bank, which in turn would forward it to the Federal Reserve bank, but in every case the currency ultimately would find its way to the Federal Reserve banks and add to ~~excess~~ reserves.

Suppose that the entire national debt were to be paid off in this fashion. About \$34,000,000,000 of the Government debt is represented by Treasury securities held by banks, insurance companies and other corporate and individual investors. To replace these securities with cash would mean that the cash would flow into the Federal Reserve banks and build up excess reserves by \$34,000,000,000, or to a prospective grand total of more than \$37,000,000,000. There is no way in which any such deluge of excess reserves could be kept within control to prevent them from being used as a basis for a reckless inflation. Under our system of so-called fractional reserves, for every dollar of excess reserves they have the banks can lend approximately seven dollars. Thus, \$37,000,000,000 of excess reserves, if used as a basis for loans, would be capable of expanding into some \$250,000,000,000 of bank loans, an astronomical figure that, if ever realized, would mean the wildest inflation imaginable. Yet the figure serves to illustrate the absurdity of the proposal to pay off the Government's debt in cash.

Assuming that the banks would not indulge in any such orgy of inflation—and, as I have pointed out, there would be no way to control the situation—then all that would be accomplished by the proposal, is that the holders of Government securities, whether they be individuals or insurance companies, or savings and other banks, would receive cash for their Government securities and this cash they would try to invest in some other interest-bearing obligation, presumably one issued by a private corporation, and if they

failed to find a satisfactory investment they would deposit the cash in the bank. In any event, the currency would finally find its way back to the banking system, because no more currency will remain in circulation than the public needs for pocket, payroll and a few other purposes.* The heart of the American financing system is credit--not coins or paper money. They are the small change. The great bulk of business is done by bank checks.

After the money was deposited in the bank it would probably be added to the already redundant amount of funds that fail to find a satisfactory investment outlet. The effect would be to bid up to larger and larger premiums the existing supply of such investments, which are even now at extremely low yields.

The creation of more idle funds would not create more real wealth. It would not lead industry to produce more of the necessities and comforts of life which our people need or want. It would not help to distribute among the people of the country the needed and wanted things, housing, clothing, food, and all the infinite variety of other products, which our economy could and should produce.

Furthermore, the use of the printing press by the Government would remove all restraint on public expenditures. When the Government prints money someone has to pay for what it buys. Production does not increase and in the exchange of goods some group in the population must bear the cost of uncompensated acquisitions by the Government. Who pays in the first instance depends on circumstances, but ultimately it is paid for by those least able to bear the cost. For inflation inevitably follows this course, and the burden of inflation, through loss of buying power of money, falls heaviest on the poor who spend all their earnings to meet the cost of living. It is far cheaper and more equitable to pay for Government expenditures out of taxes, to which contributions are in accordance with ability to pay, than to pay for them by inflation, which destroys the value of the pay envelope, the savings account, and the insurance policy.

*The reasons for this are explained in more detail in "The Currency Function of the Federal Reserve Banks", copy of which is attached.

There is no question whatever as to the sovereign right of the Government to abandon tried and tested principles and to issue greenbacks. What is at issue, is not the right of the Government to do virtually what it pleases with its currency. The issue is whether the Government shall adhere to principles established through long and often bitter experience or throw those principles to the wind in favor of the printing press methods that we as a nation have discarded, but that have led some countries to financial ruin.

As I have indicated, the basic fallacy of the groups to whom you refer appears to be that of mistaking money for real wealth. The Government might, and certainly constitutionally could, flood the nation with paper currency, unbacked by anything other than the air we breathe, and limited only by the ability of the presses to turn out the printed money. Yet that would not add one dollar to our real wealth. It would not better the lot of our people. It would serve only to engulf all of us in a ruinous inflation and collapse. Possibly a few shrewd speculators might benefit by that, but for the great mass of our people it would be utterly disastrous.

Stripped of the specious profundities about the constitutional right of the Government to coin money, the argument for abandonment of the established principles on which this Government has always stood leads to the same end as the bolder, franker cry for an unlimited inflation. That would be the inescapable outcome, unless it be argued that the Government would be as likely or more likely to avoid the pitfalls of reckless, inflationary issuance of its non-interest bearing obligations, than is the case today when it is committed to pay the interest and principal on its debt. Experience disproves that argument. Governments have too often been tempted to travel this path to national bankruptcy when all restraints were removed. That is why the proponents of greenbacks also would abolish the Federal Reserve System, which was created nearly a quarter of a century ago as a means of assuring elasticity of our money system and at the same time to prevent abuses and to impose restraints against reckless inflation and speculation. It is not surprising that those who want greenbacks also want to remove even such limited restraints against inflation as Congress has given to the Reserve System.

This background serves to indicate the answer to the two propositions you set forth as characteristic of current monetary agitation: first, the argument that Congress has abdicated its constitutional right to coin money and regulate the value thereof; and,

second, the contention, that as a result of this abdication, the private banking system reaps large profits. Both contentions are false.

Under the division of powers between the Legislative, Executive and Judicial branches of the Government provided for in our Constitution, it is not the function of Congress to execute the laws. It is the function of Congress to make the laws and the function of the Executive branch of the Government to execute them.

When the authors of the Constitution provided that Congress should have power to coin money and regulate the value thereof, they did not mean that Congress should set up mints and printing presses in the Capitol and operate them itself. They meant that Congress should pass laws regarding the coinage of money and regulating the value thereof and leave it to the Executive branch of the Government to execute these laws, and this is exactly what Congress has done.

The right of Congress to entrust to administrative agencies the execution of the laws which it enacts is as old as the Republic. It has never been seriously questioned. It has been so long recognized and established by the courts as to be beyond serious controversy. Similarly, the Congress has a right to assign execution of its will to whatever agency it cares to select or create. In so doing, the Congress frequently selects an executive agency of the Federal Government, such as the State, War, Navy or Agriculture Departments. Or it may select an independent agency, for whose operations it appropriates the necessary funds, such as the Federal Trade Commission or the Interstate Commerce Commission. Congress assigns the execution of its power to coin money, for instance, to the Treasury Department, and, in recent years, has given the President a limited authority to determine the gold value of the dollar. In all such cases, Congress has not abdicated its power. Congress has only done what it constitutionally has the right to do: It has set up or used existing administrative agencies to execute its will, while retaining the power to take back the authority or to place that authority elsewhere. Abdication of a power means its surrender. Congress surrenders none of its power to coin money and fix the value thereof. It simply designates the Treasury as the instrument of its will and power to coin money.

In exactly the same way, Congress has established the Federal Reserve System as an independent agency to carry out its mandate in connection with the terms and conditions upon which member banks may create credit currency. The only important point of difference between creation of the Reserve System and creation of the Interstate Commerce Commission as independent agencies to carry out the will of Congress is that the expenses of the former are paid out of the earnings of the System, while the expenses of the latter are paid out of the Treasury. Congress ordained that this difference should exist in respect to the Reserve System as a further safeguard of its independence of action in the exercise of the delegated authority of Congress. At the same time, Congress has the power to abolish the System, to change it, to require that its expenses be paid in some other manner, and to appropriate the earnings and surplus of the System. In fact, Congress has exercised this power by appropriating to the Federal Deposit Insurance Corporation fund approximately \$140,000,000 from the surplus of the Reserve System built up out of earnings. By no stretch of the imagination can this be called an abdication or surrender of a constitutional power by the Congress. It is, as in innumerable other cases, an assignment by Congress of the execution of an unquestioned and fully retained constitutional power.

As for the question of the profits of the banking system, so far as the Federal Reserve System is concerned, it is not and never has been operated with a view to making profits, and in this respect differs fundamentally from the usual commercial bank. Such profits as have accrued to the System through its operations, from which reserves have been established to cover contingencies, from which expenses of the System have been paid, on which franchise taxes have been levied at times by Congress, and which have been appropriated by Congress as in the case of the Federal Deposit Insurance Corporation fund, have been derived as an incident of and not as a result of the objective of the System's operations.

The System's operations are intended to serve the general public welfare. Such operations are a part of the financial mechanism necessary in all modern governments. To abolish the System would not do away with the necessity for creating some similar mechanism to perform the credit and supervisory functions which Congress has deputized the System to perform. Opinions may differ as to whether some other mechanism might be better, but the right of the Congress to create the Reserve System as the agency for the performance of these essential functions cannot be seriously challenged.

Accordingly, there is no substance whatever to the assertion that Congress has abdicated its constitutional powers by authorizing the Reserve System to carry out its will, and, by the same token, the argument that thereby private banking improperly derives a profit falls to the ground. The assumption that the Reserve System, created by and existing at the will of Congress, is a privately-owned System springs from a misconception of the facts. The major monetary, credit and supervisory powers of the System are exercised by a Board of Governors, nominated by the President and confirmed by the United States Senate. All national banks are required by law to be members of the System, and State banks are admitted to membership under specified conditions laid down by the Congress. All of these member banks are required by law to subscribe a proportional amount of their capital to the Federal Reserve banks in their respective districts, on which subscription a rate of return, fixed by Congress and changeable at the will of Congress, is paid. What is, in fact, a compulsory contribution by the member banks is termed a purchase of stock, but this designation is misleading since no member bank is permitted by law to trade in the stock or to enjoy various other privileges which are usually associated with stock ownership.

In any case, regardless of whether the member banks are required by law to subscribe to this unprivileged stock or whether some other device be substituted for the subscription, the matter is relatively unimportant, for it would make no real difference to the proper functioning of our economic system if this detail were changed. The effort of agitators to raise this bugaboo obscures the true meaning of their attacks, which, if successful, would undermine the foundations of our economic institutions.

They would destroy to no purpose the established first principles upon which our Government and all solvent governments have operated for centuries. They would do away with the Reserve System created out of long experience and adapted, step by step, over the past quarter of a century. Yet doing away with it would not do away with the necessity for a similar medium to perform essential functions for the Government and the public at large. They would, in the end, destroy our banks, our savings, insurance, and other fiduciary institutions, for the day that the Government abandoned interest-paying and turned to the printing press would mark the beginning of the end of the basic principles upon which our economic institutions are founded.

Permit me to express again my appreciation of the spirit in which you write and your desire to help the public to distinguish between sound principles of government and of economics that have been established by centuries of experience and proposals which could only bring disaster to the great mass of our people.

Sincerely yours,

(Signed) M. S. Eccles

M. S. Eccles,
Chairman.

Honorable Arthur H. Vandenberg,
United States Senate,
Washington, D. C.

Attachment.

GORDON S. RENTSCHLER
55 WALL STREET
NEW YORK

376

June 14, 1938.

Personal

Dear Henry:

I am enclosing four memoranda --

- a. states the problem as we see it
- b. covers in more detail the various definite things that are waiting to be done
- c. is a practical suggestion from a railroad operator's point of view, and
- d. states the problem as a railroad economist sees it.

I believe that there is a big field here for useful use of money promptly. The road would be open not only to put money out promptly but to use it for purposes which would really be self-liquidating and extremely useful not only in helping immediate recovery but in having something left that would be very worth while and productive.

If I can be of any further help to you in this matter, please let me know.

With warmest regards, I am

Very sincerely,
Gordon

The Honorable Henry Morgenthau, Jr.
Secretary of the Treasury,
Washington, D. C.

Q.

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Attached is a very brief outline of some of the ways in which Government funds could be properly made available to the railroads. It is not comprehensive and does not attempt to deal with the various phases of the report made to the President by the Splawn Commission or any legislation now pending in Congress.

I assume Congress will not deal with the railroad problem broadly before adjournment. The most that we can hope for is that they will be willing to allocate part of the funds included in the present spending program to solving some of the railroads' financial and operating difficulties. In order to accomplish this, the suggestions necessarily must be definite, simple and not encumbered with too much administrative machinery. It must also be remembered that the roads cannot be expected to borrow unless it is evident that the use of the funds will produce such savings in the cost of operation or otherwise as to make the expenditure prudent. Further, maturity, rates of interest, payments on account must be liberal as well as any requirements with regard to the posting of collateral, if available.

The Reconstruction Finance Corporation, already familiar with the problem, should be empowered to make advances giving it broad discretionary power. There should be no requirements of a previous certification from the Interstate Commerce Commission. The grant of the loaning power to the R. F. C. might well be limited to one year.

THE RAILROAD PROBLEM
SPECIAL SUGGESTIONS FOR IMMEDIATE FINANCIAL ASSISTANCE
BY THE FEDERAL GOVERNMENT

I - Advances for improvements to way and structures.

There are literally thousands of projects already engineered with full information in the possession both of the railroad executives and of the Interstate Commerce Commission which could be started promptly and which would result in a material improvement of the facilities of the railroads, reduce operating costs and therefore be self-liquidating over a reasonable period of time. They would require the employment of great numbers of workers. For a variety of reasons, the railroads are not in a position to provide the necessary funds to finance such improvements at the present time.

The most obvious expenditure of this sort which might well be lifted entirely from the railroads is the cost of the elimination of grade crossings. The Federal Grade Crossing Elimination Program should be rapidly extended and the entire cost of the improvement borne by the Federal and State Governments.

Numerous grade revisions, curve elimination, rebuilding of bridges, track work of all kinds including sidings, yards and the like, modernization of water supply, water treating plants and the like would provide much additional work and would result in immediate operating savings. Repayment for the funds provided for work of this kind might be spread over a period of from ten to even twenty years, payments to commence, for example, three years after the program has been completed.

II - Equipment

With the great falling off in traffic, all roads are burdened with excess equipment. Many cars on sidings and some still in use are over-age and expensive to operate. We must assume that business and railroad traffic will recover. We should work out, therefore, an intelligent program to provide now for the rebuilding and modernization of railroad equipment provided the necessary funds could be made available and the cost liquidated over a period of years comparable with the reasonable life of the equipment. It is sensible to do this kind of work when business is inactive and wages and prices relatively low rather than to postpone it until the pressure of increasing traffic adds substantially to the cost of doing the work. The great electrification program of the Pennsylvania Railroad which was pushed forward in 1932-1933 is an example of the wisdom of this sort of borrowing.

In addition to freight cars, substantial savings may be effected by many roads through the scrapping of obsolete power. This is true not only of the heavier passenger and freight locomotives but is largely true of switching engines and lighter power, due in no small part to the development of the Diesel engine.

Funds advanced to provide the cost of new power equipment can be very readily secured by the equipment itself and paid for over a period of years by the savings produced by its operation.

In order to stimulate the rebuilding of equipment and the purchase of additional power, it is particularly essential that the rates of interest be made unusually low as an additional inducement.

ment to the carrier to undertake the expenditure.

A particularly appropriate expenditure would be the installation of air conditioning equipment in passenger cars. Competition for traffic is an incentive for railroads to incur expenditures of this kind although, in many cases, today the funds are lacking.

III - Railroad Shops

The railroad shops of the country in many instances are obsolete and expensive to operate. New structures, power plants and machine tool equipment are urgently needed. The savings effected could be readily calculated and over a reasonable time would pay for the cost. Special provisions might well be worked out in which the new equipment purchased, itself could be used as security for the advances.

Suggestions for useful expenditures by railroads if funds could be made available by grants of material, or labor, or both, or by long-term loans at very low rates of interest. (10 to 20 years, at 3-3½ per cent).

1. ELECTRIFICATION

- a - Roadways
- b - Structures
- c - Equipment

Electrification on the major trunk lines, which has proven successful on the New York Central and Pennsylvania, could be done on many other roads for which density of traffic would warrant the expenditure. Electrification results in faster and more efficient service and lowering of costs. The new construction and equipment would create a great deal of new employment and demand for materials in the steel, building materials, lumber, machinery, electrical equipment and other industries. The Pennsylvania electrification might be extended from Harrisburg west to Pittsburgh. Other lines that might be electrified are the Lackawanna, Lehigh Valley, Chesapeake & Ohio, Erie (if feasible financially), Nickel Plate, Norfolk & Western, etc.

2. MAINTENANCE AND REPAIR OF WAYS

Large expenditures could be made to restore the roadways to condition for handling normal traffic, and purchases of track materials, ties, etc., would increase employment in many industries.

3. MAINTENANCE AND REPAIR OF STRUCTURES

Needed expenditures for paint, roofing, lumber, etc., for maintenance and repair of stations, bridges, warehouses, piers, powerhouses, etc., would be spread over numerous industries.

4. REPAIR AND MODERNIZATION OF EQUIPMENT

- a - Locomotives
- b - Freight cars
- c - Passenger cars

Large expenditures could be made for putting all of the existing equipment in proper condition to handle a return of normal traffic. Equally large expenditures could be made for new and modern equipment, including the new stream-lined, light-weight passenger trains. The cost of new equipment for a complete train service (usually four physical trains) runs around \$10,000,000. If the New York Central and the Pennsylvania both added eight stream-lined trains each, to take the place of present old equipment, the expenditures for equipment would be \$160,000,000. These trains have now proven acceptable, and the other railroads would like to follow the lead of the Pennsylvania and New York Central.

5. MODERNIZATION OF MACHINE SHOP EQUIPMENT

A large portion of the machinery and tools in the railroad machine shops is very old, and the expenditure for new equipment would give the railroads the benefit of the marked improvements in efficiency of such machinery and tools that has been made during the past ten years. The electrification program would also call for new machine shop equipment.

6. GRADE-CROSSING ELIMINATION

This has been for years proceeding slowly, but the public demand is so great that it will have to be speeded up eventually. The F.W.A. spent

about \$100,000,000 on such projects, yet little real progress has been made toward the ultimate goal. There are still about 250,000 grade-crossings, and each year the eliminations are more than offset by the new crossings that are out. Improvements of this nature, however, not only are non-productive of railroad revenue, but they promptly result in an increase in local tax assessments.

7. ELIMINATION OF UNPROFITABLE MILEAGE

Large expenditures could be made in tearing up track and demolishing structures on lines that are no longer profitable and that should be abandoned. The substitution of bus and truck service by the railroads on such lines would increase demand for automobiles and trucks. Expenditures on tearing up old track, etc., would be almost entirely for labor, and would be widely spread around the country.

8. MISCELLANEOUS

The above suggestions are all believed to be practical and feasible, and to be of major importance, not only in creating new employment and increasing the purchases of materials from other industries, but in putting the railroads in better condition to handle their traffic in the future. In addition to the direct and indirect demand created for labor and materials, there would also be an increase in railroad clerical employment in connection with the voluminous accounting reports and statistics that they would be required to prepare if such projects were expanded. Numerous other projects could be undertaken by certain railroads, but would not be needed by others, such as completion of full automatic signal control. The trend toward faster freight service warrants the greater use of the l.c.l container service, which means the purchase of containers, and container cars, and container trucks. If the routine expenditures for maintenance and repairs could be lifted from the 1937 level to that of 1929, it would mean approximately \$1,000,000 more spent every day for iron and steel products, forest products, and miscellaneous products (exclusive of expenditures for fuel and for rolling stock). These purchases would be spread into practically every industry and the money would go into practically every county in the United States. Note attached schedule of purchases in 1937.

June 14, 1938

APPENDIX C
PURCHASES OF FUEL, MATERIAL AND SUPPLIES
RAILWAYS OF CLASS I—CALENDAR YEARS 1937 AND 1938

Item	1937	1938
Fuel:		
Bituminous coal.....	\$216,275,000	\$208,793,000
Anthracite coal.....	3,908,000	4,372,000
Peat oil.....	62,856,000	52,133,000
Gasoline.....	5,059,000	3,804,000
All other (coke, wood, fuel for illumination).....	3,195,000	3,168,000
Total fuel.....	\$294,293,000	\$272,270,000
Wood Products:		
Cross ties (treated and untreated).....	\$ 58,719,000	\$ 40,989,000
Switch and bridge ties (treated and untreated).....	6,589,000	5,287,000
Timber and lumber (bridge and building, equipment, rough and finished lumber).....	35,345,000	27,868,000
Other forest products.....	4,063,000	2,519,000
Total forest products.....	\$104,707,000	\$ 76,683,000
Iron and Steel Products:		
Steel rail (new and second hand, except scrap).....	\$ 44,424,000	\$ 37,239,000
Wheels, axles and tires.....	31,173,000	24,501,000
Frogs, switches and crossings, and parts of same.....	12,566,000	8,192,000
Track fastenings, track bolts, spikes, etc.....	36,558,000	31,296,000
Iron bridges, turntables and structural steel, all kinds.....	4,133,000	3,782,000
Bar iron and steel, spring steel, tool steel, unfabricated rolled shapes, wire netting and chain, except light coil; boiler, firebox, tank, and sheet iron and steel, all kinds.....	32,186,000	24,901,000
Forgings and pressed steel parts for locomotives.....	4,642,000	3,103,000
Car forgings, iron and steel, and fabricated or shaped steel, for passenger and freight cars.....	18,042,000	11,972,000
Flues and tubes for locomotives and stationary boilers.....	5,999,000	5,504,000
Interlocking and signal material.....	15,463,000	10,310,000
Telegraph, telephone and radio material.....	2,607,000	5,044,000
Bolts, nuts, washers, rivets, lag screws, pins and studs.....	12,417,000	10,505,000
Springs, helical and elliptical, all kinds for locomotives and cars.....	3,869,000	4,222,000
Locomotive and car castings, beams, couplers, frames and car roofs.....	62,373,000	45,183,000
Track and roadway tools, all kinds, miscellaneous track material and wire fencing. Motor, hand, push and velocipede cars, and parts for same.....	7,809,000	5,716,000
Machinery and repair parts, including all power driven shop machinery.....	5,405,000	3,197,000
Machinery, boilers, repair parts and all other iron and steel products.....	9,711,000	6,550,000
Pipe, iron and steel, and fittings, all kinds.....	6,683,000	5,519,000
Hardware, all kinds, including nails.....	3,655,000	3,695,000
Hand and small machine tools, such as drills, taps, reamers, dies, chasers, including air tools and parts.....	9,034,000	8,403,000
Air brake material.....	12,000,000	7,425,000
Standard and special mechanical appliances for locomotives.....	13,603,000	10,573,000
Automotive equipment and supplies.....	5,070,000	3,915,000
Total iron and steel products.....	\$359,409,000	\$273,753,000
Miscellaneous:		
Cement.....	\$ 1,841,000	\$ 1,738,000
Lubricating oils and greases; illuminating oils; boiler compound; waste.....	19,120,000	17,366,000
Non-ferrous metal and non-ferrous metal products.....	27,368,000	22,219,000
Bullet.....	11,298,000	10,661,000
All electrical materials.....	17,800,000	13,419,000
Stationery and printing.....	16,431,000	14,011,000
Commissary supplies for dining cars, camps, and restaurants.....	19,873,000	16,814,000
Rubber and leather goods.....	7,762,000	7,109,000
Glass, drugs, chemicals, including chemicals for timber treatment; painters' supplies.....	30,821,000	27,309,000
Arch brick for locomotives.....	2,874,000	2,365,000
Passenger car trimmings.....	10,047,000	8,161,000
Locomotive, train and station supplies.....	10,509,000	9,028,000
All other miscellaneous purchases.....	32,219,000	30,515,000
Total miscellaneous purchases.....	\$207,974,000	\$180,715,000
Grand Total.....	\$966,383,000	\$805,421,000

Source: A Review of Railway Operations in 1937, by Association of American Railroads, Bureau of Railway Economics, 1938.

From "Railway Age"

- Issue 3/19/38 - D. L. & W. improved yard operations at Scranton, Pa., with installation of power switches and car retarders. Geographical limits of expansion were overcome and traffic was expedited and operating expenses reduced.
- Issue 4/30/38 - Union Pacific improved station at Cheyenne, Wyoming, constructing new concourse, subway platforms and sheds. Handling of passengers and servicing of trains greatly improved.
- Issue 5/7/38 - Article pointing out that station facilities must keep pace with modernized train service. Facilities must be adjusted to following trends: (a) reduced local and increased long distance travel taxes station passenger facilities making increased demands on more important terminals, (b) increased lengths of trains, (c) increased use of automobiles by patrons arriving at and departing from stations, (d) more attractive and convenient appointments in stations, (e) possible to increase revenue from concessions, (f) trunk baggage being replaced more with hand baggage, affecting checking facilities, (g) faster train schedules.
- Issue 1/1/38 - 1. New machine tools are the greatest need in shop equipment. High speeds and long runs are demanding greater accuracy of machining. The large number of obsolete machines are unable to meet this demand. The article indicates that many machines are in a 20 to 30 years age type and that one modern machine has enough greater productive capacity to take the place of from 1.35 to 2.50 machines of the older type. Also demonstrates how an investment saved 38 percent of the investment by the end of 20 months operation.

at \$117,000 by
B&O Eastern Road

New construction needs include:

- Revision of alignment
- Passing sidings
- Yards
- Terminals
- Shops
- Power Plants
- Locomotive handling facilities
- Car repair and maintenance
- Inspection facilities
- Servicing
- Water stations
- etc.

For example between 1910 and 1930 all but a few of the more than 18,000 water stations supplying water to locomotives were rebuilt or replaced. Yet today, much of the improvement work done during these two decades has been made obsolete by the changing methods of handling traffic. Greater spacing stations now required and those now used suffer from heavier demands. of

- 2 -

Another article in the same issue shows that in the five years ending 1929 Class I roads spent an average of \$849,000,000 a year for maintenance of way and structures. In the seven years 1931 to 1937 inclusive the average annual expenditure was about \$415,000,000, and the roads now are about a billion dollars behind in these expenditures.

June 13, 1938

For period of, say, 6 months beginning July 1st, the Government will assume wages of increased railroad employment, subject to following limitations:

1. Railroads, at own cost, will furnish all necessary materials, supplies and tools.

2. Government aid will be limited to wages of persons not on railroad payroll during May 1938, or, if on that payroll, only to extent of increased days of employment; preference in reemployment to be given to furloughed railroad employees. If, in case of any particular carrier, employment roster in May 1938 included employees on special, emergency, or other abnormal work or projects which have been, or during period of this program shall be, completed, such work or project shall not be deemed included in statistics of May 1938.

3. Amount of such Government aid to be determined by appropriate Government officials with a view to (a) relief of unemployment, and (b) availability and propriety of the work which will be performed by the reemployed men.

If deemed appropriate, the foregoing could be limited to (a) maintenance of way and structures, (b) maintenance of locomotives and cars, and (c) additions and betterments.

PROPOSED MAINTENANCE LOANS TO RAILROADS

On May 15, the number of railway employees aggregated 304,000, the lowest number employed at any time in forty years, or since 1898. This is a decrease of 25% under May 1927. Ten years ago, in 1928, the number of railway employees totaled 1,358,000, which was 752,000, or 83% in excess of those employed on May 15. The severe decline in traffic in combination with advances in wages last November are responsible. If net railway operating income continues at its unprecedentedly low level, the natural result will be a continuance in the reduction of the number of employees. Reduction of employment can be changed only by an increase of gross earnings, or a reduction of wages, or both.

The only likelihood of borrowing by railroads for maintenance work, at least until wage reduction is accomplished, in my opinion, will be from the financially weak economies. The carriers that are bordering on bankruptcy and capital reorganization, such as the Baltimore and Ohio, the Lehigh Valley, the Boston and Maine, the Southern Railway, the Illinois Central and others, may borrow money to do current maintenance work in order that interest payments may be made. Certainly, it would seem unlikely that railroad managements would incur additional short-term debt to do uneconomic maintenance work when not needed, and particularly in view of the present high wage level.

Long-term improvement projects, corresponding to the Pennsylvania Railroad's electrification program over the past few years, which was aided in 1932 and 1935 through substantial borrowings from the Reconstruction Finance Corporation and the Public Works Administration, was justified then because wages and especially material costs were low. This is not the position today when railroad wages are at the highest level of all time. General electrification, however, is only profitable on heavy density main-line operation. There are only a few heavy density lines, which at peak 1928 traffic, would justify the original cost of electrification.

According to the Association of American Railroads, the increase in the cost of railway materials and supplies from 1933 to 1937 was more than 40%. High material costs and high wages, in periods of low traffic, simply accelerate a contraction in plant improvements. Capital expenditures and purchases of materials and supplies by Class I Railways over the past ten years from 1928 to 1937 were at the bottom in 1932 and 1935, when traffic was low, as shown below:

	<u>Capital expenditures</u> (000)	<u>Relatives</u> <u>1928 equals 100</u>	<u>Purchases of materials and supplies</u> (000)	<u>Relatives</u> <u>1928 equals 100</u>
1928	\$676,665	100.0	\$1,271,341	100.0
1929	853,721	126.2	1,329,535	104.6
1930	872,608	128.9	1,039,500	81.7
1931	361,912	53.5	635,000	54.7
1932	167,194	24.7	445,000	35.0
1933	103,347	15.4	465,950	36.6
1934	212,712	31.4	600,224	47.2
1935	188,502	27.8	535,025	40.6
1936	298,921	44.2	805,421	63.2
1937	503,733	75.3	966,783	76.0

The relative stability in capital expenditures on roadway and structures, which includes necessary maintenance on main-line track, in comparison with the almost complete cessation of equipment purchases in 1933 is shown below:

Capital Expenditures

	<u>Equipment</u> (000)	<u>% of</u> <u>year's total</u>	<u>Roadway and</u> <u>structures</u> (000)	<u>% of</u> <u>year's total</u>
1933	\$15,454	14.9%	\$88,493	85.1%
1934	92,005	43.3	120,707	56.7
1935	79,385	42.1	108,997	57.9
1936	152,104	53.2	159,837	46.8
1937	322,877	63.5	186,618	36.7

Purchases of fuel, materials and supplies in 1937 were classified as follows:

	(000) <u>Purchases</u>	<u>% of</u> <u>total</u>
Iron and steel products.....	\$359,409	37.2%
Fuel.....	294,238	30.5
Ties, timber and lumber.....	104,797	10.9
Miscellaneous.....	207,874	21.5
Total.....	<u>\$966,328</u>	<u>100.0</u>

Statements are attached recording the purchases of fuel, materials, and equipment, and the number of employees and total compensation in 1937 by states. Pennsylvania, Illinois, Ohio, and New York head the list.

There is little demand for new equipment at the present level of traffic, and extensive rehabilitation of rolling stock in need of repairs is unnecessary. The recent Reconstruction Finance Corporation maintenance loan of the Lehigh Valley Railroad in April, amounting to \$778,000, represented 68% of a \$1,173,000 repair program to equip coal cars with cast-steel arch bar trucks to conform with the Association of American Railroad ruling. The entire labor cost of the program, however, amounted to only \$168,000, or 14%, of the total expenditure. The balance was divided into material costs of \$935,000 (79%) and overhead expenses of \$91,000 (7%), less a credit of \$63,000 for salvage. Material costs absorb the greater part of these repairs and directly afford little relief to railroad workers, although indirectly help the employees in the equipment industry.

Even if money now were borrowed by both the strong railroads and the financially weak properties, it seems improbable that such maintenance work would be in excess of current requirements to keep the property operating in a safe condition. This would not employ additional men, but simply makes it possible to maintain the existing number of employees at the present low level of traffic. The constant accumulation of short-term notes, in the long run, is at the expense of the stockholders--the present owners, and of the junior bondholders--who will be the future owners of many railroads in this country.

The facts of the transportation industry show that approximately 80% obsolescence exists in the railroads due to competitive transportation. Coordination, consolidation and abandonments, which means a greater decrease in the number of employees,

are needed by the railroads and not temporary maintenance expenditures on unproductive property. The problem is basic and cannot be solved by methods of expediency. Extensive additions and betterments programs by railroads in bankruptcy, too, should not be supported by the security-holders at the expense of interest payments on underlying debt.

It would seem that what the railroad industry needs, from the creditors' and owners' point of view, is a national investigation of union working rules. This is one thing that railroad labor has endeavored to avoid for years. The so-called "featherbed working regulations, now in effect, which cost the railroads substantial sums in labor expenses, should be changed to require every railroad employee to do a full day's work for a day's pay. The railroads then would be helped in their efforts to spend more income, and not borrowed money, on plant rehabilitation to meet extensive competition.

For the four months' period ended April 30, 1938, Class I Railroads show a decline of 23.7% in total operating revenues and a reduction of 80.9% in net railway operating income under the corresponding period of 1937. Net railway operating income of \$28,791,000 for the first four months in 1938 was at the annual rate of return of 0.44% on their property investment. In the same period in 1937, net railway operating income was \$185,872,000, or 3.01%, on their property investment. For the first quarter of 1938, the latest complete data available, Class I Railroads show a net deficit after fixed charges of \$106,249,000, in contrast with net income of \$15,330,000 in the first quarter last year. Car loadings for May show a 22% decline under May 1937, and traffic levels indicated for June are just as discouraging. Railroad operating and financial managements, under these adverse circumstances, are concerned primarily with curtailing expenditures in relation to income, and effecting further reductions in the costs of operation.

CLASS I RAILWAYSPurchases of fuel, materials and supplies, and equipment in 1937 by States

(in thousands)

	<u>Fuel, materials and supplies</u>	<u>Per Cent. of total</u>	<u>New equipment</u>	<u>Per Cent. of total</u>
Penn.	\$165,135	17.1%	\$ 45,242	27.9%
Ill.	113,761	11.8	35,749	21.3
Ohio	61,373	6.4	6,206	3.6
N.Y.	50,749	5.3	17,795	10.6
Ind.	49,824	5.2	28,247	16.8
Calif.	45,235	4.7	952	0.5
W. Va.	34,781	3.6	5,895	3.4
Mo.	28,401	2.8	9,600	5.6
Ala.	23,439	2.4	7,768	4.6
Tex.	<u>23,071</u>	<u>2.3</u>	<u>4</u>	<u>-</u>
Total 10 states	595,769	61.6	157,458	94.3
All others	<u>370,614</u>	<u>38.4</u>	<u>9,520</u>	<u>5.7</u>
Total	<u>\$966,383(a)</u>	<u>100.0%</u>	<u>\$166,978</u>	<u>100.0%</u>

(a) \$106,174,000 was not distributed by states.

CLASS I RAILWAYSNumber of employees and total compensation in 1937 by States

(in thousands)

	Number of employees receiving pay in July 1937	Per Cent. of total	Total compensation (money wages) Year 1937	Per Cent. of total
Penn.	131	10.4%	\$ 220,687	11.1%
Ill.	106	8.4	171,285	8.6
N.Y.	102	8.1	166,528	8.5
Ohio	84	6.6	140,305	7.2
Calif.	54	4.3	92,248	4.6
Tex.	51	4.0	79,286	4.0
Mo.	41	3.2	63,454	3.2
Ind.	40	3.1	63,411	3.2
Minn.	37	2.9	58,023	2.9
N.J.	34	2.7	56,927	2.8
Total 10 states	680	53.7	1,112,154	56.1
All others	585	46.3	871,836	43.9
Total	<u>1,265</u>	<u>100.0%</u>	<u>\$1,983,990</u>	<u>100.0%</u>

GROUP MEETING

June 14, 1938.
9:30 A. M.

Present: Mr. Oliphant
Mr. Gaston (Late)
Mr. Taylor
Mr. Haas
Mr. White
Mr. Upham
Mr. Lochhead
Mr. Gibbons
Mr. Bell
Mr. McReynolds
Mrs. Klotz

H.M.Jr: Mac?

McReynolds: I have nothing to report this morning.

H.M.Jr: What?

McReynolds: (Nods head, "Nothing.")

H.M.Jr: What? I don't hear you.

McReynolds: I have "no."

H.M.Jr: You've nothing - just coasting, huh?

McReynolds: I've got a draft of a letter on that Sherwood thing, any time you want to talk.

H.M.Jr: Oh, well, I need a little time --- (Low to Mrs. Klotz.)

All right.

(Nods to Mr. Bell.)

Bell: I have nothing, except to report that the T. V. A. decided not to ask for legislation, after conferring with Senator Norris.

H.M.Jr: What will they do for money?

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Bell: They are now thinking of going to the R. F. C. to see if that corporation will buy its notes.

H.M.Jr: Mr. Jones said he'd send me a memo yesterday showing how much they'd been lending (inaudible).. Straus was going to send me something on it, but Jones was to definitely do it.

Klotz: How much they have been lending?

H.M.Jr: Jones was to give me a memorandum on how much money they had been lending, and to whom.

What else, Dan?

Bell: That's all.

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

Gibbons: This wire tapping bill, that's in the hands of a fellow named Quinn, a little country newspaper man from Pennsylvania, and Hester's office - Oliphant's office called me, and somebody would probably have to call Bankhead to give this fellow - get him recognized on the floor. Do you want to do that?

H.M.Jr: No, I don't.

Gibbons: What about it, Herman, what do you think? Quinn is not a very heavy citizen. Congressman Lea could probably get it done.

Oliphant: Hester told me this morning the prospects for it weren't very promising because of that fact. They are inclined to sort of stay away from it until that clears up.

H.M.Jr: Well, how can it clear up within the next two days?

Gibbons: Well, do you think it would be well for me to call Bankhead and

H.M.Jr: Well, you and Oliphant work together. I definitely don't want to call him.

- Gibbons: Did Gaston tell you about the new Collector of Customs in Boston? He was the Chairman of the State Democratic Committee. The papers are going to break a
- H.M.Jr: What have your men been doing?
- Gibbons: He resigned, but he's still signing his name as Chairman of the State Democratic Committee. I said that is equivalent to forging a check.
- H.M.Jr: If you don't mind, let it go a little
- Gibbons: I mean, the newspaper men are going to ask you - they've got a letter that he signed.
- H.M.Jr: What are you going to do about it?
- Gibbons: I told Jimmy that you are going to throw him out.
- H.M.Jr: Listen, don't tell anybody I am going to throw a Presidential appointee out until you see me. Why don't you have this fellow come down from Boston and talk to him.
- Gibbons: Jimmy went up there over the week-end. I thought it was fair for Jimmy to tell him.
- H.M.Jr: Well, supposing you send for him.
- Gibbons: But the thing I didn't want was for the newspaper men to come in here and spring something on you.
- H.M.Jr: Well, I wouldn't see them until next Monday anyway.

(Telephone conversation with Senator Hattie W. Caraway, at 9:35 A. M., attached.)

June 14, 1938.
9:35 a.m.

H.M.Jr: Go ahead.

Operator: Go ahead.

H.M.Jr: Hello.

Mrs. Carraway: Is this Mr. Morgenthau?

H.M.Jr: Yes, Mrs. Carraway.

G: Well, this is a rather personal matter I want to talk to you about. It's rather confidential.

H.M.Jr: Yes, man.

G: There's one of the Congressmen, who is running against me for the Senate.

H.M.Jr: Yes, man.

G: I understand he is trying to make trouble for my revenue collector down home, because he thinks he's too active in politics.

H.M.Jr: Yes.

G: It looks to me like he's always - this man has always been very strong for the President, I mean this - revenue collector.

H.M.Jr: Yes.

G: And he's not taking any active part in my campaign except under cover. He's not out in front or anything like that. The funny thing about it is that when - in the election last year the nomination was offered to Mr. McClelland by Mr. - by these people down home, and Mr. Atkins took a leading part in it. He refused to do anything about it unless they put fifty thousand dollars on the barrel head to make the campaign and of course they couldn't do that. He couldn't take a chance.

H.M.Jr: Uhuh.

G: He tried to get Mr. - this man to come in with him for him this year, and when he wouldn't do it and said he was for me, why then Mr. McClelland says that he's going to make all the trouble for him he

can and he comes up here to you and Mr. Helvering to try to get this man stopped and put him in bad. Now Mr. Atkins is not going to take any front, he's not going to be in evidence at all in the campaign and it looks to me like it's a persecution because the man sees he's in the winning side and he's moving heaven and earth to try to get in. Now I laughed and said, "Well here now, that he wouldn't take a chance and get the man, he didn't think he could beat Carl Bailey."

H.M.Jr: Uhhuh.

C: And it reminded me of the story Dad used to tell.

H.M.Jr: What was that?

C: About a man who went down town to jump on the folks down there until some little fellow got tired of it and they run him off the streets and he went home and jumped on his wife and says, "I'm going to give you a licking because I can beat any damned woman in the state." And I think that's Mr. McClelland's attitude.

H.M.Jr: Well -

C: And I didn't want you to let him prejudice you all in any way against this friend of mine.

H.M.Jr: Well, I'm very glad to have your side of the story because this Congressman McClelland has demanded to see me and he's coming in at ten thirty this morning.

C: Well, and I want to tell you another thing.

H.M.Jr: Yes.

C: We've always been very good friends, that is - his wife and he have insisted on entertaining me down town and the time the Little Business ^{were here -} men

H.M.Jr: Yes.

C: We - I went to a dinner that he and his wife gave at the Shoreham and he sat up and told - he had one of these men from my State there, and this man was crowing over the way they treated the man who got up and started to speak for the President -

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for the Administration and howled him down and he just patted this man on the back and made such an ado over it and was just tickled to death and encouraged him to do everything they could against the Administration. Well now I haven't gone along entirely with the Administration all the time. Everywhere that I think that my people are better served by not doing it I haven't done it. But that's been on very few occasions, and after all I'm a Democrat, and I don't think anybody ought to try to put the Administration in a hole.

W.S.Jr:

No, you're quite right.

C:

This young man was going to run on an anti-administrative platform until he voted against the re-organization bill and it had such flare back, that he's climbing now on the band wagon.

W.S.Jr:

I see.

C:

And I don't have any patience with that kind of people, and he doesn't have any sense of propriety because in all this time that he was being so nice to me he didn't even indicate to me he was thinking of getting in the race and went down there next week and announced against me. Now I would have felt better if he had told me he was going to oppose me.

W.S.Jr:

Well, it -

C:

Under cover there's no doubt but what he's against the Administration because I heard him make a speech to the business men telling him how the speech that he was going to make, showing that this - the CIO and Roosevelt were going to be dictators, they were going - this country was going into a dictatorship. I wouldn't tell you this - never mentioned it except that when he takes this attitude I think it ought to be known.

W.S.Jr:

But Mrs. Carraway, all I'm doing here is just trying to run the Treasury as well as I know how.

C:

I realize that and I think you're doing a good job.

W.S.Jr:

Thank you, and as long as I'm here in the Treasury,

we won't take any sides in any Democratic primary.

C: Yes.

H.M.Jr: And -

C: Well, I think that's right.

H.M.Jr: Well, I - I don't want to take any sides, and I always want the best woman or the best man to win, and I assure you all I'll do is to see that our people stay strictly neutral.

C: Yes, well -

H.M.Jr: I appreciate you calling me, and I'll have to listen to Congressman McClelland and Mr. Helvering ~~is~~ here, - and -

C: I'm perfectly willing to leave it up to you all, but I didn't want you to give him any encouragement.

H.M.Jr: Well I'm very glad to have had a chance to listen.

C: And I didn't think it was necessary really to call you, but I did think if he were going down there and going to put up a big spiel, that you ought to know the other side of the picture.

H.M.Jr: Thank you so much.

C: You're welcome and I thank you.

H.M.Jr: Goodbye.

C: Goodbye.

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- H.M.Jr: (Over telephone - jokingly.) Get me Tommy Corcoran, please. (Hearty laughter.)
- I've got to find out which side we are on.
- Gibbons: What did she say about fifty thousand dollars on the barrel?
- Bell: Under cover.
- H.M.Jr: I didn't get that - I was laughing so, inside.
- Hpham: She's a good talker - I don't know why she didn't speak out on the phone more.
- McReynolds: McClellan demanded that this Collector put up fifty thousand dollars.
- H.M.Jr: If I knew Corcoran well, I would call him up and say, "Listen, I've got a tough situation - will you tell me which side I should be on?" Well, we've left them alone for the last five years, we'll leave them along the next two and a half.
- McReynolds: Dan suggested to me that would be ...(Inaudible)....
- H.M.Jr: You're all fixed up, you and Jimmy and everything else?
- Gibbons: I told you what I told him. It was very unfair to you. "You'd be justified," is what my exact words were.
- H.M.Jr: I'll tell you this: As this goes on, it's nice that we clean up each situation as we meet it and don't have them accumulating and hanging over our heads.
- Gibbons: I just didn't want the newspaper men to walk in on you.
- H.M.Jr: Is Herbert sick?
- Hags: I saw him on Connecticut Avenue; he was walking down. He probably was a little late.

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H.H.Jr: (Over telephone.) Find out if Mr. Gaston is ill.

(To Mr. Lochhead;) How's gold?

Lochhead: The gold market is pretty active in London again today. The market got up to about 34.93. Sterling stays steady at 496 3/4. That's a little lower than yesterday. Yet, on the other hand, we had a little weakness in silver today; it's down to 41.92 in London. Some India selling in late session.

H.H.Jr: What was it yesterday?

Lochhead: It was 42.33 yesterday.

H.H.Jr: Switching from silver to gold.

Lochhead: It may be to some extent that India is doing that, because it came from the India market.

H.H.Jr: Anything else?

Lochhead: That's all.

H.H.Jr: (Nods to Mr. Upham.)

Upham: There was some very important news in the comic strips this morning, which I think will really do the President some good. He has asked the President of France to give a pardon to Joe Palooka. He's a comic strip character, who's in the Foreign Legion, and has deserted. And a lot of people, I think, will really take that seriously.

H.H.Jr: Well, not knowing Joe Palooka

Upham: Don't you know Joe Palooka?

H.H.Jr: (Telephone.) Hello. Well, that's funny.

H.H.S: I thought it was he (Mr. Gaston) walking down.

H.H.Jr: Maybe he went to the dentist.

I have Upham down at a quarter of eleven, at which we go over those bank things. I'll give you fifteen minutes on bank examinations.

Upham: Thank you.

H.M.Jr: Taylor, can you be here at a quarter of eleven?

Taylor: Yes sir.

H.M.Jr: Oliphant, can you be here at a quarter of eleven?

Oliphant: (Nods "Yes.")

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

White: Are you interested in the application of the Walsh-Healey Act - purchases of gold and possibly of silver? The conditions of the purchases of those two metals are rather interesting in connection with the labor situation.

H.M.Jr: I don't know a thing about it.

White: Shall I take it up with Oliphant? Supposing I prepare a memo on it.

H.M.Jr: Supposing you prepare a memo for me.

Oliphant: I think it will be academic by day after tomorrow, because I don't think the bill will pass.

Taylor: We've been getting communications for a long period on that subject.

Oliphant: You know what the Walsh-Healey bill is. You must meet labor standards if you are to get your supplies (inaudible)..... The statute does not extend to gold and silver.

H.M.Jr: Have I had any - well, I mean, it's like - Harry, it's you - you're cutting something - cuts terribly deep, and I would say that the chances of Congress going home between now and Thursday night are about a hundred per cent.

White: If it passes we'll prepare a memo for you.

H.M.Jr: Is that optional on the part of the Government? Can they go direct to the industry to which it applies?

White: There may be some question of whether gold and silver will be under that category.

H.M.Jr: Prepare a memo and I'll take a look at it.

Taylor: We've got some opinions on that.

H.M.Jr: I heard the President say yesterday at lunch - he said, like my speech - I say it's finished. He won't even listen to anything more - anything. So I greatly question it, if it's anything new. I mean, he just won't listen to it, and I don't think they will on the hill, especially when they threw the railroad stuff out the window.

Anything else, Harry?

White: (Nods "No.")

H.M.Jr: George.

Hans: A few more here in the right direction. (Hears H.M.Jr. black book.)

H.M.Jr: Those of you who are following the gold, I suggest you read the editorial in today's Washington Herald, called "Devaluation Rumors." I don't know where they get it, but I believe Ambassador Kennedy - and this takes a very constructive attitude, and throws it down and explains why Kennedy wouldn't be doing a thing like this. It's quite interesting. Did you read it?

Lochhead: Yes, I read it; I thought it was a very good editorial. I was wondering where they got the information for it. It looked like a pretty well prepared story.

H.M.Jr: Very carefully prepared - very careful.

Let me see what you gave me, George. (Looks at black book.)

Hans: Texas again.

H.M.Jr: Texas, good or bad?

Hans: Good, for a week.

- 8 -

- W. J. Jr: Oh, George. I'm surprised at you; I'm surprised at you.
- Taylor: It might be Jim Whigham. He probably would do it on his own time, too.
- W. J. Jr: He probably got it from Gaston. Anything else?
- Taylor: About three minutes, I'd like to have.
- W. J. Jr: Before lunch?
- Taylor: Yes. It hasn't anything to do with lunch. I've got an urgent family engagement for lunch today, which I'd like to keep.
- W. J. Jr: That's all right. Well, why don't you, after this quarter - what time do you - can you be here? At a quarter of eleven, on this bank thing. Why don't you stay behind on that?
- Taylor: Fine.
- Disbent: At the request of the State Department, there is a committee at work - a committee from State and Agriculture and Surplus Commodity, still working on that problem of getting rid of surplus agriculture products, and getting commodities - and we are trying to - I am not very hopeful of a solution being found without legislation, but they are.....
- W. J. Jr: Who is?
- Disbent: Agriculture.
- W. J. Jr: Can I come back again? I want to give you a report on the berries.
- W. J. Jr: I didn't know you had gone.
- Disbent: This would amuse you - with the berries. Ham Fish, a boy about twelve years old, just the age of my youngster - he came for supper last night and we had the strawberries for supper, and after he was through he said, "Well, all I can say is, he must have a Republican superintendent."
(Hearty laughter.)

He admitted they were the best berries he had ever tasted.

Gibbons: He's only about twelve years old?

Taylor: Yes.

H.M.Jr: Yesterday I sent some over to the President for lunch. He liked them

(Mr. Gaston comes in.)

H.M.Jr: Hello.

Gaston: Good morning.

H.M.Jr: so I told him that I sold them to the Grand Union Company. Quick, he said, "See that the salesman comes and sees me - I want to sell them my Christmas trees." Then he went into a long explanation of how he had to cut his Christmas trees on the third of December, how he sold them for four hundred sixty dollars, less this, and less that, and he was more interested in his Christmas trees, and wasn't even listening about my strawberries.

You (Mrs. Klotz) had a little party on the berries too, didn't you?

Klotz: Oh, they just made a bee-line drive to the ice box.

McReynolds: Miss Callaway's neice, who lives out in Nebraska, said they voted, when one of these newspaper things was going off, and the children's school voted for Roosevelt and against him, and she said, "I was the only child in the school who voted for Roosevelt, except those on relief, but we want him. (Laughter.)"

H.M.Jr: This is a good meeting, this morning.

Oliphant: You know, "A child shall lead them," so the Bible says.

H.M.Jr: All right. White, Oliphant, and Gaston stay, please.

TO: MRS. KLOTZ

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I am told that this is one of the largest cases made by the Bureau of Narcotics in Chicago in recent years.

Please give the memorandum to the Secretary if you think he would be interested.

From: MR. GRAVES 6/14/38

TREASURY DEPARTMENT

WASHINGTON

June 14, 1938.

MEMORANDUM FOR THE SECRETARY:

District Supervisor James Biggins, Bureau of Narcotics, reports the arrest at Chicago late Saturday, June 11, of George O. Roberts, an official of a drapers' union, and one John Konig. Roberts maintained two offices in buildings in the Loop in Chicago, from which he conducted an extensive drug distributing business.

In connection with these arrests, officers seized from Roberts a total of 133 ounces of heroin and 17 ounces of morphine; from Konig they seized a total of 15 ounces of heroin. From Roberts there were also seized approximately 35,000 manila envelopes of a type commonly used in Chicago in the distribution of drugs. Several thousand glassine envelopes for which the manila envelopes are commonly the outside enclosure were also seized. A seal "Merck" was also seized, as well as apothecary scales, sieves, alcohol lamps, and sticker seals.

The investigation is being continued.

GRAVES.

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ORAVES.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 14, 1938

TO Secretary Morgenthau
 FROM Mr. White

Subject: Tankers Available for Mexican Oil 1/

Summary

1. The Mexican Government must have the constant services of only about 60 tankers (out of a world total of 1,690), or $3\frac{1}{2}$ percent of the world supply, to transport her export oil.
2. Mexico, as far as is known, has only one tanker registered under her own flag, plus 2 or 3 which were in Mexican harbors and were expropriated along with the properties.
3. There appears to be a concerted attempt on the part of American, British and Dutch oil companies to prevent Mexico from obtaining the required tankers.
4. Eighty-eight percent of the world's supply of tankers are directly controlled or are influenced by the American, British and Dutch oil companies. (About 60 percent of the world's supply is controlled directly by these companies; and about 28 percent is owned by interests which are under the influence of the oil companies.)
5. About 11 percent of the world's tankers is owned by Germany, Italy, Japan and U.S.S.R. Mexico could probably charter all she requires from any two of the first three countries mentioned if she were willing to make an oil deal with them on their terms.
6. Mexico would find it difficult, if not impossible, to purchase or build enough tankers within the near future to handle her export oil.
7. Further investigation by the legal staff may possibly reveal that the United States Government, through the Maritime Commission, has the power to provide Mexico with an adequate number of tankers.

1/ Preliminary study based on published information, consular despatches, and information obtained from Mr. Knoke. Further data can be obtained only by going outside of the Department.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 14, 1938.

TO Secretary Morgenthau
 FROM Mr. White

Subject: Tankers Available for Mexican Oil.

1. The Mexican Government must have the constant services of about 60 tankers to handle her export oil.

Mexico has approximately 2,000,000 barrels of oil available for export monthly. About 60 tankers are necessary to transport this quantity. Up to March these tankers were supplied almost wholly by the same interests, American, British and Dutch, which owned the expropriated oil fields.

2. Mexico, as far as is known, has only 1 tanker registered under her flag.

Mexico had 1 tanker registered on June 30, 1936, and it is not known that further tankers have been purchased since then. At the time of expropriation, it was reported that 3 tankers of the Aguila Company (British) were seized at Tampico. One of these was later sent to Mobile, Alabama, for overhauling, and was immediately held as the result of an injunction placed by the Aguila Company.

3. There appears to be a concerted attempt on the part of American, British and Dutch oil companies to prevent Mexico from obtaining the required tankers.

(a) The British Foreign Office, according to press reports, appears to be pursuing a policy of discouraging the use of British tankers in the transportation of Mexican oil.

(b) The oil companies whose properties have been expropriated, both American and British, have stated that they will bring legal action against any oil cargoes coming from Mexico. Such action implies holding of cargoes in port under court injunction.

Prepared by Mr. S. Miller.

(c) We understand that ship charterers in New York would refuse to charter tankers for transportation of Mexican oil because of reciprocity agreements and very friendly relationships which they have with the oil firms involved in the Mexican episode.

(d) It is doubtful, for the same reasons, whether insurance can be obtained for shipments of Mexican oil. Ocean underwriting is concentrated in London and New York, where the influence of the expropriated oil companies can be very effective. It is unlikely that any privately owned ship would embark on a sea voyage unless the cargo were properly insured.

4. Eighty-eight percent of the world's supply of tankers is directly controlled or is influenced by the oil companies of the United States, United Kingdom and the Netherlands.

(e) The oil companies of the United States, United Kingdom and the Netherlands own directly about 60 percent of the world's tankers.

The total number of tankers in the world as of June 30, 1936 was 1,692. Since then, a few tankers have been built, but enough have become obsolete to make this figure relatively correct today. The following are the totals registered under each of the following countries:

United States	400*
United Kingdom	522
Netherlands	<u>115</u>

1,037 or 61 percent

The bulk of these tankers is owned by the oil companies directly involved in Mexico. A small number are probably owned by independent operators who, no doubt, may be regarded, for the purpose of this problem, as coming under the influence of these oil companies. The balance of the tankers, a small number, are attached to the navies of the respective governments, and of course, not available.

* Survey of United States Maritime Commission of November 10, 1937 gives number of tankers as 343 with tonnage of 2,452,000, which happens to be the same tonnage given for the 400 tankers shown above. Obviously a discrepancy.

Secretary Morgenthau - 3

(b) The oil companies of these three countries, with the assistance of the British Government, can probably influence an additional 27 percent of the remaining 39 percent of the world's supply of tankers.

The American, British and Dutch oil companies are most powerful, and their sphere of influence is world wide. Tanker shipping interests of the world are almost completely dependent on American, British and Dutch oil companies for their main sources of income. They would without doubt wish to cooperate with any policies or boycotts pursued by the oil companies. Furthermore, pressure by the British Government can now be brought more forcefully and directly than would otherwise be the case since diplomatic relations between Mexico and Great Britain have been severed.

The tankers registered in countries under the American, British and Dutch influence are:

Norway	245
France	50
Panama	31
Sweden	25
Argentina	23
Venezuela	22
Denmark	18
Greece	14
Belgium	10
Portugal	5
Finland	3
Rumania	3
Peru	3
Cuba	1
Uruguay	<u>1</u>

454 or 27 percent of world supply

(c) Spain has 17 tankers registered under her flag, or 1 percent of the world's supply. It is not known how many of these 17 belong to rebels or loyalists, and therefore, impossible to hazard how many of Spain's tankers might be available to Mexico.

Secretary Morgenthau - 4

Many of the tankers in the foregoing table, notably of Venezuela, Panama, Argentina, Cuba, Peru, Uruguay, and possibly also in several European countries, are owned directly by American and British interests but are registered under various flags for various reasons.

It is believed that the oil fields and tankers of Greece, Rumania and Portugal are dominated by British interests. We have, therefore, included them in this list, although it is possible that the first two countries may be subject to pressure from Germany or Italy.

5. About 11 percent of the world supply of tankers is owned by Germany, Italy, Japan and Russia.

Italy	71
Japan	58
Germany	34
Russia	<u>20</u>

183 or 11 percent of world supply

It is uncertain what portion of these tankers are available to Mexico.

(a) The Russian tankers are probably not available to Mexico for two reasons:

(1') She has no diplomatic relations with Mexico;

(2') Russia is the world's second largest producer of oil, and the small quantity of 20 tankers registered under her flag seems hardly enough to take care of her own trade, much less have any available for any other country.

(b) Tankers belonging to anti-democratic countries enumerated above could be made available to Mexico in quantities sufficient to transport all her oil, but only if Mexico reverses her present policy and decides to sell to them. Mexico has so far, within our knowledge, refused to consider any proposition from the Fascist countries. If she loses all hope of arriving

Secretary Morgenthau - 5

at a settlement with the democratic countries, she may try to arrange a deal with the others -- selling oil to them, and using their tankers for transport.

The total tankers of Italy, Germany and Japan is 163. As Mexico needs only 60, this amount could be diverted from present routes in order to transport Mexican oil.

There are several obstacles to the successful consummation of an oil deal between Mexico and Germany, Japan and Italy:

(1) Mexico needs foreign exchange badly, but so do Germany, Italy and Japan. These countries very probably pay out some foreign exchange at the present time in order to get their oil supplies; and also there is much machinery and materials which they could ship to fill Mexico's needs. Therefore, there is a definite base for bargaining. However, it would be a hard driven bargain for Mexico, and it is not expected that she would derive a great deal of foreign exchange from such a deal.

(2) By accepting Mexican oil Germany, Italy and Japan open themselves to possible injury from the oil companies, and for this reason, these countries may cooperate with the oil companies and refuse to buy Mexican oil now. Germany, Italy and Japan require far more oil than Mexico can furnish, and depend on the American, British and Dutch oil companies for their main sources of supply.

3. The United States Government, through the Maritime Commission, may have the power and facilities to provide Mexico with an adequate number of tankers.

The Government owned fleet in active operation consists of 36 cargo vessels, and a laid-up fleet of 113 vessels. It is not known if any of these are tankers, but if not, many could be converted to tankers. It is known that 4 vessels sold recently into private operation were converted by the Government to bulk liquid carriers. This laid-up fleet is being held "in reserve for a possible use

Secretary Morgenthau - 6

in commercial or national emergencies". This occasion might be considered "an emergency". The Maritime Commission could also purchase tankers from private sources, and turn them over to Mexico.

7. Conclusion

Mexico cannot obtain an adequate supply of tankers unless:

- (a) Mexico comes to a satisfactory settlement with the owners of the expropriated properties -- American, British and Dutch oil companies.
- (b) Mexico closes a deal with the Fascist countries for all her export oil.
- (c) The United States Government decides to come to her aid.

The National City Bank
of New York
ESTABLISHED 1812

New York June 14, 1938

CABLE ADDRESS 'CITIBANK'

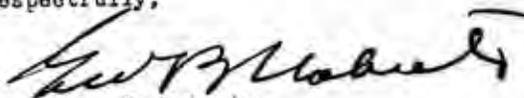
IN REPLYING PLEASE QUOTE INITIALS

The Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

My dear Secretary Morgenthau:

In accordance with my letter of Saturday, I
take pleasure in sending you this week's business and commodity
reviews, as prepared in this department for circulation within
our organization.

Respectfully,



Geo. B. Roberts
Vice-President

Memorandum on Business Conditions for Week ended June 11, 1938

Reports from trade and the industries indicate that business is still flat. The volume of new orders reaching the industries is not improving; the trend of operations is, at best, sideways, and wholesale and retail trade comparisons are no better. There is, however, some encouragement to be found in a decidedly firmer tone in staple commodity prices and also in the May building figures. Staple commodity price indexes have made their first rally since early in April with Moody's index up 3 3/8 points from the low. The sharpest rise has been in wheat and in our opinion the higher wheat prices cannot be maintained unless crop damage becomes exceptionally severe. The wheat price has now risen considerably above the prospective Government loan level and in all probability enough surplus wheat will be harvested this season to bring the price down to that level or lower before it finds support. A majority of other important commodities, however, have also rallied, including many farm products, rubber, sugar, cocoa and tin, and the metals are holding steady with buying a little more active since the last price outs. As stated last week, I don't expect commodity prices to strengthen very much until the general business curve, which is an index of the demand for commodities, also turns upward, but in a good many cases there are more reasons to expect steady markets than we have had for a long time past.

The May building figures turned out unexpectedly favorable, due in large part to the award of some substantial public works contracts in the last week of the month. This brought total contract awards for May to 33 per cent above April and 16 per cent above May last year, the first time that a year-to-year gain has been shown. Residential building also closed the gap, being less than 1 per cent below last year; non-residential construction was 17 per cent off. The mortgages selected for appraisal by the F.H.A. again set a new high record, \$88 millions against \$94 millions in April and \$68 millions in May, 1937. In April 71 per cent of the mortgages accepted for insurance represented new construction.

Steel mill operations seem to have settled down for the present at around 80-85 per cent of capacity, having been unchanged for two weeks, and no particular change indicated this week. Business is slack; tinplate operations are dropping, and no improvement is expected in the near future.

Automobile assemblies picked up last week on Ford's resumption and a slight gain by both General Motors and Chrysler. However, the total was 10 to 15 per cent below the pre-Memorial Day figure and this seasonal recession will continue. Mr. Sloan's statement to the stockholders, reported in this morning's papers, is not at all optimistic. General Motors continues to make an excellent showing in reducing field stocks. Its domestic retail sales in May were 16,000 against 178,600 a year ago. Its sales to dealers were 71,700 compared with 180,000 a year ago. In March, April and May dealers' stocks were curtailed 70,000 cars. This showing is fairly typical of the industry as a whole as dealers are still very well supplied in relation to current sales, and of course their used car stocks are extremely heavy.

The index of machine tool orders for May dropped to 66.7 from 80.3 in April and 208.5 last year. The bulk of the drop is in domestic business but foreign orders are now declining also. The paper business continues sluggish. Kraft wrapping paper has been cut \$10 a ton and some other grades look weak. Car loadings dropped seasonally in all groups except a slight increase in ore. Electric power output declined slightly more than seasonally to 11.8 per cent below last year. Coal production is not changing. Textile business is still marking time, but cotton goods business picked up on Friday.

In the week ended June 4 department store sales over the country were off 16 per cent. The drop in New York and Brooklyn was 19 per cent. Checking around New York City we find that June, July and August are all expected to show increasing rates of decline from last year because furniture and furnishings generally bulk heavy in Summer business and these are the lines which are most depressed. From September on a better showing is expected. It is definitely believed by well posted people that retailers will buy more goods this Fall than they did last Fall even though their sales are lower because their inventories are down.

Final figures for May retail trade as follows; department store sales off 17 per cent; Federal Reserve Board's adjusted index is down 4 points, 79 in May compared with 83 in April and 86 in March; Sears, Roebuck off 15 per cent; Montgomery Ward 7.6; 24 chains 10.4 per cent. Retail prices are 6.4 per cent below last year, according to the Fairchild index, and about 8 per cent lower according to average sales checks in the New York stores. Items in the 1938 order flyer catalogues show a still greater reduction.

June 11, 1938

Alan H. Temple
Statistician

SPOT COMMODITY PRICES

Commodity	June 11	Week Ago	Month Ago	Year Ago	Since Jan. 1, 1928	
					High	Low
<u>Up</u>						
Beef	8.84¢	8.48¢	7.95¢	11.22¢	15.00¢	1.22¢
Steers	9.26¢	9.20¢	8.87¢	12.04¢	16.22¢	2.97¢
Corn	\$0.58 3/4	\$0.57 1/4	\$0.59 1/4	\$1.17 1/4	\$1.38 3/4	\$0.21
Lard	8.90¢	8.90¢	8.90¢	12.30¢	10.25¢	4.10¢
Cottonseed Oil	6.75¢	6.50¢	6.75¢	8.65¢	10.68¢	2.50¢
Wheat	\$0.78 3/8	\$0.72 1/2	\$0.84 7/8	\$1.20	\$2.15	\$0.45 1/4
Rubber	12.00¢	11.31¢	11.83¢	18.87¢	60.00¢	3.60¢
Cotton	8.24¢	8.06¢	8.72¢	12.48¢	23.00¢	8.00¢
Sugar, Raw	1.84¢	1.80¢	1.05¢	2.50¢	3.60¢	0.57¢
Cocoa	4.65¢	4.60¢	4.80¢	7.45¢	17.75¢	3.65¢
Coffee	6.40¢	6.35¢	6.40¢	11.75¢	24.07¢	0.00¢
Tin	59.37¢	58.60¢	58.00¢	55.50¢	72.50¢	18.35¢
<u>Down</u>						
Milk	\$1.65	\$1.56	\$1.62	\$1.87	\$6.91	\$1.05
Hides	6.50¢	6.75¢	6.75¢	15.25¢	26.60¢	3.75¢
<u>Unchanged</u>						
Wool	\$0.64	\$0.64	\$0.68	\$1.02	\$1.28	\$0.305
Steel Scrap	\$10.75	\$10.75	\$11.75	\$18.75	\$23.75	\$8.25
Copper	9.00¢	9.00¢	10.00¢	14.00¢	25.07¢	4.87¢
Lead	4.00¢	4.00¢	4.50¢	6.00¢	9.50¢	2.65¢
Zinc	4.00¢	4.00¢	6.00¢	6.75¢	8.75¢	2.30¢
Goody's Index	133.5	131.2	137.7	199.3		

Copper - Domestic sales during the first 8 business days of June were 8,508 tons, representing a small improvement over the May average which was the lowest in this depression. Actual domestic consumption of copper during May is estimated to have been around 40,000 tons or about 8,000 tons in excess of producers' deliveries which were 31,684 tons, indicating that fabricators satisfied about 20% of their month's consumption from their own stocks. Fabricators are booking very little new business.

The London copper market was up slightly last week and the export price rose to 8.00¢ compared with 8.05¢ a week ago. Domestic price remains firm at 9¢.

Zinc - The steady rise in zinc stocks continued during May, the increase being 13,000 tons for the month, compared with 17,000 in April. Stocks have risen in 9 months from 11,227 tons (record low last August) to 148,120 tons at the end of May, highest on record. The only encouraging feature of the May statistics was the slight rise in shipments to 24,626 tons from 20,806 in April. Production dropped only slightly to 37,510 tons from 38,336 in April. However, zinc concentrate production is now being curtailed sharply. Obviously this must be reflected in lower smelter operations and hence zinc production. The market, at 4¢, is steadier than the statistics would imply.

There was a little more activity in the zinc market last week, sales exceeding deliveries by 1,254 tons. This was reflected in a corresponding rise in unfilled orders, now at 24,989 tons, compared with 67,143 a year ago.

Lead - Good buying put in an appearance last week, sales reaching 8,367 tons, which is the largest weekly volume since last January. While stocks are expected to show a further slight increase when May statistics are released, the metal is in strong supply and with the price down to 4¢, producers are not inclined to press sales.

Hides - Contrary to the upward trend which has taken place in the stocks of many other commodities, stocks of hides have been going down for the past 4 months. At the end of April (latest figures available) they were the smallest for that month in any of the past 17 years of record. In terms of previous 3 months' consumption April stocks

- 2 -

represented a 6.5 months' supply against 12.2 last December and 7.1 a year ago and were somewhat below the 5-year April average of 9.4.

The trend of hide and leather statistics has been favorable since early this year. Leather consumption in April ran ahead of both leather production and the inter-month movement of cattle hides for the 4th consecutive month. As a result total stocks in all hands of hides, in-process leather, and finished leather have declined about 10% since the end of January, hides by 565,000 pieces, in-process by 195,000 and finished leather by 620,000 or a total of 1,378,000 pieces. As between tanners and packers, however, the latter are still carrying a larger proportion of total hide stocks than usual, tanners continuing to buy only for current needs based on shoe manufacturers' leather requirements.

Aside from the smaller cattle slaughter, the chief factor behind the improved statistical position of hides is that during the first 4 months of this year we were a net exporter whereas we are normally a heavy importer. During this period our net exports were 30,000 hides whereas last year during this same period we imported 1,047,000 hides. Net exports of 121,000 hides in April were the largest since records began in 1922. Our price structure for several months has been low relative to the world market in Buenos Aires and imports declined sharply beginning last September.

Shoe production for the first 4 months was off 28% from a year ago (when it set an all-time high) and the smallest for the period since 1933. The Jan.-April trend, however, was up more than seasonally. Compared with a year ago, January was off 51%, March 20%, and April only 18%.

Wheat - The Government crop report placed the winter wheat crop at 761 million bushels, which is 50 million less than the average of the private reports. The accompanying comments stressed the uncertain outcome of much of the crop; and as the report coincided with news of small threshing out-turns and low weights in the Southwest, it was received quite bullishly.

This report emphasizes that the wheat crop is still a long way from harvest. Nevertheless, the June 1 prospect, allowing 270 million for Spring wheat based on present conditions, is for a crop of 1,030 million bushels. Domestic requirements may be estimated at 670 million and the authorities agree that exports will be limited to: (1) wheat grown near the ports and hence carrying small freight charges; (2) whatever can be moved in the early part of the season. The Department of Agriculture people estimate probable exports at 40 million bushels. Reasons for the low figure: our price will be pegged, Canada has what now looks to be a 400 million bushel crop, and Argentina moisture situation is favorable.

This adds up to a total absorption of wheat for the coming season of 710 million, or an indicated surplus of 320 million based on the June 1 outlook. If the crop prospect hereafter should decline as much as 150 million bushels, there would still be a surplus of nearly 200 million to add to our present carryover of 200. On this basis it seems to me that the rally in wheat prices cannot hold and that wheat must sell down to the point where the Government loan will support it. We do not yet know exactly what this point will be. Preliminary discussions in the A.A.A. indicate that the loan will be on No. 2, at selected interior points, with grade and transportation differentials. Depending on the location of the base points, this might work out between 70 and 75¢ in Chicago. But the loan details are still being studied and it is unsafe to count on accurate guesses. I understand definitely, however, that the loan is not expected to include an allowance for premium grades. Growers having premium wheat will therefore be able to get more in the market for it than from the loan. This will tend to make the market drop even below the loan values during the crop moving season. The same thing happened in cotton last Fall, for the same reason.

June 13, 1933.

Alan H. Temple,
Statistician

SPOT COMMODITY PRICES

Commodity	June 3	Week Ago	Month Ago	Year Ago	Since Jan. 1, 1928	
					High	Low
Cash	9.20¢	9.02¢	8.37¢	12.00¢	18.22¢	2.97¢
Term	\$0.57½	\$0.54½	\$0.58 1/8	\$1.29	\$1.38½	\$0.21
20¢	8.60¢	8.45¢	8.60¢	12.55¢	19.25¢	4.10¢
1/4¢	1.60¢	1.75¢	1.85¢	2.45¢	3.50¢	0.87¢
20¢	28.80¢	35.80¢	37.37¢	55.87¢	72.50¢	18.58¢
1/4¢	8.35¢	7.92¢	8.67¢	13.24¢	23.90¢	5.00¢
1/2¢	11.31¢	11.29¢	11.80¢	19.87¢	38.50¢	2.58¢
1/4¢	4.50¢	4.45¢	4.90¢	7.45¢	17.75¢	3.55¢
Grains						
Wheat	8.48¢	8.55¢	7.71¢	11.25¢	15.00¢	1.62¢
Barley	6.50¢	6.87¢	6.75¢	9.00¢	10.88¢	2.56¢
Oats	\$1.85	\$1.80	\$1.85	\$1.72	\$6.91	\$1.05
100¢	\$10.75	\$11.00	\$11.75	\$18.75	\$23.75	\$8.25
100¢	\$0.64	\$0.66	\$0.68	\$1.02	\$1.28	\$0.585
100¢	\$0.72½	\$0.74 7/8	\$0.83 3/8	\$1.23½	\$2.15	\$0.45½
Other						
100¢	8.75¢	8.75¢	8.75¢	15.25¢	28.50¢	8.75¢
100¢	6.35¢	6.35¢	6.75¢	11.75¢	24.57¢	6.00¢
100¢	9.00¢	9.00¢	10.00	14.00¢	23.87¢	4.87¢
100¢	4.00¢	4.00¢	4.50¢	6.00¢	9.50¢	2.55¢
100¢	4.00¢	4.00¢	4.15¢	6.75¢	8.75¢	2.30¢
Moody's Index	131.2	132.0	136.7	205.6		

The past week has brought a number of important developments in the commodity market. It is quite likely that we shall look back upon it as marking a turn for the better in the position of several important commodities, and a check to the decline in their prices. These developments are: the drastic curtailment in copper mining; the cut in rubber export allowance to 45 per cent; the cut in the tin export allowance and operation of a "buffer pool"; greater curtailment in lead and zinc production; a decline in wheat to well under the 8,52¢ which is the minimum mandatory loan on the coming crop; a decline in wheat and wool which brings them practically to the level of the Government loan, and leaves very little room for further decline; a small cut (minor, to be sure) in the price of cotton.

These developments should bring steadier commodity markets. Moody's index dropped in the middle of April from 142 to 130 early last week. It closed the week at 131.2. An early improvement is the probable seasonal easing in livestock prices, and the easing of demand for industrial raw materials. Prices seem unlikely to start up much in advance of the business curve, which is still dropping. But there is certainly more reason than ever to believe that the decline is exhausting itself.

The International Tin Committee set third quarter quotas at 45% (except for Malaya, which received 52½%), compared with 56% in the second, 70% in the first and 110% in the third quarter of 1937. Moreover, the Committee announced that the tin producing countries had agreed to the principle of a buffer pool to take surplus tin off the market. Decision as to what percentage of the 45% quota would be allocated to the pool was deferred, although the committee previously has intimated that it would be 30%. Next meeting will be held before July 1. Malaya has asked for a larger share.

and flexible supply, including Straits and Arnhem carryover, declined 2,600 tons

aring May. Total stocks of 26,500 tons are only a two months' supply. The favorable trend of the statistical position combined with the cut in the quotas and formation of the Buffer Pool brought a sharp rally in the London market and prices there were up 10 for the week.

The third quarter world supply can be set approximately at 32,700 tons, assuming non-signatory countries continue to ship 7,500 tons quarterly. Against this, world consumption was 40,700 in the first quarter of 1938 and 50,800 in the last quarter of 1937.

Copper - Both Anaconda and Kennecott have announced further curtailment, Kennecott's being a complete shutdown for at least one month. This, together with cuts by other producers, will reduce mine production probably about 22,000 tons a month. Hence within about 5 months, which is the time required for a change in mine production to be reflected in refinery operations, refined production should be running around 35,000 tons per month, including copper from scrap, compared with 55,000 in April.

There is every reason to think that actual domestic consumption is running over 35,000 tons monthly. Refiners' domestic deliveries have averaged 29,000 so far this year, and fabricators have been drawing on their own stocks for possibly another 8-10,000. In the past 2 months exports have run 11,000 monthly, making a total disappearance of between 45,000 and 50,000. Hence the cut in production is sufficiently drastic to balance up the market position even if consumption declines further and exports fall off. Export demand has now slackened somewhat and shipments in the coming weeks will be smaller. Nevertheless, with production cut back to the extent indicated, it seems certain that total stocks of copper in the country will be dropping, even though the reported statistics which cover only visible supplies may continue to rise for a time. On this basis producers expect to be able to hold the 9¢ price unless the London market breaks badly and export business stops completely. Foreign copper rose slightly last week while the export and domestic markets were unchanged.

Wheat - Private crop reporters were unanimous in their opinion that, based upon growing conditions as of June 1, this year's wheat crop will be the largest in the history of this country. In response, domestic wheat markets dropped last week to the lowest point in nearly 5 years. The average estimate was 810,000,000 Winter and 267,000,000 Spring, or a total crop of 1,077,000,000 bushels. Previous record crop was 1,008,637,000 in 1915 when there was a tremendous demand for our wheat abroad due to the war.

The Canadian crop was estimated at 340,000,000 bushels by two of the private reporters. The world wheat outlook is bearish, even though Europe may buy more wheat than last year, and world prices are likely to rule low.

It is very doubtful that we shall be able to export wheat next season, and at the same time peg it at 60¢ on the farm, which is the minimum figure for the mandatory loan to be made under the new Farm Act. Reflecting this forthcoming peg, the distant months in the Kansas City market largely have gone completely off an export basis, December being only 12¢ below Liverpool. Now crop futures in the American markets have already sold down to the basis of the Government loan, and there is little room for any further decline. The consequence of the price pegging operation on which the Government is getting ready to embark is that there may be a carryover of 600,000,000 bushels of wheat in this country at the end of the coming season.

June 6, 1938

Alan H. Temple,
Statistician.

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Memorandum on Business Conditions for Week ended June 4, 1938

Based on present operating rates in the major industries and the apparent certainty that there will be no turn for the better during this month, we estimate that June will bring a further decline of perhaps 2 points in the composite indexes of business. The Federal Reserve index for April was 77; for May our calculations show 74 or 75; and a June figure of 72 is indicated. The July figure will be still lower before correction for the usual seasonal decline; but whether the drop will be greater than seasonal it is too early to predict.

Commodity prices made another new low in the fore part of last week but rallied somewhat later. I believe there is a fair probability that staple commodity prices on the average will steady around present levels. Further cuts in production have been made in copper, tin, lead, zinc and rubber. Wheat, corn and wool will have the supporting effect of Government loans, and there is little room for a further drop before they rest on the loan levels. Cotton is below the minimum price at which a loan on the coming crop will be mandatory. This price is roughly 8.32 cents in the southern markets; and in the long run the price of cotton must return to that level. These influences may well stop the downtrend. To start the markets upward, however, improvement in demand will be necessary.

Industrial and trade news continues to present a picture of depression. Steel mill operations dropped last week to 26 per cent, and apparently will be about the same this week; for although Youngstown and Chicago will be up slightly, Pittsburgh will be off. New business is still in the slow downtrend which began after March and scrap prices were lower again last week both in Pittsburgh and Cleveland. Machine tool orders are believed to have been lower in May than in April when they were less than one-third of a year ago and are expected to be off a little more in June.

Automobile production last week dropped to only 27,000 vehicles, according to Ward's estimate. This was due largely to the Ford shutdown and as Ford will resume this week there will be some recovery. However, indications are that June assemblies, U.S. and Canada, will not much exceed 150,000 units against an estimate of 195,000 in May, 238,000 in April and 521,000 in June a year ago.

Car loadings gained more than seasonally due to an improvement in coal and ore loadings which are at last beginning to pick up slightly after a very poor start. Electric power production gained seasonally. Textile business continues sluggish with mills again failing to sell their production. A few woolen mills have received late orders for Fall fabrics and will be busy for a couple of months but for the industry as a whole the situation is still poor.

Department store sales in both New York City and the country as a whole in the week ended May 28 were off 19 per cent, according to Federal Reserve reports. The average for the month of May was about 15 per cent. These figures include the effect of rather unfavorable weather. It was a little better in New York City on the good days last week.

An anthracite coal man told me on Saturday that the household automatic stoker business is one line which is running substantially above a year ago.

Attached is a compilation of dividend declarations for May and the five months.

June 5, 1938

Alan H. Temple,
Statistician

DIVIDENDS DECLARED DURING MAY AND FIRST FIVE MONTHS, 1937-38

<u>Monthly Totals (000s Omitted)</u>	<u>1937</u>	<u>1938</u>	<u>% Change</u>
January	226,720	221,714	+ 2.3
February	242,170	239,979	- 24.8
March	232,280	239,997	- 37.7
April	222,420	224,822	- 22.1
May	222,220	222,220	- 22.2
Five Months	1,145,810	1,149,732	

<u>Totals by Industries (000s Omitted)</u>	<u>May</u>		<u>Five Months</u>		<u>% Change</u>
	<u>1937</u>	<u>1938</u>	<u>1937</u>	<u>1938</u>	
Banks & insurance	22,110	22,227	22,110	22,227	- 2.3
Rail stores	2,220	2,220	22,220	22,220	- 22.2
Apparel	17,221	2,222	22,222	22,222	- 22.2
Department stores	2,222	2,221	22,222	22,222	- 22.7
Food & packing	17,222	22,227	22,222	22,227	+ 2.3
Oil order	2,222	2,227	22,222	22,227	- 22.2
Stores	44,227	22,222	22,222	22,222	- 22.2
Motor equipment	2,222	2,221	22,222	22,222	- 22.2
Gas	111,224	22,227	172,224	222,222	- 22.2
Public utilities	22,227	22,222	222,222	222,222	- 22.2
Railroads	22,222	22,222	22,222	22,222	- 22.2
Railroad equipment	1,221	2,222	22,222	22,222	- 22.2
Steel	12,222	2,222	22,222	22,222	- 22.2
Tobacco	12,222	2,222	22,222	22,222	- 22.2
Miscellaneous	12,222	2,222	22,222	22,222	- 22.2
Total	222,222	222,222	2,222,222	2,222,222	

Number of Special Declarations

Favorable Changes

	<u>May</u>		<u>Five Months</u>	
	<u>1937</u>	<u>1938</u>	<u>1937</u>	<u>1938</u>
Initial	42	2	242	22
Resumed	12	2	22	22
Increased	27	2	222	22
Extra	22	22	222	222
Back (accumulated)	22	22	222	222
Total Favorable	125	58	1,222	522

Unfavorable Changes

	<u>May</u>		<u>Five Months</u>	
	<u>1937</u>	<u>1938</u>	<u>1937</u>	<u>1938</u>
Reduced	1	72	12	222
Omitted (passed)	1	72	12	222
Total Unfavorable	2	144	24	444

Source: New York Times compilation of dividend actions by all corporations publicly announced.

June 6, 1938

DEPARTMENT OF THE INTERIOR
UNITED STATES HOUSING AUTHORITY

WASHINGTON

June 14, 1938.

MM - 424

6-17-38

OFFICE OF THE
ADMINISTRATOR

Dear Henry:

Referring to your telephone call, I had the figures which you requested prepared on the assumption that the United States Housing Authority would be given the right to make 100% loans. This provision has now been eliminated in the report of the Conference Committee. I have, accordingly, revised the figures bearing the change in mind. It is, of course, a blow to our program. The October and November loan figures, as shown below, would have been more than double and the December figure nearly treble the amount shown if we could have made 100% loans.

I hope these figures, which represent our best estimates at this time, may prove of service for your purpose. The figures are, of course, confidential.

April	\$	446,000	(actual)
May		773,500	"
June		2,500,000	(estimated)
July		4,500,000	"
August		7,500,000	"
September		9,000,000	"
October		10,500,000	"
November		12,000,000	"
December		13,000,000	"
Total	\$	60,219,500	

These figures are loans to local authorities and do not include the expense of administration.

Cordially yours,

Nathan Straus
NATHAN STRAUS,
Administrator.

Honorable Henry Morgenthau, Jr.,

Secretary of the Treasury.

Copy to Taylor-Haas - White-Bell
MM

425
June 14, 1938.
4:10 p.m.

H.M.Jr: Hello.

Operator: Dr. Parran. Go ahead.

H.M.Jr: Hello.

Dr. Parran: Hello, Mr. Secretary.

H.M.Jr: How are you?

P: Working hard.

H.M.Jr: That's good. Did you call me?

P: Yes, just to give you a progress report on matters we discussed yesterday.

H.M.Jr: Yes.

P: I talked with Dr. Palmer.

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

P: I was - I talked on the phone this morning with Dr. Palmer who is in Cleveland with Miss Lonigan and a representative from Dr. Stanley's office.

H.M.Jr: Yes.

P: And he says that the Surplus Commodities Corporation is not beginning to meet the needs there, what they're doing is merely a drop in the bucket, and of equal importance they are handing out flour but many of these poor people have no way of using the flour. They have no shortening and they have no baking powder and many of them have no gas even in their houses.

H.M.Jr: Yes.

P: He emphasized the situation which he sensed very acutely yesterday.

H.M.Jr: Yes.

P: That is the need for gearing their work to the nutritional needs and the health needs.

H.M.Jr: Yes.

- P: Relief load and so on. We are planning a meeting tomorrow with Dr. Stanley's people and the group which has been in Cleveland to review the situation and particularly to lay down the details of the study here in the District.
- W.H.Jr: Good.
- P: Should have a report for you with cost estimates by tomorrow afternoon.
- W.H.Jr: Well, I expect to go up to Philadelphia tomorrow afternoon unless something happens which is unforeseen so - but I will be in touch with the office on Thursday, and if you'd keep - let Mrs. Klotz know.
- P: I - I shall give that report to Mrs. Klotz tomorrow afternoon or first thing Thursday morning, one or the other.
- H.H.Jr: Thank you so much.
- P: The other point/ⁱⁿwhich I thought you might be interested.
- H.H.Jr: Yes.
- P: Was on the venereal disease bill.
- W.H.Jr: Oh yes.
- P: The Appropriations Committee in the Senate cut the President's estimate of three million to a million and a half. I think we'll get pretty strong support in the Senate in having it restored, it's all a question of having it kept in conference. I believe we'll get it put back in the Senate. Senator Berkeley has promised to help and La Follette has taken up the ball -
- W.H.Jr: Good.
- P: of course and some others.
- W.H.Jr: Good.
- P: I thought you'd be interested in all that.
- W.H.Jr: Well, I hope you get it.

P: I shall do everything I can. I think we have it pretty well in hand with the exception of the House conferees and that means Mr. Woodrum. If the Department had any contacts with him it might help.

H.M.Jr: Well, have you been using Hester on this?

P: I haven't. I called Mr. Oliphant and he said that after talking with Hester they thought they'd better leave it in my hands.

H.M.Jr: I see.

P: But I'd appreciate any help they could give if you think that would be appropriate.

H.M.Jr: Well, I'm going to see Mr. Oliphant in a few minutes. I'll speak to him about it.

P: Thanks. Very much.

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Mr. McReynolds:

The Secretary would like you to please read this and just give the gist to Admiral Peoples. Thank you.

McH

June 15/38

Dane

*10³⁰
16 June am
GMR*

*Copy returned
for mail
June 16/38 - hct*

Note:

: 429

A copy of this was given to McReynolds to-day, at the request of Mrs. Klotz. Mr. McReynolds was to read this over and then give the gist of it to Admiral Peoples.

McH

June 15/38

- 430
June 14, 1938.
4:49 p.m.

H.M.Jr: Hello.

Operator: Secretary Wallace. Go ahead.

H.M.Jr: Hello.

Secy.
Wallace: Hello.

H.M.Jr: Hello, Henry.

W: Henry, the President brought up again this matter of trading wheat for various things over the world and this time it took this form.

H.M.Jr: Yes.

W: That we traded it for those things which the Government, especially the Army and Navy purchase. He mentioned teakwood in the Strait Settlements and shellac somewhere and so on, and thought possibly the Army, in its needs for manganese and tungsten and so on could - while it didn't purchase the stuff direct, could work out a scheme whereby in effect it did do the purchasing it made purchasing arrangements through, we'll say the steel corporation and what not. I told him well that comes under - that would be under procurement, it seems to me to do the fundamental work there of seeing to what extent the Government purchases could be assembled on a basis that would enable us to trade wheat for the products. And he said, "Yes, suppose you get in touch with Henry and pass it on to him." So that's that.

H.M.Jr: Well, I'll pass it on to Peoples, but with all due respect to the President I think he's all wet on that.

W: I told him -

H.M.Jr: But we'll pass -

W: It sounded like the good old idea and I told that's what we had up to him once and then he said - then he put it on the basis of Government purchases. Remember the thing that Olyphant said couldn't be done was -

H.M.Jr: Yes.

W: Came up first on that basis.

H.M.Jr: Yes. Well, like all of these suggestions of the President, we naturally give them careful consideration. I'll turn it over to Peoples and ask for what?

W: No, he mentions specifically teak and shellac and then those rare metals that the Army uses.

H.M.Jr: Right. I just don't see how we can do it. You know they had an excellent Bill up there to buy twenty five million dollars of things that the Army and Navy needed desperately.

W: That's the best way to do it.

H.M.Jr: Why sure, we've got the money and why not do it.

W: Sure, that's the way to do it.

H.M.Jr: Yes, sir.

W: Well -

H.M.Jr: All right.

W: All right. He also mentioned possibly export - import banks should be in order too.

H.M.Jr: Right.

W: All right.

H.M.Jr: Thank you.

Pages 432-441
skipped in numbering
by faulty machine

June 14, 1938.
5:15 p.m.

Operator: Go ahead.

George Messersmith: Hello.

H.M.Jr: Yes.

: Mr. Secretary, this is George Messersmith. talking.

H.M.Jr: Hello.

: I have just been talking with Dan Bell and Sumner Welles. You know we had this - we haven't been able to make these payments to Panama under the Treaty because she has refused to accept them for the last five years on the ground that we were paying in the new dollar and they were insisting on the old dollar.

H.M.Jr: Yes.

: And we have an accumulation of checks now that have issued - been issued for five years in the Treasury, and the whole thing was held up on account of the new Treaty/being reported out. Now the Senate Committee on foreign affairs - Senator Pittman has just told us - has reported out the Treaty.

H.M.Jr: Yes.

: And on the basis of that now Sumner Wells has got in touch with the President and the President has just sent word over that he quite approves of a joint resolution being passed authorizing the payment of a certain amount of money to the Colum - to the Pan-American government to cover these arrears, and I talked over - the President said I could tell Dan Bell it was all right with him which I've done and Bell suggested that you might be helpful on the thing.

H.M.Jr: Well I don't know. I mean -

: What's that?

H.M.Jr: I haven't been following it personally.

M: No. Well the Treasury has been - Wayne Taylor knows about it.

H.M.Jr: Well, isn't Wayne in?

M: What's that?

H.M.Jr: Isn't Wayne in?

M: Well I didn't like to talk with him without your authorization.

H.M.Jr: Well now just a minute. Let me see if I can get him on this wire. Will you hold on?

M: Yes.

H.M.Jr: Please.

Operator: Operator.

H.M.Jr: Is Wayne Taylor in?

O: I'll see.

H.M.Jr: Put him on this wire.

O: All right.

M: It's a thing which has been very bothersome you know.

H.M.Jr: Oh I'm glad you called me, and let me see whether I can help.

M: Bell - Dan Bell thought that your legislative officer might be able to help down on the Hill on it.

H.M.Jr: I don't know. We'll just see if Taylor is in. Just a moment.

Operator: Hello, here's Mr. Taylor.

H.M.Jr: Hello.

O: Go ahead.

Wayne Taylor: Hello.

H.M.Jr: Wayne?

T: Yes.

H.M.Jr: Messersmith is on this wire.

T: All right.

H.M.Jr: And he's got a proposition about the Panama.

T: Yes.

H.M.Jr: Are you familiar with that?

T: Yes, I am.

H.M.Jr: Will you catch the ball and see what you can do to help him?

T: Yes. I've got Bernstein already working on that.

H.M.Jr: Yes.

M: Oh you do?

T: Yes.

M: Well, I - at the President's request Sumner Welles had me take it up with Bell and Bell thought you might be helpful on it. He's clearing it this afternoon.

T: Yes.

M: And Dr. Corrigan, our Minister to Panama, is down on the Hill now and he's talking with Pittman and McReynolds, hoping that they'll help him with Glass and Taylor, the chairman of the House Committee, you know.

T: Yes.

M: And Dan Bell suggested that I call the Secretary because he might be able to let your legislative officer help them on it.

T: Yes.

H.M.Jr: Well Wayne would you take it over for me?

T: Yes, I -

- 4 -

H.M.Jr: You're already on it.

T: I already had it.

H.M.Jr: Well you see Messersmith that's how efficient we are.

M: Well, I'm - I'm standing back in amazement.

H.M.Jr: Well, once we're good, see? Well I'll let you talk to Wayne Taylor and he seems to already be there.

M: Yes, well thanks a lot.

H.M.Jr: Glad you called. You take - well I'll hang up Wayne.

T: All right, Henry. Well I don't know -

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: June 14, 9 a.m.

No.: 925.

FROM COCHRAN.



Directors of the BIS were informed by the management at their monthly meeting yesterday of the status of the Austrian 1930 Loan for which BIS is trustee. I quoted the communique thereon in my cablegrams 892 of June 8, 10 a.m. The BIS is taking no action beyond its formal protest since the matter of servicing this and other Austrian loans is now the subject of negotiation between Governments. I was told by Schacht that Germany was not willing to assume the unqualified role of a successor state to Austria inasmuch as this would involve obligations under Austria's foreign treaties, some of which (most particularly that with the Vatican) are not acceptable to Germany. Schacht said it was manifestly impossible for Germany to accept this heritage since the two guaranteed Austrian loans were primarily issued for the purpose of helping Austria to maintain its independence from Germany and this was so indicated in the general bonds. However, Schacht insisted that his people were willing to discuss with the interested powers this question of loans.

He said that Germany was continuing to receive various protests from the United States Government. Schacht thought that some of his ideas on foreign trade were very close to those

those of Mr. Hull, but he did not see how we could expect the Germans to meet all of their obligations to us when we not only cut down our purchases of German goods but also bring such economic pressure upon other countries which ordinarily fitted into the scheme of multilateral or triangular trade that they find it necessary to curtail their purchases in Germany. Specific and emphatic reference was made by Schacht to the case of Brazil.

Schacht said, in speaking of the latest depreciation of the French franc, that this was one more evidence of the correctness of his decision not to bring the reichsmark into line with the Tripartite Agreement. Schacht told me that his monetary setup had now been so organized and perfected that Germany can carry on, irrespective of what may happen to other moneys, without any change in the currency.

The following ideas were gained from remarks by Hulse, Hechler and Schacht: Rather than undertake any multilateral agreement, Germany prefers to treat with creditor countries individually on the Austrian loan question. The Germans will not pay the established rate of seven percent on the 1930 Austrian Loan but will insist on a conversion thereof. There will be a tieup of Dawes and Young loans with the Austrian loans in certain negotiations through The Germans contending that it is impossible to pay on the latter unless there is a conversion of the former. The Germans

are

-3-

are expected to demand, in their negotiations with the British, a greater reduction in the Young and Dawes loans than to 4 and 5 percent, respectively, which are said to have been the rates Germany sought in conversion proposals and which the British refused a few months ago.

Schacht told me, in speaking of the situation in Czechoslovakia, that the more talk there was of war, the less likelihood he thought there was of war taking place. He told a friend of mine that it was not so much the Sudeten question that bothered Germany as it was the concentration of a large number of Soviet war planes at an aviation base in Czechoslovakia. Schacht pointed out to this friend the precarious state of Italian finances and the costliness of what he considered ill-advised intervention in Spain by Italy.

I was told by Bachmann that the German negotiators had been in Switzerland before going to Paris for the meeting with the French last Friday. Attempt had been made by the Germans to get the Swiss to replace the Swiss-German clearing agreement with a paying agreement, but the Swiss had refused so far. Bachmann was given to understand by Trip that when the German negotiators came to the Netherlands, after leaving Paris, any change in their German clearing agreement would likewise be opposed.

As for Sweden,

As for Sweden, Rooth told me that they were not likely to impose a clearing on Germany in order to try to insure loan service lest the Germans retaliate by cutting down on their purchases of Swedish wood pulp, and so on, which far exceed the loan service in value to his country.

Sobacht told me that if the British imposed a clearing, Germany was quite ready to purchase enough additional iron from England to reverse the trade balance, and wipe out any margin for service of debts.

I had a talk with Janssen, who told me that in his recent defense of the belga he had gone quite a way in imposing strict rules. However, he felt he had been justified in his action by two results, namely, by demonstrating that the Belgian National Bank was a well endowed and determined force to be depended upon and reckoned with in defense of its currency and in not yielding to speculators' demands, and also in further disproof of the supposition that the French franc and the belga have some connection. He preferred he said the plan of former Finance Minister Soudans, which was to raise by immediate taxation the sum of one billion two hundred million francs which are needed for balancing the budget to the ~~present~~ plan of the present Finance Minister, Girard, which is to impose tax measures for raising only seven hundred and fifty
millions

- 5 -

millions thereof.

Janssen said that, on the other hand, he admires Girard as a rational financial technician who, working with Hymans - to satisfy the Flemish element - will contribute much toward making the Spaaks Government a strong one and the chances of lasting for some time are good.

Reference was made by Janssen to the one year loan which is just now being obtained by his Government from the Dutch bankers - the Mendelsohn and Netherlands Trading Corporation. This loan is in the amount of 35,000,000 florins. They are getting from Swiss bankers 25,000,000 Swiss francs - the Credit Suisse and Swiss Bank Corporation. In his opinion, if a little time had been allowed to elapse, there would have been such an improvement in conditions that Belgium could have raised the money at home or else obtained it abroad on better terms. The present loan will be at a rate slightly over 4 percent, as well as commissions. He realizes on the other hand that the international political situation is so uneasy that a sudden turn for the worse might take place, and borrowing would thus be made more difficult.

Janssen said that since I had visited him a month ago there had been much improvement in the monetary and financial situation

situation and he does not think a crisis threatens; but he said the outlook is not yet entirely clear for Belgium.

As for the Belgian economic situation, Janssen said it was nothing to boast about but they were no worse off than cometing industrial countries, such as France, Great Britain and the United States. In recent weeks, according to the estimate of Galopin, the Belgian Industrial Director, one billion Belgian francs of French capital had been with- drawn from Belgium. He said that another three billion had been converted into gold or foreign currencies, a great part of the foreign currencies being held on deposit in banks in Belgium, or else had been used to build up large stocks of imported raw materials lest the belga go down or the price of the raw materials rise.

Janssen's defense of the belga pleased Trip very much. He realized that the speculators would next have attacked the florin if they had been successful against the belga. Under the circumstances, only about \$150,000 in gold was lost by the Dutch control after the French devaluation. Trip said he was glad to see his bankers extend foreign credits such as that they were giving to Belgium.

As for the French situation, Trip said he had no more confidence in it than before. He regrets the weakening of
the

the Tripartite Agreement through repeated franc depre-
 tions and the Government's failure to effect the courageous
 measures necessary for lowering the public debt charge
 and bring about an increase in production, and thus make
 it possible to have a stable currency in France. Trip
 pointed out the vulnerability of the Tripartite system
 as demonstrated by the French action. He said that
 one member can so place its own interests - whether towards
 gaining competitive international trade advantages or
 superior internal social and labor conditions - above
 its obligations for international cooperation in maintaining
 stability of its currency that the whole structure is
 adversely affected.

The French economic situation, in Fournier's opinion,
 was "leveling out", and there was no immediate cause for
 worry, according to various indexes. Fournier said he
 does not think that there will be any provision toward
 giving the labor laws further elasticity in the third series
 of Government decrees to be issued before expiration of
 the Government's special authority with the adjournment of
 Parliament by the twenty-seventh of June.

The Governor of the Bank of England, Norman, was ill
 and could not come to Basel for the meeting. His alternate
 Cobbold and I had a long talk. Even though the French
 stabilization

- 8 -

stabilization fund is not having particularly heavy losses just now, Cobbold is so sure that by September there will be a recurrence of the same old French treasury and monetary crisis that he is advancing his holiday by two weeks.

American business visitors in London, ~~he~~ Cobbold said, still give dismal and discouraging accounts of the situation in their own country. Both Cobbold and I denied to many of our friends the rumors that dollar and sterling are to be devalued which had been going around.

At Basel, none of the bankers - always excepting Bachmann - seemed to be seriously concerned about the dollar's position. In view of the conditions in Europe, they realize that the dollar should enjoy a position of security superior to that of any currency in Europe. They are at the same time in agreement that if we continue to pursue the policies of spending such as we are now following they will eventually wreck the currency. It is surprising to central bankers who are accustomed to looking upon themselves as the orthodox defenders of their currencies and upon the politically manned and influenced treasuries as the dangerous spenders to see that in the United States the situation is somewhat reversed. All of my friends emphasized the importance to the world and to their own particular countries of an early improvement in the business situation

in

- 9 -

in the United States. The very recent rises in the prices of grain in the United States were encouraging to Jacobsson. He hoped that this is a beginning in the turn of the economic situation. In his opinion it is particularly important that the farmers whose prices have undergone the greatest decline should be the first to experience recovery, especially since this element would be quick to recommend manipulation of the currency.

At the present time Rooth has no more Swedish gold en route to the United States. However, if he can get more favorable insurance rates than he has had, he may renew shipments. Very soon he will seek American approval of a gold swap operation.

I was told by Bachmann that since the fourth of May he had lost some gold to France, but that there is almost an end to such repatriation. He told me that through the Swiss banks he is still selling a lot of gold coins for hoarding in various countries of Europe. I questioned him about the purchases of gold in London that he started again last week. He said that they had been selling gold coins and they needed gold bars to replenish their gold stock. He told me that he had been able to withstand efforts
to

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to have bookkeeping profits from ~~the~~ Swiss franc depreciation turned over to the state to be applied to current expenses; however, there is under consideration a plan whereby the Government would borrow 395,000,000 Swiss francs from the Bank. One-half of this amount ~~was~~ would be expended for national defense, and one-half on public works for relief of the unemployed. Two methods would be used by the Government for trying to raise the money for repayment of this credit - a special tax would be placed on large department and chain stores, and the crisis tax, which expires shortly, would be extended. Both bodies of the Swiss Parliament must approve this proposal and then a national referendum must be held, so it is not likely that it will be adopted before 1939.

Since plans have been consummated for a banking credit to Belgium, Bachmann said that they have dropped plans for issuing a long term public loan on the Swiss market for the benefit of Belgium.

Bachmann feels that France has failed to uphold its end in the Tripartite Agreement, which made him very unhappy. Whatever is done to impair the Agreement, he said, makes it that much more difficult for the Swiss Government and Central Bank to uphold its conservative policies in a free economy.

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economy. A deep impression has been made on trade unions and various other Swiss groups by stories from Germany and Italy about benefits derived by workmen in those countries from the autarchic governments. These groups are quick to criticise failures on the part of liberal governments to achieve success, and particularly the French.

July 11 has been set as the date for the next meeting of the BIS directors.

END MESSAGE.

BULLITT.

EA: LWW

FEDERAL RESERVE BANK
OF NEW YORK

457

OFFICE CORRESPONDENCE

DATE June 14, 1938.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.FROM: J. W. McKeon

Mr. Bolton called Mr. Knoke at 11:07 this morning. All foreign exchanges were quiet in the London market today, but there had been a large demand for gold; Bolton stated that recently the Control had furnished to the market the equivalent in gold of approximately £1,000,000 a day. Mr. Knoke asked who the buyers of gold were. Amsterdam and Bombay were the largest buyers Bolton stated, the latter having bought considerable gold for forward delivery. Business had been done in the forward gold market at about 7 1/8d premium. There had been considerable switching of dollars into gold together with buying gold for hoarding purposes. The dollar appeared weak, and with our unemployment situation, together with our huge spending programs, level-headed people in London felt that the dollar must go lower, particularly for the long-range view.

Mr. Knoke told Bolton that the Swiss franc was strong this morning and asked him if he knew the reasons. Bolton thought that the Germans had converted a moderate amount of Marks into Swiss francs, but thought the movement artificial.

JWM:KCS

FEDERAL RESERVE BANK
OF NEW YORK

458

OFFICE CORRESPONDENCE

DATE June 14, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF FRANCE.

J. W. McKeon

Mr. Cariguel called Mr. Knoke at 11:20 this morning. Although foreign exchanges had been quiet recently, Cariguel found it necessary to go to the support of the franc, losing between \$100,000 to \$200,000 daily. The main reasons for the continued weakness in the franc appeared to be (1) that repatriation of French capital had ceased, (2) that France continued to have an adverse balance of trade. Cariguel thought the Government must do more than it has so far done, for the Franc to recover. One of the world's troubles, he felt, was a general lack of confidence in all currencies.

JWMcK:LWK/KW

459

~~459~~
[Handwritten signature]

JR

GRAY

London

Dated June 14, 1938

Rec'd 2:30 p.m.

Secretary of State,
Washington.

512, June 14, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

In the course of a conversation at the British Treasury Phillips referred to the devaluation rumors and the hoarding movement they were again stimulating and said that he, of course, assumed that there was nothing in it. I in turn referred to your public statements. Later in the conversation, however, he said that he hoped that the United States was not going to "start any major hares", that while he was in favor of doing anything to help a situation, if help it would, he did not believe that there were any deflationary influences of a monetary character at work and he felt sure that there was no important action in the monetary field which could be usefully taken. No doubt the general price level in the United States was too low in terms of wages but monetary action alone would not be able to solve that.

Phillips

-2- #512, June 14, 6 p.m., from London.

Phillips went on to say that the only contingency which might have to be faced in the near future was the possibility, if a European crisis became imminent, of a major movement into dollars. In his opinion it might well be of sufficient magnitude so that shipping facilities would prove inadequate and in this connection he referred to their gold reserve which is being built up in Ottawa (see my 395, May 12, noon); this was unfortunately a slow matter and the St. Lawrence would freeze up in the fall.

On the general outlook Phillips said that there was no significant single sign of improvement; on the other hand there were a number of deteriorating influences at work. He referred to the adverse effect which the Mexican and Austrian defaults had had and the difficulty of maintaining confidence while a Czech crisis was on the point of breaking out every couple of weeks. Nevertheless he held to the view that the British situation would not deteriorate rapidly and he said he hoped (repeat hoped) for an upturn from the United States in the autumn.

KENNEDY

KLP

~~AM~~

JR

PLAIN

London

Dated June 14, 1938

Rec'd 2:35 p.m.

Secretary of State,
Washington.

514, June 14, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

The movement into gold has in no wise abated today. 574 bars were purchased at fixing at a premium of eight pence. Large amounts were dealt in after fixing and though the dollar remained steady the premium tended to increase. Coin has likewise been in demand the sovereign moving to thirty-three shillings and eight pence. The demand for gold is general on the continent and New York is also a buyer. The Swiss franc was bid down against gold. The French franc was somewhat offered particularly in the morning and the dollar sterling exchange has been active though steady.

KENNEDY

KLP

AM

462

JR

GRAY

London

Dated June 15, 1938

Rec'd 1:30 p.m.

Secretary of State,
Washington.

517, June 15, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

The pounds 80 million defense loan referred to in my 511, June 13, has in contrast to last year's pounds 100,000,000 loan been well received by the market. In order to avoid invidious comparisons the system was this time altered in that it was announced that regardless of subscriptions the books ^{would} remain open until 3:30 this afternoon. Bank of England states it will not have ascertained the real position until late this evening.

Incidentally in yesterday's conversation Phillips referred to this operation and said that the Treasury had been anxious not to push the market too hard, that in their view it was much better to cover their requirements gradually rather than attempt to take advantage of favorable conditions to obtain a large amount and that therefore the amount had been fixed at only eighty million.

The

-2- #517, June 15, 6 p.m., from London.

The movement into gold continues. Although the fixing at 604 bars was larger than yesterday and post fixing dealings probably totaled half that amount, nevertheless the movement seemed to have somewhat less impetus behind it.

The rapidity with which the dollar was brought from 4.98 $\frac{1}{4}$ to 4.97 $\frac{1}{4}$ indicated to the market that official intervention occurred. The French franc has been somewhat weak again with the French fund giving support at 178.40. It is noteworthy that the belga despite dollar weakness has remained strong.

JOHNSON

RR:CSB

464
M

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 15, 1938, 4 p.m.

NO.: 935

FROM COCHRAN.

At noon I called at the Bank of France. The French control had lost only 20,000 pounds before the fixing of gold in London this morning; this figure had risen to 85,000 pounds between fixing time and twelve noon. The control was holding the rate slightly below 178.40 in Paris, and gave instructions to do likewise in London. While I was with my friend he talked with London. Bolton reported that there was an active demand for gold on continuing rumors of dollar devaluation. According to my friend purchases of gold were widespread, coming from the leading continental centers as well as the United States. He mentioned, incidentally, that official German selling of sterling is taking place today.

My friend told me that there appears to be a general lack of faith in all currencies because of the European political situation. A particular contributing factor is the deterioration in world business conditions, in the United States especially.

I asked my friend for his personal and confidential opinion as to where a currency break might most likely come.

- 2 -

come. He said that a great deal would depend on the willingness of authorities in London to continue to yield gold in response to a terrific demand on the London market for gold. This morning in his conversation with Bolton Olds said that the proper thing for the British to do was "to continue to give gold indefinitely," in his opinion. My friend was apparently upset by this remark, because the French situation already worried him. The pressure on the franc has not been heavy, as indicated above, but there are still daily losses of gold by the French control, partly for commercial needs, and now perhaps as a consequence of fear that there will be further depreciation of the currency.

At the Bank of France I was told that the Bank had up to the present no details of the reported arrival of another shipment of gold in France. This shipment is said by the press to be 50,000,000 French francs, coming from the Spanish Government. According to the press a second shipment is destined for the United States. The first shipment of a few weeks ago was not connected with the Bank of France. It is expected that shortly a court decision on the Spanish gold held by the Bank of France will be rendered, and Fournier has promised to give me full details on the matter.

I

I went to see Pennachio at half-past twelve. During the morning he had had a telephone call from the Bank of Italy in Rome, and also a call from his Bank's representative in London regarding the rumored devaluation of the dollar and of the lira within 48 hours. Officials of the Bank of Italy are of the opinion that the lira devaluation rumor connected with the rumor of dollar devaluation had originated in New York City.

Pennachio said he told his colleagues that the dollar should certainly not be looked upon as a weak currency threatened with devaluation, as it is far removed from Europe and is favored by such a strong backing in gold and the trade balance is favorable. According to his friends, the rumors did not calculate that monetary conditions were forcing devaluation, but that the dollar devaluation was purely ~~from~~ the desire of the President in an election year in order to bring business out of its stagnant position through the stimulus of manipulation of the currency.

With regard to the lira, the Italian officials insisted that Italy will not take any initiative in a further chain of depreciation of currencies; they do not even intend to put out a cheaper tourist lira. The most likely action will be to lower railway rates and offer other attractions of an economic type in order to increase the tourist business, which this year above all will be necessary in Italy's efforts to balance international payments. END SECTIONS ONE AND TWO. BULLITT.

HRE

GRAY

467

PARIS

Dated June 15, 1938

Rec'd 5:10 p.m.

Secretary of State

Washington

935, June 15, 4 p.m. (SECTION THREE)

At 4:00 p.m. my market contact said French control apparently yielded important amounts of sterling this afternoon. He alone had taken 100,000 pounds and thought the market as a whole had absorbed at least 500,000 pounds. He said market was dominated by rumors in regard to dollar-sterling rate which he thought came principally from the United States. New York brokerage concern has asked for quotations on gold futures. Turnover in gold coins is terrific. Forward franc weaker; rentes declined; new national defense bonds offered at 22 franc discount per thousand; City of Paris loan practically unsalable; French business very dull; market atmosphere bad as a consequence of foregoing factors and the constant threat of international developments. Of the continental currencies Dutch florin continues strong and belga is close to point where gold imports from the United States might be expected.

Market has paid no attention to third series of decree laws under authorization approved by Parliament

April

468

HRE

2-#935 From Paris June 15, 4 p.m.

April 13 which were published in the Journal Officiel today. They number 45 and relate to finance, national economy, and defense. Provision is made for (one) modification of taxes on foreign securities held abroad by French insurance companies; (two) exoneration of tax on undistributed profits for concerns investing reserves in workers dwellings; (three) strengthening of laws against fiscal fraud and for the protection of investors; (four) increase of tax on cotton imports to encourage cotton production in French North Africa and in the French colonies; (five) reorganization of subsidized merchant shipping; (six) organization of economic regions; (seven) reduction in present rate of press telegrams; (eight) reorganization of the technical services of the War, Navy, and Air Ministries and (nine) strengthening of the air service. Most of these measures appear from preliminary examination to be of secondary importance.

END OF MESSAGE.

RULLITT

WPL:EMB

June 15, 1938.
9:03 a.m.

H.M.Jr: Hello.

Dan
Bell: Yes.

H.M.Jr: Dan. Anything new on the project that we can get Burlew to get started on?

B: Well, I don't know about his stuff.

H.M.Jr: But I mean -

B: I haven't heard any more from him. We're working on the Federal project. Got it pretty well lined.

H.M.Jr: You have.

B: Yes.

H.M.Jr: Well I mean have you got - have you got two hundred million ready?

B: No, I don't think so. Not that many unless we give Army and Navy a good deal more.

H.M.Jr: Well, when would you be ready to have the President O.K. some more?

B: Well, I've got some ready now. I've got some

H.M.Jr: Excuse me.

B: I've got some ready now. projects.

H.M.Jr: Yes.

B: And also some housing for prisons, small amount, I've got some commerce stuff ready. I'll have some more Navy today.

H.M.Jr: Well I mean, when do you want to get him to clear it? You see I'm going over there in fifteen minutes. That's why I'm calling.

B: Well, I -

H.M.Jr: I mean I can't take it then, but I wanted to know whether - what I could say to him.

B: We might have some tomorrow before he goes away.

H.M.Jr: Well, my use - can I help any by getting hold of Burlew or anything?

B: No, I can do that. I think Burlew's got the stuff ready. Just waiting.

H.M.Jr: What?

B: I expect he's got the stuff ready.

H.M.Jr: Well, I think I'll give him a ring now.

B: I can do it.

H.M.Jr: Well I just wanted to get it fresh, so before I went over you see?

B: Yes.

H.M.Jr: What?

B: Yes. All right.

H.M.Jr: And then I'll see you when I come back. How's that?

B: All right. Fine.

H.M.Jr: See?

B: Yes. I don't - I don't know that the President will want to go to two hundred million on -

H.M.Jr: But he's going to be - he's going to be away for a full week.

B: Yes, I know.

H.M.Jr: And I thought that if we could get him to sign some stuff before he left.

B: Well we can, we've got some stuff that we can get to him tomorrow.

H.M.Jr: Right.

B: Now probably we can dig up some stuff on reclamation, which won't be spent but which will carry some of that reclamation through the year. Remember the

grand couple said he wanted to brush a little.

H.M.Jr: Right.

Well, that can get started.

H.M.Jr: O.K.

And that's very simple.

H.M.Jr: All right.

June 15, 1938.
9:07 a.m.

H.M.Jr: Hello.

Operator: Mr. Burlew.

H.M.Jr: Hello.

Burlew: Good morning.

H.M.Jr: Hello Burlew. How are you?

B: All right, I hope you are.

H.M.Jr: Fine. I was just talking to Dan Bell, and the President is going away tomorrow to be gone for a week, and I wondered if you fellows had done anything more - ready for him to sign.

B: Yes. Of course he said he wanted to sign that book a second time when the Bill was passed. Now we've got everything in there that's ready except one project/which the President himself is interested in.

H.M.Jr: Yes.

B: And -

H.M.Jr: What's that?

B: Well that's a bridge in Long Island - Shoulder Island bridge.

H.M.Jr: Oh.

B: And that - we're making a special book for it.

H.M.Jr: I see. I wonder why he's interested in that.

B: Well -

H.M.Jr: Part of the Park System?

B: Yes, it's part of the System over there - Park System, and his former law partner is interested in it.

H.M.Jr: Oh, O'Connor?

B: Yes, O'Connor. He - the President called me on

the telephone about it and sent O'Connor over to see me.

H.M.Jr: Oh! I see.

B: And the President himself turned it down last year.

H.M.Jr: I see.

B: We wanted to allot it, but he wouldn't do it, he said there wasn't anything important about it, but it turns out that he was misinformed.

H.M.Jr: Now, how much will you have ready - Bell says he'll have some Federal projects ready by tomorrow.

B: Yes. We, of course, haven't gotten our Interior stuff all in there yet.

H.M.Jr: But I mean - If I say that you'll be ready - if you and Bell will be ready to see him tomorrow.

B: Yes, I wish we could.

H.M.Jr: What?

B: I wish we could see him tomorrow.

H.M.Jr: Well, supposing I ask for an appointment for the two of you. I won't be here.

B: Well that would be fine, because I ought to see him on several of those things.

H.M.Jr: Well, I tell - I'll mention it to him but you ask him what to sign, will you?

B: Yes. Now Mr. Secretary, may I say this that this helium business worries me very much. When the Secretary went away he had an understanding confidential with the President that it would be acted on while he was gone, see?

H.M.Jr: Yes.

B: And he laid down very careful instructions to me as to the way it would be handled, but nothing's been

done and the Secretary is going to get back next week, you know.

H.M.Jr: Which way was it to be handled?

B: Well - the first purchase was to be allowed, see?

H.M.Jr: Oh!

B: And with no commitment as to the future.

H.M.Jr: Yes.

B: Now the Secretary said he would never agree to the sale, himself, and it was to be handled while he was gone. Now I wonder if I should bring that up.

H.M.Jr: Well, I think you'll have to use your own judgment.

B: Yes. That's an awfully ticklish subject, you know.

H.M.Jr: Yes. On that subject I can't advise you.

B: Yes. Well all right, I think I'd better bring it up though.

H.M.Jr: If you don't mind I'd rather keep out of that.

B: Yes. All right.

H.M.Jr: For personal reasons.

B: Yes, I see.

H.M.Jr: But on the - on getting the stuff started I'll ask to see the President. If you call up McIntyre yourself.

B: Yes.

H.M.Jr: And say that you and Bell want to see him tomorrow.

B: All right and did I understand you to say you'd call up too.

H.M.Jr: Well, I'm going to see the President in four minutes.

B: Oh I see, then you'll propose it. Yes.

H.M.Jr: I'm going over now to the White House. That's why I'm calling you.

B: Yes, I see.

H.M.Jr: And when I go to the White House I'll tell him that you and Bell are ready.

B: Yes, good enough.

H.M.Jr: And that you have another bunch of projects.

B: And then I'll get the time from McIntyre.

H.M.Jr: Well - but you'd better follow it up. You know how those White House appointments are.

B: Yes. I know.

H.M.Jr: And the helium thing, you'll have to use your own -

B: All right.

H.M.Jr: All right.

B: Thank you.

H.M.Jr: Goodbye.

GROUP MEETING

June 15, 1938.
10:00 a.m.

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

H.M.Jr: Herbert, if it's not too difficult, would you see that John Boettiger's paper in Seattle gets whatever advertising we do?

Gaston: I have.

H.M.Jr: You have?

Gaston: I have.

H.M.Jr: Are you sure?

Gaston: My last communication with Mr. Spangler - he assured me that hereafter they'd get it all.

H.M.Jr: (To Mrs Klotz) Five cents.

Klotz: No, no, not yet.

Gaston: He's written me two letters - the first, that it also went to the Times, and he started to split it then between the two; and then, after my later communication, he said, "Well, we'll give it all to the Times."

Klotz: No, I'd like to look here first (for some papers).

H.M.Jr: Well, anyway, it's going to his paper.

Gaston: I'll make certain that it is.

H.M.Jr: Make sure, will you?

Gaston: I'll make certain that it is. That was the understanding.

H.M.Jr: All right.

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Herman?

Oliphant: I said I'd give you this back this morning. That's the thing Miss Maguire brought in.

H.M.Jr: (On phone) Hello. (Conversation with Mr. Bell follows:)

June 15, 1938.
10:02 a.m.

H.M.Jr: Hello.

Operator: Mr. Bell. Go ahead.

H.M.Jr: Hello.

Dan
Bell: Yes.

H.M.Jr: Dan?

B: Yes.

H.M.Jr: The President will see you and Burlew tomorrow on whatever Federal and non-Federal projects you have ready.

B: I see.

H.M.Jr: So will you follow up and ask for an appointment?

B: Yes. Yes.

H.M.Jr: He'd like to see the two of you before he leaves tomorrow and sign whatever you've got.

B: You don't know what time he's leaving? In the evening?

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

B: Uhuh. All right, I'll follow it up.

H.M.Jr: But he said he'd see the two of you before he left, but I would follow it up, if you would please.

B: Yes. Well now we've got very little in here. The big item is being worked on by War, Navy and Reclamation.

H.M.Jr: Well Burlew has some stuff.

B: Well, yes - I mean the non- I mean the Federal.

H.M.Jr: Well clean up whatever you have before he leaves.

B: Yes. I will.

H.M.Jr: Will you?

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B: Did Burlew say that he had quite a list of non-Federal stuff.

H.M.Jr: He - no, but he said he's got - he's got Federal stuff.

B: Oh, Federal.

H.M.Jr: He's got books, yes.

B: I see. Well I had thought -

H.M.Jr: Non-Federal.

B: Non-Federal.

H.M.Jr: Non-Federal.

B: I see. He's ready on that, then.

H.M.Jr: He's got some, and I want everything signed that the President will sign before he leaves town.

B: Yes. Well I think we can have some of it ready tomorrow.

H.M.Jr: Well, put a little pressure on the boys.

B: Yes, I will.

H.M.Jr: All right, Dan.

B: Fine.

H.M.Jr: (To Mrs Klotz) Ten cents - in this room.

Klotz: Well, you may have taken it home.

H.M.Jr: No, at home or here.

Klotz: Well now, suppose it has your little "M" on it. Does that go, no matter where it is?

H.M.Jr: Yes.

Klotz: O.K. Fifteen cents.

H.M.Jr: No, ten. Ten. Ten.

Klotz: I'll play poker with you.

Oliphant: These various items of information and news. The Mellon case has been settled.

H.M.Jr: Check on the barrelhead?

Oliphant: I don't know where the check is.

H.M.Jr: Can't hear you.

Oliphant: I don't know where the check is.

H.M.Jr: I thought we settled that the other day.

Oliphant: Well, we've seen them and they have

H.M.Jr: Two million eight, or something like that?

Oliphant: About two million eight.

H.M.Jr: We can use it. Last us about two minutes.

Oliphant: Did Guy send over that memorandum on the general history of the case and how much more was involved than this?

H.M.Jr: No, no.

Oliphant: Yes, it might be interesting.

H.M.Jr: All right. Anything else?

Oliphant: No, nothing else.

H.M.Jr: Herbert?

Gaston: No.

Oliphant: Just some items of information to look at.

Gaston: I haven't anything.

H.M.Jr: If you give Mrs. Klotz a dozen copies of my speech, might take it along.

Gaston: Yes. You're leaving this afternoon, are you?

H.M.Jr: Yes. You might send - make a note and send a half dozen copies to Butterworth and half a dozen copies to

Klotz: Cochran.

H.M.Jr: ... Cochran. Mail those today.

Oliphant: What time will you be leaving?

H.M.Jr: After lunch.

Anything else, Herbert?

Gaston: No. I sent 20 copies to Joyce ...

H.M.Jr: I'd give him a half dozen

Gaston: .. by way of Secret Service. They're delivering it to him about 1:30 this afternoon.

H.M.Jr: All right. Anything else?

Gaston: That's all.

H.M.Jr: Wayne?

Taylor: Panama. As you know, yesterday, why, the Senate Foreign Relations Committee reported out this resolution which, in effect, why, makes up all the

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back payments at the new rate, and so on, to the Panama Government. We took it up with the General Counsel's office with a view to seeing what effect that would have on our gold cases, and also tried to produce some wording of the resolution which would have less effect. General Counsel feels that there is no wording of such a resolution which will not have an extremely bad effect on the possibilities of winning certain of our future gold cases, and from that standpoint, why, we don't feel that we can go along. Now, there is quite a lot of history connected with that, and the wording of the original treaty, and we had to go back to correct the minutes, and so on.

(Phone rings)

H.M.Jr: (To Mrs. Klotz) Please.

Yes.

Taylor: But I think Herman can give you the details of ...

H.M.Jr: I'll talk to him.

(On phone) Hello. Go ahead. - Yes. - Good morning. - What? Give me the number again. - Yes. - Yes. - I see. - I see. And were they nice about it? - Uh-huh. - Yes. Isn't that a little high? - Uh-huh. I see. Is that the regular? - I see. Well, could you find out what the regular is. - Yes, find out what the regular is. - No. - No. - Well, we can cross that afterwards. - Yes. That's all, thank you. - Thank you.

Taylor: I think Herman can tell you - I mean in detail why we're

H.M.Jr: No, I'm not interested. If that's what they feel, and the gold case - any future gold cases would be jeopardized, today I'll just take General Counsel's word for it, and I don't want to go into it. I mean he either knows or doesn't know.

Taylor: Well, it's - I don't think it would do any particular good to know the details.

- H.M.Jr: No. Some other day I would like to know, but not particularly today.
- Taylor: Now, my suggestion is that I call up Mr. Messersmith or Mr. Welles and tell them that this unquestionably leaves us in very bad position.
- H.M.Jr: Right, and as long as the General Counsel feels that way, I'd be very definite with them.
- Taylor: I put them on warning last night about it, that it didn't look as if - certainly couldn't help us any.
- H.M.Jr: Right.
- Taylor: And if we do have to oppose it on the Hill - there isn't terribly much chance of its getting through in any case on account of the time element involved - now do you suggest we go about it?
- H.M.Jr: Well, very easily - I'd have an informal memorandum of one page which would be delivered to Bankhead and Barkley for their guidance, saying that if this thing went through out future gold cases would be in jeopardy. I'd have a one-page memorandum and I'd see that Hester delivers it to Berkley and to Bankhead, and I'd get it up this morning.
- Taylor: You can take care of that, Herman.
- H.M.Jr: That's what I'd do.
- Oliphant: I'm not going to send it up unless you tell me that the State Department is going to insist.
- Taylor: No, but I think I'd have it ready.
- Oliphant: Yes, I'll have it ready.
- Taylor: The time element being what it is, you can't tell what will happen.
- The only other thing of particular interest is that Hungary paid \$9800 today.
- H.M.Jr: Good. Anything else?

Taylor: (Nods nothing)

H.M.Jr: George?

Haas: The only thing I have is that this bad steel price situation may be working itself out.

H.M.Jr: Three dollars on sheet steel.

Haas: I don't know exactly what that means, but it may be just public recognition of what's already taken place. But it's all to the good. Down with steel prices will tend to improve the whole price structure.

H.M.Jr: I see steel bars is supposed to be down too.

Haas: Uh-huh.

H.M.Jr: Find out from Peoples how much he can find out about that, will you?

Haas: Uh-huh. That's very important.

H.M.Jr: Will you? And I'd like to have something Monday morning on it.

Haas: Yes, sir.

H.M.Jr: See? Just how much that is, what it amounts to. Does it say reinforcing ...

Haas: Reinforcing bars.

H.M.Jr: Is down. Well, if that's down - and I was very interested to see that either the Times or the Tribune said, "Well, an important thing like this - a statement should be made by the steel people, not just let it slip out." It's either the Times or the Tribune.

Haas: That's all I got.

H.M.Jr: And I don't think there is any particular secret - Mr. Kellar was in here for half an hour yesterday; didn't tell me - I mean it's confidential inside this room, but he said that - he's the President of Chrysler - that their business - orders had so

increased that they had increased their July schedule by 1500 cars; that they had been worrying greatly about whether they could get rid of 1938 models; they are no longer worried about that. They're going to start their Plymouth production September, which is earlier than they have ever started it. They are spending \$14,000,000 on new models, as against six this year. And their second-hand car situation they consider in very good shape. Let's see, where is the - anyway, the increase in the orders is coming from the South and the Pacific Coast.

Haas: Uh-huh. That checks with the regional

H.M.Jr: And he says if he gets any change either up or down between now and the first of July, he'll call me on the phone. They're building 1800 cars a day. First 12 days they built 12,225. Now, where is it - they had on hand on the 11th of June used cars - let's see, is that - 155,000, as against 169,000 the same time last year. And he says he looks for a 20 percent increase in business next year.

Haas: 20 percent.

H.M.Jr: Increase.

Haas: Increase? Sloan says it's going to be like 1932.

H.M.Jr: Well, he says increase, and he says that they've all been fooled both on domestic and on exports.

Haas: Uh-huh.

H.M.Jr: And in China they're doing a very interesting thing. They're doing business with China and they get paid in 60 days, which takes care of the labor and the cost of materials; and they get a discountable note which takes care of their profit - of their overhead; and they take a two-year note, which represents their profit. What?

Oliphant: Remember that scheme in connection with

H.M.Jr: "ut they're doing it without any Government help.

Oliphant: Very interesting.

H.M.Jr: And I didn't know - maybe you people knew - how they handled their export business. In '28 they sold all their plants for cash, got their money out of it, and all of their assembly plants are owned by their dealers. They don't have a dollar in any foreign plant. And they sell their cars on the docks for cash. He says last year their English dealer invested three million dollars which he raised in London and built an assembly plant. And he says, "Yes, they use English batteries and English tires, and maybe English fenders, which pleases the English, but..." - and he says they haven't got a dollar in any plant and every sale they make is on the docks where they export from. And he says their export business is fine. But he's not pessimistic. He said everybody's been worried whether they could get rid of their cars, and he says they're going to sell this year's production. And they've had to do a little borrowing, which I thought was very interesting.

Haas: Not long ago they were the bluest - Walter Chrysler.

H.M.Jr: Well, that's passed. And any change he gets the next two weeks, he'll call me on the phone - for better or worse.

He lays quite a lot of stress on the wheat crop. He thinks that it will help. But you follow the steel thing for me, will you?

Barry?

White: You asked some time ago about tankers.

H.M.Jr: What?

White: Tankers - Mexican tankers. There's a memo here with a brief summary on the first page. And then there is something here that illustrates what Great Britain is doing to strengthen her political influence and increase her exports. Just a brief statement. And then here is something you asked for.

And the Philippine Committee has gone forward and has finished a report which I'm taking up with Wayne Taylor. The details won't ...

H.M.Jr: All right.

White: The details I don't think will either interest you or come to you until a long time after it reaches legislative stage anyway, if then. But there is one point which was suggested from that that I wonder whether you might wish to re-examine. You're paying two percent interest to the Philippine Government for 50 million dollars of time deposits. They have 150 million here. About 50 to 60, they have no choice. It's the sum due them on coconut oil, etc., which they cannot withdraw except under conditions. Then they've got about 50 million of demand deposits on which they're not getting interest; the law doesn't permit it. But there's about 50 million which they keep here as currency reserve

H.M.Jr: Yes.

White: .. on which at the time of the law it was specified they shouldn't get more than two percent. But at the time of the law one-year notes were selling at more than twice what they are now. So that, unless there's some special reason, they seem to be getting quite a good thing.

H.M.Jr: What do you suggest?

White: They ought to be reduced to one percent.

H.M.Jr: On how much?

White: 50 million dollars. At least it ought to be re-examined until some

H.M.Jr: Well, will you, Taylor, and Bell - Taylor, you're leaving tomorrow?

Taylor: (Nods yes)

H.M.Jr: Well, before you go would you, White and Bell give me a signed memo recommending or not recommending. Will you?

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Taylor: We've had that same thing up before. Each time ...

White: I didn't know. Did you?

Taylor: Yes.

H.M.Jr: Well, will you clean it up before you go, please?

Taylor: No, I felt very much the way that you did and tried to get it reduced before, and I don't remember exactly the reason why we weren't able to do it. But it was

H.M.Jr: Well, will you - O.K.?

Taylor: (Nods yes)

H.M.Jr: Anything else, Harry?

White: No, that's all.

Lochhead: In view of the large turnover in the London gold market, we have been trying to reconcile the comparatively small turnover in dollars. And it was interesting - this morning the Dutch bank called up the Federal and spoke about the situation over here. They said they - the Dutch bank wasn't giving much credence to the talk about dollar devaluation. They said as far as the flight of gold - they said it wasn't necessarily from the dollar, a flight from dollars, but they were meeting it all over Europe - general flight from all currencies into gold; therefore, the gold market in London is getting the brunt of the flight of gold from various currencies, not only the United States dollar.

H.M.Jr: Anything else?

Lochhead: (Nods nothing)

H.M.Jr: You stay behind a minute; I want to ask you something. Cy? Ransom is trying to call me.

Upham: Oh. Well, I hope to have that meeting tomorrow. Mr. Diggs is away today. We need a neutral meeting ground. I thought we might use the Under Secretary's office;

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I'm sure he wouldn't mind.

H.M.Jr: I'm sure he'd be delighted. Have it fumigated afterwards.

Oliphant: I might report that I had the first meeting of all those lawyers and they all agreed on the legal point that I had made, and it's just a question of having another meeting this afternoon at three o'clock and polishing.

H.M.Jr: Well, could you get it to Upham, then, by tomorrow?

Oliphant: Yes, ought to have it by tomorrow.

H.M.Jr: Upham and I had a rather disagreeable meeting yesterday. But it didn't make me feel any better after I read Kintner and Alsop last night, because that story came right out of the Fed.

McR: Couldn't very well have gotten out any place else.

H.M.Jr: But when I told Eccles that we had the feeling over here that they just didn't want to get together on any unification of banking business because it would retard their being able to take over all these bank examination agencies - and he got rather heated, but before they got through he cleared the atmosphere, and Mr. Eccles announced that he will go to work and see what he can do. But it's the same old talk about "Can't work with the Board," so forth and so on. So I said, "Well, if you put your shoulder to this wheel, we'll get somewhere." And he now says he'll do it. But we had some pretty ugly words for a while.

If they don't do it this week, then I'm perfectly willing to go out and go to the country with it, because I'll take my chances on the public reaction. And then if anybody wants to read how they feel, all you've got to do is read last night's story in Alsop and Kintner. That will bring you right up to the minute.

Gibbons: (Nods nothing)

H.M.Jr: But now, Upham, don't let's - between the two of you, certainly the Treasury - you two get together

this afternoon, see. Will you please?

Upham: Glad to.

Oliphant: We said we could have it for him by tomorrow.

H.M.Jr: First thing tomorrow morning.

Oliphant: I assume that will be the ...

H.M.Jr: Well, if the meeting - whatever the meeting is, let Mr. - but you and Upham figure at least to leave an hour's time so the two of you can sit down together for an hour before the meeting.

Upham: Of course, the meeting is more on the other things than it is on that.

H.M.Jr: I know, but let's get that out of the way. Allow an hour's time, please.

Oliphant: They're all agreed on it. Just a question of perfecting the language.

H.M.Jr: You're (Gibbons) going to be here Friday and Saturday.

Gibbons: Friday they're dedicating that Coast Guard hangar at Floyd Bennett Field.

H.M.Jr: You've got to be here. You'll be the only one.

Gibbons: I don't want to go.

H.M.Jr: Well, you're not sorry.

Gibbons: Well, Herbert thought I should go.

H.M.Jr: Well, you can't; you're the only person ...

Gaston: It's not Friday, it's Saturday, isn't it?

Gibbons: No, it's Friday.

H.M.Jr: You're the only

Gibbons: You remember I had spoken to you and you said, "Let Waesche do it," and Herbert

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- H.M.Jr: I crossed that bridge a month ago when the correspondence came through, and we said to let Waesche go. It's unimportant.
- Gibbons: Oh yes. It's a ...
- H.M.Jr: I crossed that. I don't know why I have to keep going over and over it. I said, "Let Waesche go," a month ago.
- Gaston: I didn't know that. Waesche talked to me about it, and he didn't mention that.
- H.M.Jr: My God, we've got ten of these hangars all over the place. It's important, please, that you be here Friday and Saturday.
- Gibbons: Sure, that's perfectly fine with me. The only reason I brought it up to you - it was New York and that was your state, and you said, "No."
- H.M.Jr: One hangar, two planes, one pilot. That's all right.
- Gibbons: That's fine with me.
- H.M.Jr: You'll still vote for LaGuardia.
- Gibbons: Did you see that vote in the Council up there yesterday, investigating the relief? This morning's Times. Incidentally, you saw the - I guess everybody's familiar with the story last night - the failure of the Argentine corn crop?
- H.M.Jr: No, I was very much more interested that the Coast Guard was being sued for killing 232 minks.
- Gibbons: I didn't see that. 232 minks.
- Lochhead: Yes.
- Gibbons: Who's suing them, Minsky?
- H.M.Jr: He most likely is - burlesque. Look up the corn crop in Argentina, will you (Haas)?

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Gibbons: 50 percent failures.

I'm O.K.

McR: I was somewhat disappointed when Herman called me last night and said you didn't want to do anything further on that wire-tap bill.

H.M.Jr: Well, I think Herman is right.

Gibbons: I think ...

McR: O.K.

H.M.Jr: What Herman and I agreed on - we'd let nature ~~take~~ take its course. To tap or not to tap, that is the question.

Gibbons: Also in this morning's Times, the Republicans in the State Constitutional Convention are going to compromise the thing; they're going to get something out of each other.

H.M.Jr: Oliphant was very moral with me. I said, "Well, we're tapping wires every day." He said, "Oh, are we?"

McR: We wouldn't think of tapping the wires under present conditions. I'm just trying to make it legal.

H.M.Jr: What do you mean? Well, just for my information, find out and tell me. I mean I'd like to know what's going on in the Treasury. I don't like to have my head in the sand. I'd like to know how many wires were tapped as of yesterday.

Oliphant: I'd like, in view of our talk,

H.M.Jr: I'd like to know, as of yesterday, how many wires we've tapped.

Upham: And whose?

H.M.Jr: No.

Klotz: No.

Taylor: Just the total.

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- H.M.Jr: Just the total.
- McR: The House will pass that bill and will pass it today, and if nothing's done about it - they're making a minor change in it - if nothing's done about it, it is likely never to get cleared in the Senate and get through. A very little assistance in getting those fellows together would mean that that thing would pass.
- H.M.Jr: I think Oliphant's entirely right, in view of this situation, with Governor Lehman and Judge Poletti taking one position and LaGuardia
- Gibbons: Dewey.
- H.M.Jr: ... and Dewey taking another. I'm willing just to sit tight and see what happens.
- McR: I take the decision, believing it's wrong.
- H.M.Jr: What's that?
- McR: I say I accept the decision, believing it's wrong.
- H.M.Jr: Well, I can see you've got a sore throat again today. You better take throat treatments, either - keep it sore; you're good when it's that way.
- No, that's all right; that's what these conferences are for. But I think on this matter Oliphant is entirely right, and his advice to me on the question of search and seizure and all that sort of thing - I think he's right. He won't admit that we're tapping any wires in the Treasury.
- Oliphant: I've made no inquiry.
- H.M.Jr: Well, why is your wire tested every month?
- Oliphant: Is it?
- H.M.Jr: What? (Laughs)
- McR: Save a little money. We won't need so many of these enforcement boys. We can drop out 750 of them.
- H.M.Jr: 750 what?

McR: Of the enforcement boys. They won't have anything to do.

H.M.Jr: Gee, that's an awful statement to make, Mac. Boy! They must be leaning on an awful weak crutch.

McR: Or we can double the force and try to get it some other way.

Olipphant: I would say that if that statement is true, there is grave abuse of wire-tapping.

Gibbons: You mean that 750 - all they do ...

McR: No, it isn't interstate, Steve.

H.M.Jr: All right, Mac, you may be right, but on a question of a moral issue I think Oliphant's advice to me is a hundred percent right.

McR: It's a question of how much moral issue there is in working on immorality.

H.M.Jr: Well, I've faced this thing right straight along and I've backed the boys; if they get into trouble, I'm willing to help them get out of jail. So I mean my eyes are open and I know what we're doing, and I think that's why we got such a damn good record.

Olipphant: Well, with your permission I'd like to give you a simple statement of what the law is.

H.M.Jr: I know what the law is. I know that decision. I don't want it. And notwithstanding that minority report, we have continued doing this thing. And we answered that we would be - we have made the strides we have in bootlegging and narcotics and counterfeiting and we never could have if we hadn't tapped wires. We never could have. I've said, "Fight crooks with whatever means is necessary," and that's why we got such a good enforcement record.

But I think with this particular constitutional convention on in Albany, for us to go up there and take a decided stand at this time

Gibbons: I think you'd be sticking your neck out at this time; a question of policy, not a question of morals.

H.M.Jr: All right, gentlemen.

Prepared by: Lawrence H. Seltzer,
Assistant Director of
Research and Statistics;
Assisted by: Gertrude N. Stanley.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 15, 1938

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Banking reflection of Treasury financing

The week ended June 8 witnessed a sharp increase in the loans and deposits of weekly reporting member banks. This was due almost entirely to the activity of New York banks and dealers in connection with the Treasury financing. The reporting New York City banks increased their total loans and investments by \$465 millions, of which loans to brokers and dealers represented \$242 millions, loans to banks \$54 millions, and purchases of United States Governments (mainly the maturing notes presumably) \$115 millions.

The remainder of the weekly reporting member banks reduced their holdings of United States Governments by \$68 millions and their total loans and investments by \$57 millions. Commercial, industrial, and agricultural loans of both New York City and other weekly reporting member banks continued their long decline — by \$34 millions last week.

Attached hereto is a tabular presentation of some salient items in the banking situation.

Attachment

Weekly Reporting Member Banks*
(In millions of dollars)

	: June 8 :	: June 1 :	: Change
<u>Total Loans and Investments</u>	20,944	20,536	+ 408
Change since peak reported December 23, 1936	- 1,997	- 2,405	
Change since low reported March 8, 1933	+ 4,630	+ 4,222	
<u>Total Loans</u>	8,625	8,334	+ 291
Change since peak reported September 15, 1937	- 1,424	- 1,715	
Change since low reported July 31, 1935	+ 814	+ 523	
<u>Total Investments</u>	12,319	12,202	+ 117
Change since peak reported July 1, 1936	- 1,840	- 1,957	
Change since low reported March 8, 1933	+ 4,901	+ 4,784	
<u>Commercial Loans (new series)</u>	4,323	4,357	- 34
Change since peak reported October 13, 1937	- 1,026	- 992	
Change since previous low reported June 1, 1938	- 34	-	
<u>Total Holdings of Direct Obligations of the United States</u>	7,891	7,844	+ 47
Change since peak reported July 1, 1936	- 1,619	- 1,666	
Change since low reported March 8, 1933	+ 3,344	+ 3,297	
<u>Demand Deposits, Adjusted</u>	15,034	14,589	+ 445
Change since peak reported February 24, 1937	- 604	- 1,049	
Change since low reported September 5, 1934	+ 4,178	+ 3,733	
<u>Excess Reserves — All Member Banks</u>	2,710	2,640	+ 70
Change since peak reported December 11, 1935	- 602	- 672	
Change since low reported March 8, 1933	+ 2,557	+ 2,487	

* Peaks and lows refer to period since January 1, 1933, except for Commercial Loans series, which starts May 19, 1937, and Demand Deposits, Adjusted, series, which starts September 5, 1934.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 16, 1938

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The small corn crop in Argentina

An article which appeared in newspapers yesterday on the small corn crop in Argentina and its possible effect in stimulating United States exports of corn was apparently based on the official Argentine estimate of the crop, which was issued June 8. This indicated a crop of 178,927,000 bushels, the smallest since the seasons 1921-22 and 1922-23, in each of which a crop of 176,000,000 bushels was harvested. It compares with a crop of 359,615,000 bushels last year. Drought in some of the important producing areas was responsible for the short 1938 crop. Harvesting of the crop is now practically completed.

The Bureau of Agricultural Economics has made no estimate of the probable effect of the short Argentine crop on our exports of corn. During the previous short-crop years mentioned above, however, our exports of corn expanded substantially. In 1921 our net exports increased to 179,000,000 bushels (6.1 percent of production), whereas during the previous 10 years they had not exceeded 2.7 percent of production. In 1922 we exported 96,000,000 bushels (3.6 percent of production) which has not been approached in any year since then.

June 15, 1938

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To: The Secretary
From: Miss Lonigan & P

The Ohio legislature voted emergency relief funds of which Cleveland's share is estimated at between \$400,000 and \$500,000. That is just about sufficient to pay outstanding bills for grocery orders, rents, and staff salaries, and to carry relief through June 15th. From then on, there are no funds.

There is one catch in the appropriation. It provides for a loan to the cities against future tax collections under municipal ordinances still to be voted. There is a question whether it could be legal to issue the bonds and whether it would be possible to persuade bankers to accept them.

The city fund for WPA sponsors' contributions is exhausted. The city is continuing to make contributions to WPA by withdrawing funds earmarked to cover mandatory expenditures later in the year. That is, they are borrowing November and December funds, for regular expenses.

Morals Financing

Relief is still limited to four day grocery orders only to families with emergencies.

Rents and salaries are not being paid. The whole relief organization is being operated on a "morals basis". The city council passes on ordinance stating that certain expenditures constitute a moral obligation against city financing. Creditors

accept them because the city's record of payments is good. 500

It is this sort of financing which makes it seem unlikely that the cities are going to be any better able to carry relief burdens next winter than they are now.

Surplus Commodities

Surplus commodities are still the mainstay of relief families.

Figures were obtained showing actual distribution of commodities during May and June when the relief crisis has been most acute. The first week the families received rice, oranges and apples. The second, potatoes, cabbage, butter and celery. The third week, apples, celery and dried beans, the fourth week of May, rice, oranges, potatoes, butter and dried beans. Far the largest quantity distributed was in oranges. No flour or skim milk was issued in May.

The first week in June, families received flour, cabbage, green beans, rice and butter. The day we were in Cleveland they received butter and skim milk. The local relief officials wanted to distribute rice, but they were overruled.

Actual distribution of commodities in May was estimated by relief officials as follows:

	Pounds per family May
Dried beans	2 $\frac{1}{2}$
Butter	4 $\frac{1}{2}$
Cabbage	21
Celery	4
Oranges	31
Potatoes	27
Rice	4 $\frac{1}{2}$

Once again oranges are seen to be the staple diet of

relief families dependent on surplus commodities.

We asked what else the families were getting, "I go into a number of houses where they are eating garbage - - the tomatoes and lettuce are bruised - - I have myself seen them rummaging in garbage cans - - there is a great increase in begging in the better neighborhoods - - people don't want food to eat themselves. They ask for food in cans that they can take home - - If it hadn't been for surplus commodities we wouldn't have dared remain in the offices. They would come in and break doors and furniture - - I don't know how long our visitors can take it."

The same story comes from new district secretaries that was told last week. "The people just come to the waiting room and sit and cry and cry".

In one old house the landlord cut off all gas connections. The janitor went to neighboring stores and got bread and meat bones. He fed 119 children.

Outdoor distribution

We went out to look at the commodity stations. Commodities are distributed in twenty-two stations, mostly in vacant lots.

The relief client stands in line, presents his cards, puts his commodities in a paper bag, or a baby carriage or child's wagon and takes them home.

Families stood in line all winter without sufficient clothing. A visitor with many years experience said, "It's the old people who break your heart".

While we were in Cleveland we had lunch with the Director of Health and Welfare, and the head of the Home Relief Division of the

city of Cleveland, together with two representatives of the FSRC. This was most fortunate because for the first time the Director of Median and Welfare realized the importance of surplus commodities and the necessity for a better distribution system than the present corner lots. He agreed to find means as soon as possible to rent stores and put commodity distribution under cover, if possible on a five-day basis, instead of only one day a week in each neighborhood.

Until recently surplus commodities were just a headache to relief officials because they came so irregularly, and caused so much work. Now that they are the mainstay of Cleveland relief, the officials have to reorient their thinking about the costs of commodity distribution. All problems of commodity distribution, including costs, are made easier if a few staples are distributed regularly in substantial quantities.

The Families

We also went to some of the homes of relief clients, in a very poor colored neighborhood. In every one of the families that we visited the stove was so bad, that it smoked the whole house when it was lit. Water was usually coming in through the roof. There was no ice-box. Butter was kept in the open air in hot rooms. Some of the women tried to bake bread with the flour, others made biscuits, some cooked it on top of the stove. They had no lard, no salt, no baking pans. Frequently they just did not know how to make bread. They said they "did not know what to do with the white powder".

The relief people still expect surplus commodities to be irregular and low in quantity. They said that if there was any chance of their getting continuous supplies of flour, they would get the

settlement houses to put on demonstrations of how to bake bread, as they did in Red Cross days.

Relief dietitians say that the celery came in such large quantities that it was frequently spoiled before families could eat it. Potatoes and onions begin to sprout, when kept too long in the home.

One of the most curious elements of the situation is the way it never occurred to the relief officials, high or low, to keep asking for more or different surplus commodities. They have been so brow-beaten since 1935, so intimidated by the fight over relief taxes and the hostility of legislators, that they take everything without question. They would never have asked for a continuous distribution of flour, or urged that part of the flour be sent as milk-wheat-o which the families like much better. They thought the Federal Government had made its decisions to send just so much commodities and no request of theirs would change it.

Families occasionally trade their surplus commodities. They do it to get sugar or salt, or children's shoes. They give part of their scanty supplies to families not on relief but in worse need than they are. Men who are working one or two days a week may have to give all the money to the landlord and be wholly without food.

Delinquencies are skyrocketing. "No one wants to stay home". The twelve and thirteen year olds are especially difficult. Pregnancies are mounting so fast the humane society hasn't funds to take any more cases.

Physical Effects

"There are no people starving in Cleveland but there are a

great many hungry people", said the head of the visiting nurses. * 504
"Children get very irritable when they are hungry. Women give the food to the children or the working man". Her greatest concern is fear of tb. among the growing girls.

Dr. Richard Balt of the Child Health Association said they saw the worst effects in the children entering schools. Infants up to fifteen months were well taken care of through free milk and baby health stations. From there on the children lose steadily until they enter school. In the three pre-school years, the depression is today wiping out virtually all the gains made by the whole infant welfare program.

The children entering school showed evidence of anemia, poor muscle tone and other indications of "nutritional sag". They improved in school with the milk feeding, and in day nurseries and playgrounds, wherever they got food.

All the doctors spoke of the fear of rising tb. rates. The health records show a falling death rate, but a rising number of cases in the early stages, which may mean more cases or better detection.

One gets a sense that Cleveland had an extremely fine health program from ten to twenty years ago, as it had an extremely progressive organization of private philanthropy. The people are surviving the present stress only because the tb. and baby health work were so very well done. Unfortunately one also gets the sense very strongly in both the medical and the philanthropic work that the old leadership is moribund, and the new leadership has not yet risen to take its place. There is in both health and welfare work in Cleveland a sense of grandeur in eclipse that is very sad, like

a fine old house settling into decay. This is a period of stagnation in much more than an economic sense.

Part of the health as well as the economic problem in Cleveland is the mass migration of workers, white and colored, from the South, who bring with them the habits and limited skills of poor rural sections. Colored families constitute about 8 percent of the population, but occupy about 60 percent of the free tuberculosis beds.

Possible Uses of Surplus Commodities

Medium-size families are getting a twenty-four pound sack of flour a month. The dietitian of the Emergency Relief Administration estimates that for an adequate diet each family needs a little over two sacks a month, but for a compensatory diet, when most other commodities are missing, it needs 75 pounds, or three times the present distribution. This compensatory diet is probably not to be recommended for long periods of time but something like it is needed where other commodities are few and casual, and where undernourishment has probably existed a long time.

What Cleveland needs at the moment in the way of Federal commodities is:

1. Creation by the FSRC of an emergency standard of per capita allowances, so that families would get double or even triple allowances of staples, for a limited time, where a true emergency existed. This might at first be three times the present distribution for commodities like flour.

2. A wider variety of wheat products especially milk-wheat-o (Dr. Stanley says this is under way). Noodles and other egg products might also be useful.

3. A wider range of commodities if practicable

4. Indoor distribution by the city

5. More frequent distribution by the city, especially if perishables like butter. Elimination of any Federal restrictions that compel cities distribute butter only twice a month.

6. Expenditure of more funds for stores, trucking service, and labor, to make commodity distribution more useful.

7. Full publicity wherever possible. For example, grocers complain that if they know when Surplus Commodities was going to distribute potatoes, they would buy less. It is not always possible to give exact information about freight car arrivals, but it would be possible to give grocers the available information and let them use their own judgment.

8. Distribution of commodities through other than family channels, as school lunches, day nurseries, playgrounds.

WPA Projects

I called on the WPA Director in Cleveland. He told me that in December they had prepared projects virtually for the whole year. That is what is carrying them through now. Projects they had planned for next year's indoor work for bad weather they have to carry out now.

Overloading on all projects is common here as elsewhere. The shortage of projects will show up increasingly month after month.

WPA certification is on a much higher basis than admission to relief, although both are administered by relief officials, the WPA standard is set virtually at their choice. Allowances for food, clothing, rent and miscellaneous items bring the budget for a family of four to \$59.78. Anyone who has an income within \$10 of this amount is eligible for WPA, whereas under the relief system they would receive only \$10 a month. That means that workers with family incomes of \$50 can go on WPA, and get \$60 now or \$110 altogether. That makes fearfully wide the gap between the less needy who go on WPA, and the men in the same situation who happen not to get WPA employment and get only a four-day grocery order if their children happen to be sick.

SURPLUS COMMODITIES DISTRIBUTION

May, 1938

Commodities	Week Ending				
	May 7	May 14	May 21	May 28	June 4
Rice - pounds	48,283	-	-	58,052	36,126
Oranges - "	369,600	-	380,380	123,410	-
Apples - "	263,450	-	-	-	-
Potatoes - "	-	527,765	-	147,400	-
Cabbage - "	-	248,720	-	-	39,950
Butter - "	-	56,500	-	57,832	58,335
Celery - stalks	-	12,900	120,300	-	-
Dried beans-pounds	-	-	36,064	-	-
Green beans-	-	-	-	16,200	69,630
Flour - "	-	-	-	-	568,718
Total pounds	681,333	832,985	416,444	402,894	772,759
Total stalks	-	12,900	120,300	-	-

COMMODITIES ACTUALLY DISTRIBUTED

January 15 - April 23, 1938

Commodities	January			February				March				April			
	15	22	29	5	12	19	26	5	12	19	26	2	9	16	23
Rice	x	x		x											
Pears	x	x				x									
Potatoes			x		x	x	x					x	x	x	x
Apples							x								
Oranges								x	x	x					
Celery												x	x		
Peaches													x		

**LISTED COMMODITIES
NO AMOUNTS DISTRIBUTED
January 15 - April 23, 1938**

Prunes	Canned milk	Sweet potatoes
Walnuts	Skim milk	Herrings
Grapefruit	Celery	Onions
Canned meat	Fish	Butter
Eggs	Oatmeal	Grapes
	Cabbage	

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO: Secretary Morgenthau

June 15, 1938.

FROM: Herman Oliphant

For your information

James Roosevelt called and asked me to see Mr. Guyld and Mr. Russell who were urging that the President not veto a private relief bill (S. 667) involving waiving the statute of limitations on a tax claim. Mr. Tarleau was present at the interview.

The office of the Chief Counsel, Bureau of Internal Revenue has allowed the reward claim of John Zimmerman, former Bureau auditor and former comptroller of the taxpayer in the amount of \$20,610.22 in the income tax case of Almours Securities, Inc., personal holding corporation of Alfred I. duPont. The award is one per cent of the additional taxes collected.

The Washington Post recently reported that John Ringling, the circus magnate, who died several years ago, left an estate valued at \$25,462,752. Cases are pending in the Bureau of Internal Revenue involving three or four million dollars in income taxes and penalties asserted against the estates of John Ringling, of Charles Ringling, and of Richard T. Ringling, arising from profits from Ringling Brothers Barnum and Bailey.

The A. W. Mellon case that was litigated so long before the Board of Tax Appeals has been closed by settlement, thus avoiding the necessity of an appeal. The Gregory case (in which A. W. Mellon and his brother owned 25 per cent of the stock) and thirty-six related cases have also been settled. These cases had been set for hearing in Pittsburgh and involved valuation, net losses and other complicated questions. They would have taken approximately two weeks to try.

In its rush toward adjournment, Congress passed the wages and hours bill and the relief bill (except the farm parity price provisions therein, which were sent back to conference). The monopoly bill, which had already passed the Senate, was passed in the House 237 to 55. As you probably know, a last minute filibuster in the Senate over the flood control bill halted the rush of legislation shortly after mid-night last night.

TREASURY DEPARTMENT
BUREAU OF NARCOTICS
WASHINGTON, D. C.

June 15, 1938.

CONFIDENTIAL

The Honorable

The Secretary of the Treasury
Washington, D. C.

Sir:

I have the honor to report that in compliance with your instructions I attended meetings of the Opium Advisory Committee of the League of Nations at Geneva, Switzerland, from May 16th to June 1st.

The meetings included those of the Sub-Committee which reviews the illicit traffic, and of the Preparatory Committee on the Limitations of the Production of Opium.

I also attended all secret meetings of Narcotic Enforcement Heads of several countries. The exchange of confidential information concerning the activities of important international traffickers was of mutual benefit and will result in increased cooperation by foreign Police in suppressing the smuggling of narcotics to the United States and to other countries.

My report on all meetings attended is as follows:

The Sub-Committee held a number of meetings during which it reviewed the situation in regard to the illicit traffic in 1937 and the first three months of 1938. The meetings were attended by the representatives of the United Kingdom, Canada, China, France, Japan, the Netherlands, Siam, and the United States of America. The following experts also attended the meetings: the Chief of Police of Rotterdam, Commissioner Corby of the Police Mobile of the French Sûreté Nationale, the Commissioner of Narcotics of the United States of America and the American Treasury Attaché at Paris.

The application of the provisions of Article 23 of the Convention of 1931, as a result of which all reports submitted by Governments to describe individual cases of illicit traffic are now transmitted to all parties to that Convention, has greatly facilitated the work of the Sub-Committee in addition to providing interested Governments with better facilities for carrying on the campaign against the illicit traffic.

Advance reports or full annual reports for 1937 dealing with illicit traffic were received from 77 Governments and statements on the same subject were presented orally on behalf of 4 Governments. The reports give evidence of the world-wide extension of cooperation in the campaign against the abuse of narcotic drugs.

GENERAL TREND OF THE ILLICIT TRAFFIC.

The principal illicit markets for raw opium appear to have been China, India, Burma, Indo-China, Hong Kong, U.S.S.R., Iran, Chosen, Netherlands Indies, Siam and Egypt.

In the case of prepared opium, the principal illicit markets appear to have been China, Siam, Straits Settlements, Indo-China, Hong Kong and Netherlands Indies.

As to morphine, the principal illicit markets appear to have been China, Turkey and the United States of America.

As to heroin, the principal illicit markets appear to have been China, the United States of America, Egypt, Kwantung Leased Territory, Hong Kong, Greece, France and Turkey.

As to cocaine, the principal illicit markets appear to have been India, Burma, China and France.

The principal illicit markets for Indian hemp (cannabis) drugs appear to have been Egypt, Sudan, Tunis, Kenya, Uganda, Madagascar, Basutoland, Palestine, Syria, Turkey, India, Ceylon, North Borneo, Jamaica, and the United States of America.

The information available indicated that smuggling with the connivance of members of ships' crews continues to a disconcertingly wide extent in most parts of the world. There was a marked improvement in this respect in the cases of certain Japanese,

British and Canadian steamship lines which operate in the trans-Pacific trade, namely, the Nippon Yusen Kaisha, the Blue Funnel Line and the Canadian Pacific Line. The representative of Japan submitted a memorandum describing the measures taken by the authorities in Japan and by the Nippon Yusen Kaisha which have brought about this result. The Committee congratulated the authorities of these three countries and the steamship lines concerned on the successful outcome of the enforcement of their measures to prevent the smuggling of drugs by ships' personnel or as unmanifested cargo.

The number of different labels on prepared opium found in the illicit traffic in Netherlands India was noticeably smaller. On the other hand, a considerable number of labels not previously encountered in America put in an appearance in the United States of America.

The situation in respect of labels on manufactured drugs found in the illicit traffic throughout the world continued much the same as for several years past. There were very few cases in which genuine labels of licensed drug manufacturers were found and in those few cases it was usually apparent that the drugs had been obtained either by burglary, or through forgery of prescriptions or through the connivance of medical practitioners.

PRINCIPAL CHANNELS OF THE ILLICIT TRAFFIC.

The following brief analysis of the illicit traffic in 1937 is based on the special seizure reports forwarded by Governments.

1. Raw Opium.

Seizures of raw opium have been reported from the United States of America, Aden, Austria, Bulgaria, Franco, Germany, Turkey, Egypt, India, Portuguese India, Union of Indo-China, Straits Settlements, Netherlands Indies, Siam, Hong Kong, Barbados, Macao and China.

The largest seizures were, as usual, made in the Far East where they were also most numerous. In the United States sixteen seizures were specially reported in which 75 1/2 kg. were involved. The majority of the raw opium seizures made in the United States were effected in the Atlantic Coast Area.

In Austria two seizures of raw opium were made, one of 62 kg. Both of these cases point to a continuance of the smuggling of raw opium from Balkan countries with France as probable destination for shipment to the United States of America.

In Turkey there were 7 seizures of raw opium specially reported, amounting to about 399 kg. and in 1938 a large seizure of 210 kg.

As regards Egypt, seizures of raw opium were less frequent than in 1938, but they involved a

larger total quantity. In 1936 there were 17 cases involving over 80 kg., whereas in 1937 13 cases involving about 150 kg. were reported. Most of the opium came from Syria.

One large seizure of nearly 37 kg. was made as a result of information received concerning a gang of smugglers who had arranged to smuggle drugs by aeroplane into Egypt from Syria and Palestine.

India reported 6 seizures -- 2 in Calcutta, 4 in Bombay, and 2 in Madras. One of those reported in Madras involved 136 kg. of Excise opium which the accused were attempting to smuggle to Ceylon.

From Aden 2 seizures were specially reported, involving altogether about 2 1/2 kg. The interesting point about these seizures is that the opium was stated to be the product of the Kingdom of the Yoman.

Special reports of seizures in the Union of Indo-China were received for the first three quarters of 1937. During the first quarter, the principal seizures totalled about 150 kg. and during the second quarter about 122 kg. The report on the third quarter contains the following information: 388 police reports were drawn up, 144 persons were arrested and 141 sentenced. 233 kg. of raw opium and 23 kg. of prepared opium were seized.

For the Straits Settlements the usual monthly reports were sent in. The total quantity seized in

1937 amounted to a little less than 8 kg.

The Netherlands Indies sent in seven special reports on seizures of raw opium involving just under 322 kg. It was all of Iranian (Persian) origin.

Siam forwards quarterly reports, the reports for the first two quarters having been received and covering seizures of raw opium amounting to 168 1/2 kg. In addition a report of a seizure of about 323 kg. in October 1937 was communicated. This opium came from the Shan States.

Like the Straits Settlements, Hong Kong furnishes monthly reports. Seizures reported for 1937 amounted to 796 kg. In one case the seizure amounted to 200 kg. of raw opium and 102 kg. of prepared opium.

The seizures specially reported by Macao during the year were not many and involved small quantities.

A seizure of 40 kg. was reported by the Bulgarian Government. This opium was intended for export to Antwerp, thence probably to the United States of America. A well-known trafficker was arrested in connection with this case.

France reported three seizures. The total amount involved in these was 47 kg. One seizure involved 40 kg. which was seized at Marseilles on board a vessel coming from Réunion. It had been concealed in an oil tank not used since 1934.

As regards the situation in China, the quantity of raw opium reported as confiscated was 60 1/2 kg. This figure includes seizures made in the International Settlement, Shanghai, (20 kg.), and the French Concession in Shanghai (6 kg.). The China figures are incomplete.

2. Prepared Opium.

Seizures of prepared opium were specially reported from the U. S. A., the Commonwealth of the Philippines, Canada, Australia, United Kingdom, Germany, Union of Indo-China, Straits Settlements, Netherlands Indies, Siam, China, Hong Kong and Macao.

The United States of America sent in special reports on 25 seizures of prepared opium which involved about 202 kg. From the Commonwealth of the Philippines, 51 cases were specially reported which involved a little over 24 kg.

Canada specially reported 8 cases involving small quantities of prepared opium. In one, the opium was smuggled through the post in Chinese newspapers which had been posted in Hong Kong. In one case (48 grammes) the opium was contained in tubes of the Singapore and Hong Kong Monopolies. Canada also submitted a special report on the seizure of 550 five-tael tins of prepared opium in one lot, which had been recovered from the sea bottom alongside a wharf at New Westminster, British Columbia.

In the Union of Indo-China specially reported seizures of prepared opium aggregate much less than those of raw opium. The seizures of prepared opium reported during the first three quarters amounted to about 67 kg.

Monthly reports have been received from the Straits Settlements covering the entire year. These reports involved 1708 kg. of prepared opium. Almost all of the seizures were effected in Singapore, only small quantities having been found in the illicit traffic in Penang and Malacca.

In the Netherlands Indies about 48 kg. were specially reported as having been seized, which is more than the quantities reported seized in 1936 (37 kg.), but less than the raw opium specially reported as having been seized in 1937.

The total seizures in Siam amounted to 2178 kg.

In regard to Hong Kong, monthly reports have been received covering the whole year of 1937. The quantity of prepared opium specially reported as having been seized was 928 kg.

Macao also sends in monthly seizure reports, figures for the whole year being available. The number of cases of illicit traffic specially reported as involving prepared opium was about 117 but the quantities involved were usually very small, the total for the year amounting only to about 10 kg.

From China prepared opium seizures amounting to

108 kg. have been specially reported. These figures are incomplete.

Attention is drawn to a number of seizures of prepared opium in Australia. In January 1937 there was one seizure of 1 1/2 kg.; in February two seizures involving over 4 1/2 kg., in May one seizure of over 3 kg., and in August one of 114 gr. In all cases the prepared opium arrived in Australia on ships coming from Far Eastern ports and the containers bore marks well known in the illicit traffic. (Yick Kee, Lion and Globe).

3. Morphine

Seizures of morphine were reported in the United States of America, Canada, France, Turkey, Burma, Siam and China.

In Turkey there were only 2 morphine seizures specially reported. They took place in Istanbul. In addition 37 kg. of morphine base, 1 kg. of morphine hydrochloride and 10 kg. of a mixture of morphine and animal charcoal were seized in connection with the discovery of clandestine laboratories. In 1936 separate seizure reports concerning morphine were received covering a total quantity of 43 kg., whereas in 1937 the total quantity thus reported was about 20 kg. of morphine hydrochloride and about 37 kg. of morphine base.

Twelve morphine seizures were reported from the

United States, the total quantity being 10 kg. With the exception of one seizure of 7 kg. on a vessel coming from Japan the seizures of morphine were of small quantities. The cube morphine appeared to have been obtained in Italy and in France and brought to the United States by seaman. Seizures were made on the Atlantic Coast, on the Pacific Coast, in the South Central Area and in the North Central Area.

Sporadic seizures of morphine were reported from France (morphine base), Canada and Burma. In Siam there were 310 cases of morphine peddling, but the total quantity seized was a little under 2 kg.

In China, four cases were reported. In these certain quantities of morphine smuggled by Koreans were seized, the total quantity being about 1 1/2 kg. The figures are incomplete.

A morphine seizure was reported by the Soviet authorities involving a large number of Japanese in Vladivostok.

The Japanese representative reported (from the minutes):

"This case had received much publicity at the time. It should, however, be remembered that in the Union of Soviet Socialist Republics the courts reflected the policy of the Government and the

verdict was often a foregone conclusion. One of the subjects of the Soviet authorities was to rid Vladivostok of the Japanese, and cases like the above were mere pretexts to achieve that purpose.

As a Japanese Consular employee was involved in the case, the Japanese authorities had made enquiries but had failed to discover evidence of his complicity. Diplomatic representations had been made in vain.

I heard of a similar case in Moscow in 1932. A Korean guide, whom the Soviet authorities suspected of supplying secret information to Japanese and other tourists, had been arrested for opium trafficking. The prisoner's wife - a Russian - had afterwards informed Japanese investigators that a trunk containing opium had been left for her husband while he was absent. The police had then called, found the trunk and arrested the guide. The Japanese Embassy had been informed by the Soviet authorities that the prisoner was being deported to Japan, but it was later announced that he had died before reaching Pogranichnaya."

4. Heroin

Heroin seizures were reported from the United States of America, Canada, United Kingdom, France,

Egypt, Turkey, Hong Kong and China.

The principal markets for illicit heroin remain the United States of America and China. The largest heroin seizures in the United States were on the Atlantic Coast, mainly at New York. Seizures were effected in every part of continental United States. The largest seizure was one in New York of 13 kg. This was found in three suitcases belonging to a passenger on the S. S. NORMANDIE. There were two seizures of almost 10 kg. each, one effected in New York City and one at Rouse's Point, New York, both involving heroin which had been obtained in France.

In Egypt there were 16 cases of illicit traffic in heroin specially reported as compared with 14 in 1936. The quantity involved, however, was far less in 1937 than in the previous year (2 1/2 kg. as compared with 10 kg.). The largest quantity seized at one time was 744 grammes. In no case was the origin indicated and in most cases it was stated to be unknown.

China has so far specially reported 19 cases of heroin seizures for 1937 in which foreigners were implicated. The traffickers were usually Japanese or Koreans. One American woman was arrested at Anyang with 4 kg. in her suitcases. Numerous heroin seizures were made on Chinese railways.

Twenty-seven kg. were seized in Hong Kong in

January in baggage belonging to one Japanese and one Chinese, both of whom came from Tientsin.

Heroin was seized in connection with three of the clandestine laboratories discovered in Turkey. France made special reports on seven cases, six at Paris and one at Marseilles. In all of those the origin was reported as being unknown.

There were also a number of heroin seizures in the Shanghai International Settlement. The total amount seized was about 4 1/2 kg.

5. Cocaine

Cocaine seizures were specially reported from the United States of America, France, India, Burma, Uruguay, Siam, Hong Kong and China.

In the United States there were four cases. The quantities involved were very small. Since May 1937 no cocaine seizures have been reported in India proper. Japan was formerly the source of considerable cocaine traffic to India. Three cases were reported in the first five months of 1937, all in Calcutta, the total quantity seized amounting to nearly 11 kg. In all three cases the cocaine was brought to India on ships coming from Far Eastern ports. Between 9 and 10 kg. bore the "Fujitsuru" brand label. In Rangoon there were two cases, one in April and one in July. 10 1/2 kg. were seized which bore the "Fujitsuru" label and those of the

Hoshi Pharmaceutical Company, Japan. No seizures were reported from Singapore. Only one case was reported from China involving 280 grammes of cocaine. This was seized at Chefoo. France reported 4 seizures, two at Marseilles, one in Paris, and one at Raincy, involving in all a little over 1 kg. Uruguay reported one seizure of 2 kg. (gross weight) in August. This cocaine had been smuggled from Brazil. One seizure was made in Hong Kong of nearly 5 kg. bearing the label of the Hoshi Pharmaceutical Company, Tokyo.

6. Indian Hemp

Seizures of Indian hemp and Indian hemp drugs were reported from the United States of America, Canada, the United Kingdom, France, Hungary, Turkey, Egypt, China and Portuguese India.

As regards the United States the traffic is heavy but few seizure cases are of international significance. Although under no treaty obligation to report cannabis seizures, the American Government has reported a number which were of international interest. Illicit traffic in hashish was as usual prevalent in Egypt, the quantity specially reported as seized amounting to 92 1/2 kg. There were 23 cases thus reported, as compared with 19 cases and 47 kg. last year. The hashish came either from Syria or Palestine or from ports in India. It might

be mentioned, however, that the quantities from India were individually small. Turkey reported 12 cases totalling about 52 kg., an increase over last year.

One seizure of 15 1/2 kg. was specially reported from Syria. This hashish was destined for Egypt. 3 1/2 kg. were seized in Hungary. It was probably of Bulgarian origin. Small seizures of marihuana were reported from Canada and one seizure of eight packets of hashish at Marseilles by the French Government.

7. Narcotic Drug Pills

Seizures of narcotic drug pills were reported from the United States of America, Canada, Macao, and China.

In the United States there was one seizure in New York of 9741 heroin pills in connection with the discovery of a heroin pill factory. Heroin pills were also seized at Chicago and San Antonio, while morphine pills were seized at Boston, New York and San Francisco. There were eight seizures of Chinese medicinal pills reported, two of which occurred in San Francisco, two at Chicago, and the rest at Memphis, Detroit, Washington and Seattle. The Chinese Government reported the seizures of about 11 kg. and 10,000 pills during the first six months by the Railway authorities. Three other

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seizures were reported involving 3400 heroin pills and 1 1/2 kg. of red pills at Lapps and 534 grammes of morphine pills at Chefoo. Two pill factories were discovered in the International Settlement at Shanghai in March, when about 10 kg. of pills were seized. There were 12 Chinese arrested for conducting pill dens and 48 for smoking pills. Forty of these were convicted and twenty were discharged. The sentences in the case of conductors ranged between five and fifteen years' imprisonment and smokers of pills were sentenced to various terms of imprisonment ranging from 18 months to 15 years.

8. Clandestine Manufacture

There have been no reports of any clandestine manufacture discovered after August. The illicit laboratories reported as discovered between January 1 and September 1 were two in the International Settlement, Shanghai (pill factories), six in Turkey, and one in the United States of America (New York - pill factory).

Turkey

A small illicit laboratory was found in April 1937 at Istanbul. Small quantities of morphine base, heroin, and raw opium were seized. Another on a larger scale which had been working for about nine months was discovered at Istanbul in May.

16 kg. of morphine base and 307 kg. of opium were seized. Still another which had been in existence for two years was raided in May at Prinkipo, Prince's Island. 19 kg. of morphine base and various quantities of acetic acid and other ingredients, together with factory equipment, were seized. In June a clandestine laboratory was discovered at Therapia, Bosphorus, when 1 kg. of morphine base, 10 kg. of a mixture of morphine and animal charcoal, 11 kg. of liquid containing heroin were seized in addition to chemical apparatus and chemicals. In June also a heroin manufacturing laboratory was found at Yechilkouy, Istanbul, when 20 kg. of raw opium, 1 kg. of morphine, and 1 kg. of diluted morphine were seized. In August a clandestine laboratory was discovered working at three different addresses. Investigation showed that the gang carried on clandestine manufacture in small quantities, subsequently disposing of their goods in the local market. A very small quantity of heroin, together with material and equipment, was seized.

Shanghai (International Settlement)

Two pill factories were discovered in March and about 10 kg. of pills seized. The Shanghai Municipal Council reported that clandestine manufacture on a large scale has practically ceased. The methods used now are mostly primitive, the pills being hand-rolled.

These small factories move constantly from place to place to avoid discovery.

United States of America

The Government of the United States reported the discovery of a heroin pill factory at New York in March. This factory was run by Chinese in two Chinese laundries. 9741 heroin pills were seized together with a small quantity of prepared opium and dross and the material and equipment necessary for the manufacture of the pills.

In regard to the situation concerning clandestine manufacture in China north and south of the Great Wall there are no official reports. The statements made in the Advisory Committee at the Twenty-second Session (May-June 1937) and information furnished by Governments in regard to the origin of drugs seized in the illicit traffic in 1937 furnish evidence of the fact that clandestine manufacture is continuing in these areas and that the situation remains serious in this respect. In this connection attention is drawn to the information contained in the annual report by the Government of China for 1936 about cases of illicit manufacture of narcotics discovered during the year, which showed 69 cases of illicit manufacture in China between the Yangtze and the Great Wall, involving 175 persons.

Prices of Drugs in the Illicit Traffic

The Advisory Committee, in its report to the Council on the work of its 22nd session, suggested that, owing to the wide variations in local circumstances, detailed statistical information with regard to prices is of little use for the purposes of establishing comparisons between different regions of the world, and it was decided that Governments, in submitting their reports, should be asked to convey their considered opinions on the significance of the prices reported and on the conclusions to be drawn from them.

A number of Governments complied with this suggestion. The information furnished in respect of certain countries where illicit traffic is a serious problem is summarized below.

United States of America

Raw opium prices in the illicit market underwent only a slight increase in 1937.

The price of prepared opium in the illicit traffic on the Pacific Coast underwent a slight decrease in the early part of 1937 following the settlement of a strike of American seamen and stevedores. These prices remained fairly constant until the outbreak of Sino-Japanese hostilities, when they began to rise steadily. By the end of December 1937 the price of prepared opium had more

than doubled in certain sections of the Pacific Coast Area. In the Atlantic Coast Area the price of prepared opium underwent little change, with the exception of a brief period in the summer and autumn of 1937 when it rose about 25%. This was believed to have been due directly to large seizures of prepared opium effected shortly before. The fact that prices on the Atlantic Coast have varied but little would indicate that there is no decrease in the supply available in China.

The price of morphine in the illicit traffic remained about the same as in 1936 in the Atlantic Coast and North Central Areas, with a slight increase in the South Central Area and a marked rise in the Pacific Coast Area following the outbreak of hostilities in the Far East.

The price of heroin in the illicit traffic was fairly constant in the North Atlantic Coast and Pacific Coast Areas, but in the South Atlantic Coast and South Central Areas there was an appreciable increase. It was evident that there was at times an acute shortage in the illicit traffic despite heavy adulteration. The fluctuations in price are attributed to the frequent seizures effected and the arrest of important smugglers and distributors.

The trend of prices in the wholesale illicit traffic and other circumstances during the first half of the calendar year 1937 indicated that the

demands of the illicit traffic continued to be met. However, following the outbreak of hostilities in the Far East in the autumn of 1937, prices of narcotic drugs, principally those of prepared opium, rose appreciably, particularly in the Pacific Coast Area, and there was indication, for a time at least, that prepared opium and other drugs were being transported to the Pacific Coast across the continent from New York City. Subsequent to several large seizures of prepared opium and heroin in the Atlantic Coast Area, there appeared to be, in that area, a noticeable shortage of these drugs in the illicit traffic accompanied by higher prices.

Canada

The Canadian advance report states that in Montreal, as in 1936, no reliable prices were obtainable owing to extreme shortage.

At Toronto the price of heroin, heavily adulterated, increased in 1937. The price at the end of 1936 was from \$1.25 to \$1.50 per 3-grain capsule, as compared with prices of \$1 to \$2 per 3-grain capsule in 1937. Cocaine, which in 1936 was sold at from \$70 to \$100 per oz., was not sold at all in 1937. The price of smoking opium per deck remained the same.

At Winnipeg, as at the end of 1937, no drugs were obtainable except heroin, the price of which ranged between \$80 to \$100 per oz. as compared with

\$80 to \$150 per oz. in 1936. The heroin was heavily adulterated.

At Vancouver the price of morphine, which was \$2 per grain in the period January to May, increased to \$3 per grain in the period June to December.

The price of smoking opium increased from \$195 per 5-tael tin in January to \$360 per 5-tael tin in August. This constituted what is believed to be a world record price. Prices fell again towards the end of the year.

France

The French advance statement noted a slight increase in the prices of drugs on the illicit market, which was regarded as reflecting, in all probability, an all-round increase in the value of goods.

Syria and Lebanon

The price of locally produced hashish of inferior quality at Beirut during 1937 ranged from francs 200 to francs 300 per kg. as compared with francs 150 to francs 170 per kg. in 1936. The price of locally produced hashish of good quality ranged from francs 500 to francs 600 per kg., and of Turkish hashish from francs 700 to francs 1000 per kg.

The price of hashish was subject to fluctuation owing to scarcity of imports. It steadily increased as a result of the severe measures taken by the

authorities to prevent the illicit cultivation of Indian hemp.

The price of opium remained stationary as compared with 1936, notwithstanding the devaluation of the franc, owing to very large illicit imports from Turkey. The price ranged from francs 200 to francs 220 per kg.

Netherlands Indies

The wholesale prices ruling in the illicit traffic in the chief centers varied between Fl. 100 and Fl. 340 per kg. for raw opium as compared with prices varying between Fl. 130 and Fl. 330 in 1936. The prices of prepared opium varied between Fl. 135 and Fl. 640 per kg. in 1937, as compared with prices varying from Fl. 250 to Fl. 570 per kg. in 1936.

The retail prices of heroin varied between Fl. 4000 and Fl. 5000 per kg. Heroin injections cost from 10 to 20 cents, the drug being nearly always administered mixed with other substances. In 1936 the authorities were alarmed by the fact that morphine injections could be obtained at prices varying from 2 to 20 cents.

Shanghai International Settlement

The wholesale and retail prices ruling in the illicit traffic during the first eight months of the year were approximately the same as those prevalent

in the previous year. From August onwards, however, as a result of the hostilities, prices for opium and other narcotic drugs rose to an unprecedented high level. Thus, the maximum price of Szechuen raw opium, which in 1936 amounted to \$3.80 per oz., rose to \$4 in August 1937 and to \$15 per oz. in December 1937. The maximum price of Yunnan raw opium, which in 1936 was \$3.20 per oz., had risen to \$13 per oz. by the end of 1937. The price of heroin, which in 1936 ranged from \$25 per oz. to \$30 per oz., varied in December 1937 between \$70 and \$90 per oz.

General Observations in regard to the Illicit Traffic in 1937.

A study of the information as regards the illicit traffic in 1937 available to the Sub-Committee suggests the following observations.

There is evidence of changes in the illicit traffic in regard to its sources and channels and also as regards the drugs available to or preferred by the addict. Although there are signs of decrease in the volume of illicit traffic in certain parts of the world, notably the United States of America and Canada, there are unfortunately no definite signs of an abatement of the traffic elsewhere.

The Far East, more especially China north and south of the Great Wall, appears to an over-increasing

extent to be the principal source and center of the illicit traffic in both opium and manufactured drugs, Iranian (Persian) opium entering the illicit traffic through China.

Important sources and centers of illicit traffic are also to be found in the Balkan countries, the traffic passing to the United States of America probably through France. The continued discovery in Turkey of clandestine establishments for the manufacture of drugs is an indication that to some extent the illicit traffic obtains supplies from that country. Japan continues to supply drugs to the illicit trafficker in Canada and the United States of America.

By far the greatest proportion of the raw opium seized in the illicit traffic is of Iranian and Chinese origin. Chinese raw opium is almost never found in the illicit traffic outside of the Far East. In other words almost all raw opium seized outside of the Far East comes from Iran, but usually through China. In the Far East itself Iranian and Chinese opium seem to be competing in the illicit traffic on fairly even terms.

All evidence goes to show that the origin of the prepared opium which supplies the illicit traffic is China or ports on the China coast.

As to the illicit traffic in narcotic drugs, heroin appears to become more and more the favorite drug of addiction. Cocaine seems to have lost a

great many of its markets. To a certain extent cocaine smuggling continues in certain Central European countries and there is still a serious traffic in cocaine into India, although in 1937 both the number of seizures and the quantity seized are considerably less than in previous years.

As in previous years genuine labels of licensed manufacturers have very rarely been found in the illicit traffic, with the exception, however, of labels of Japanese manufacturers which are still met with although to a decreasing extent. Clandestine manufacturers do not use labels.

Although it is impossible to state that illicit traffic in general is diminishing, there are certain facts which may be noted with satisfaction. Licensed manufacture and the lawful international trade continue to be strictly controlled, the escape of manufactured narcotic drugs into the illicit traffic from these sources being nowadays almost insignificant. International cooperation for the suppression of the illicit traffic is developing year by year. Police services in the principal countries affected by the illicit traffic are in close touch with one another. The Advisory Committee is receiving, with few exceptions, the whole-hearted cooperation of Governments with the result that its information, which is the necessary basis for success in its work, is becoming more and more complete. It should be

added that Governments show a gratifying willingness not only to supply information but also to adopt the Advisory Committee's suggestions as regards measures designed to improve control and to frustrate the activities of the illicit trafficker. On the other hand, one country (Persia), which is one of the principal suppliers of raw opium, still fails to follow out the export and import certificate system, with the result that large quantities of raw opium continue to be made available to the illicit traffic.

Three specially reported cases were noted in which raw opium and morphine base (crude morphine) had been seized while it was being illegally transported to France from Yugoslavia. In view of the numerous cases, not yet reported by the Yugoslav or other authorities, but information in regard to which had reached the Sub-Committee and indicated a disconcerting and apparently continued increase in the movement of raw opium, morphine base, morphine and heroin from Yugoslavia to France and to Italy, the Sub-Committee welcomed the attendance at one of its later meetings of the representative of Yugoslavia, who submitted information concerning some of these cases and who undertook to procure further information. The illicit traffic situation in Yugoslavia is such as to justify serious misgivings, and it is hoped that effective measures to repress this trend

in the illicit traffic will soon be taken. The representative of Yugoslavia stated that legislation in that country, present and proposed, is designed to prevent and to suppress illicit traffic and clandestine manufacture in Yugoslavia.

MEASURES DESIGNED TO COMBAT THE ILLICIT TRAFFIC

The Sub-Committee noted with interest the replies of Governments to the suggestions of the Opium Advisory Committee concerning measures to prevent the use of ocean-going vessels for illicit traffic in narcotic drugs. This is taken to indicate substantial agreement by Governments with the general principles advanced by the Committee in this connection.

Information presented to the Sub-Committee indicated that study is being devoted in several countries to the problem of identifying by chemical or physical examination the place of manufacture of opium and coca leaf derivatives found in the illicit traffic. The matter is receiving attention in Japan, the Netherlands, Belgium, France, Great Britain and the United States of America.

(From the Minutes)

M. AMAU (Japan) asked whether it was possible to

trace the origin of a specific narcotic drug by some form of chemical analysis.

The CHAIRMAN referred the Japanese representative to the reply given at the Sub-Committee's third meeting by M. Einthoven to a similar question asked by Mr. Anslinger.

Mr. ANSLINGER (U.S.A.) added that morphine seized recently on the Pacific Coast of the United States of America had been identified as "Cotton Morphine" a distinct variety which came from Japan.

The French representative reported that the methods adopted by the traffickers were becoming increasingly ingenious. The following was a typical case. On December 30th information was received that a vessel arriving at Marseilles had opium concealed on board. Nothing was discovered among the cargo which consisted of cases of tomatoes, nougat, etc., until a case was sawed open and opium, totalling 40 kg., was found to be contained in hollow boards, the ends of which were carefully covered with laths glued down to prevent detection.

In another case, an explosion led to the discovery that a man, in Paris, who was believed to be importing floor polish (of supposed Czechoslovak origin), was actually trafficking in heroin and morphine, which he dissolved in beeswax.

The representative of France reported that Angelo (Jerry the Lug) Iandesco, recently deported from Havana and now in Sing Sing Prison on a parole violation, had taken part in a transaction in Paris involving 4 tons of raw opium coming from the firm of Taranto in Turkey and imported into France by a licensed firm through its agent JACQUES GABBAL. Among the many activities of Iandesco in Europe is one typical of his methods. He and Gabbal went to Sofia, Bulgaria, and at the point of a revolver forced the director of a drug firm to complete a transaction.

The situation at Havre having been brought to the fore by seizures effected in the United States of America from the crews of ships which had cleared from that port, the representative of France stated that consideration would be given in that country to the possibility of intensifying the surveillance exercised to prevent ships' personnel from procuring drugs for smuggling purposes, particularly at Havre and other ports where drugs appeared to be illicitly offered and sold to sailors and ship stewards.

With regard to smuggling from France to the United States of America, the following is a record of the minutes:

"Mr. ANSLINGER (U.S.A.) asked M. Corby whether he could give any information as to the precautions taken in the case of the French vessels sailing to the United States (in particular the "Paris" and the "Normandie") to which Document O.C.S. 313 (a) referred.

M. CORBY (France) said there was actually a triple form of control - by the administrative police, the judicial police, and the Customs authorities. If a trafficker left a country where he was known to the police for France, the French police were informed. Traffickers usually booked rooms in hotels in their own name; and that gave the police an additional form of control. It was impossible, however, to search large quantities of cargo; and that was where the services of the informer had to be enlisted.

The CHAIRMAN (Mr. Fuller, U.S.A.) thought M. Corby had not quite realized the purport of Mr. Anslinger's question. Mr. Anslinger was referring to seamen on French vessels, not to passengers. What were the steps taken to prevent French and foreign seamen from carrying drugs on ships going to America?

M. BOURGOIS (France) answered that no special steps were taken. There were of course police officials on board; but there was no special supervision of ships. The personal responsibility of the

captain - he spoke as a naval officer with twenty years' experience - was of little use in such cases. The most effective assistance was provided by informers. He would, however, inform his Government of the suggestions contained in the Secretariat's note as well as of the Japanese communication.

Colonel SHARMAN (Canada) said there had been a number of cases in Canada involving members of French crews. He had cross-examined a steward and an officer whom it had been possible to arrest because of the amateurish way in which they sought to dispose of the drugs they were carrying. They told him they were constantly being solicited in Havre to carry drugs to America. Would it not be advisable to employ station police agents in Havre as a means of obtaining more information than was to be had by supervision on board ship?

M. BOURGOIS (France) said he would draw attention to the increase in the Havre drug traffic in his report. He was certain the authorities would act on his recommendations. He agreed that the stationing of police agents in Havre might be useful.

Mr. ANSLINGER (U.S.A.) asked whether M. Corby knew the origin of all the heroin which was being sent to Havre.

M. CORBY (France) could not say, though he was practically certain it was not manufactured in France. It might come from the East; but no evidence to that

effect had ever been extracted from prisoners. It was astonishing how secretive traffickers of both sexes could be.

The CHAIRMAN asked whether any more clandestine factories had been discovered since the St. Honoré case.

M. CORBY (France) did not know of any. He added that he had obtained certain information from sleeping-car attendants on the Simplon-Orient Express which seemed to indicate that the heroin came from the East.

M. BOURGOIS (France) pointed out that in the St. Honoré case the heroin had been manufactured from morphine. The process of manufacture was easy enough. It could be done in an ordinary kitchen. The morphine in this particular case probably came from the East.

In connection with M. Corby's remarks, the CHAIRMAN mentioned the case of a sleeping-car attendant who had set up as a hotel proprietor in Belgrade apparently on the strength of his earnings from drugs smuggled in his sleeping-car.

Colonel SHARMAN (Canada) observed, with reference to the difficulty mentioned by M. Corby of obtaining confessions from prisoners, that in Canada the threat of very severe penalties had been found useful."

(Minutes - Dr. Hoo Chi-Tsai)

"Up to the outbreak of hostilities the trend of the traffic had remained much as in 1937; heroin had continued to enter Chinese Government territory from the Japanese Concession of Tientsin, being brought in by rail or boat by Korean or Chinese peddlers. The foreign opium seized was mostly from Macao. Since the outbreak of hostilities, however, the illicit consumption of manufactured narcotic drugs had greatly increased in territories under foreign military occupation.

The report to be distributed by the Chinese Government would fully substantiate the complaints made by the Chinese authorities regarding the clandestine manufacture of narcotic drugs in the former Japanese Concession of Hankow. Reports to this effect had been denied by the Japanese authorities, but after the Concession was evacuated in 1937 raids made by the Chinese authorities conclusively proved the existence of the illicit manufacture in question."

Excerpts from statement by His Excellency M. AMAU, Japanese Delegate to the Opium Advisory Committee:

"It is needless to emphasize here that the determination of my Government is firmly set to suppress all the activities of the clandestine trade in narcotic drugs in and out of the country and that the authorities have redoubled their efforts in order to achieve tangible results.

The year 1937 has been particularly marked by various activities, on the one hand, the development of the police activities in arresting bands of smugglers; and, on the other hand, the strengthening of the measures of control of the illicit traffic of narcotics, both of which I shall describe in detail later in this report.

As to the revision of laws and regulations relating to the control of narcotic drugs with a view to providing heavier punishment to offenders, I am in a position to report to you that the competent Government departments, in spite of the overwhelming pressure of the work due to the present "incident" have already appointed a special Committee whose duty is to gather the materials necessary for this legislation and prepare the text. In this connection our authorities express the desire of obtaining the texts of laws and regulations now in force in various countries which have instituted the successful control of the traffic in narcotic drugs.

The Japanese Customs authorities too were keenly

aroused by the gravity of the situation and at the reunion of the Directors of Customs held in Tokyo in May 1937 they agreed to take most effective measures.

In the annual reunion of the local Governors in 1937, the Minister for Home Affairs particularly emphasized the importance of exercising strict control on the traffic in narcotic drugs. This warning was repeated also by the authorities in the annual conference of the Directors of police affairs of the prefectures of the country.

All these activities will show plainly that in spite of the difficult and complicated task which the authorities have to face in this fight against the lawless elements, they are prepared to do their utmost to stamp out this illegal activity of the traffickers.

During 1937, the Japanese authorities have established a closer cooperation in the preventive work with the authorities of various Governments.

Since 1936, the Japanese authorities have faced a serious problem in the frequent seizures in foreign countries of the narcotic drugs which were reported as having come from Japan. The authorities made thorough investigations in various directions in order to detect the source of supply and especially the leading traffickers involved in the smuggling transactions. These efforts resulted in the arrests

of certain important groups of traffickers during 1937. One of these bands of traffickers was composed of certain members of the crews on the ships plying between the ports of Japan and those of the U. S. A. The other was that of the Heian Maru case. For these arrests our authorities appreciated the aid given by the American authorities for furnishing us with valuable information. The other group was related to licensed drug dealers in Kobe and in Osaka."

The seizure reports before the Sub-Committee continued to indicate, in the case of some countries, the insufficiency of the penalties provided for illicit trafficking in narcotic drugs. The representative of Japan stated that a committee has now been set up in that country to draft legislation which will increase the severity of penalties for such activities and added that it is hoped to present a proposed law to the Diet in the coming autumn or winter. The Sub-Committee heard that this question is receiving attention in Czechoslovakia. Activity on the part of the authorities appears to have been exerted in Hungary, but those authorities seem to be hampered by the insufficiency of penalties.

The discussions in the Sub-Committee brought out the fact that, in Yugoslavia also, penalties for

illicit trafficking have been so light that they are entirely inadequate to act as deterrents. The Yugoslav representative stated that consideration is being given to proposals looking toward legislation that would provide for the imposition of more severe penalties. He also said that measures had been put into force in March, 1935, which were designed to provide more adequate control of raw opium within the country which is not in the hands of the monopoly but in those of private producers and private dealers.

DRUG ADDICTION

Reports indicated an increase in addiction in France, Tunisia, Siam, Czechoslovakia, The Netherlands Indies, Hong Kong and Manchukuo.

In the United States of America and in Canada, a considerable decrease was reported.

(From the Minutes)

Colonel SHARMAN (Canada) had, in giving evidence recently before a Parliamentary Committee, expressed the view that drug addiction in Canada had decreased by about 30%. When discussing the matter later in Washington he had found that Mr. Anslinger had independently reached the same conclusion.

INCREASE IN USE OF WHITE DRUGS IN
COUNTRY MAINTAINING OPIUM SMOKING MONOPOLY

(From the Minutes)

Netherlands Indies

M. DELGORGE (Netherlands) drew attention to the growth in addiction to white drugs, a development which was causing the Netherlands authorities much anxiety, as it presented greater dangers than the vice of opium-smoking. Many former opium-smoking addicts were turning to white drugs as cheaper and more convenient to use. Heroin was always taken in the form of injections. The number of seizures, it would be noted, had also considerably increased.

Dr. HOO CHI-TSAI (China) drew the Sub-Committee's attention to the connection between the existence of an opium monopoly and the abuse of white drugs. It had frequently been argued that if opium monopolies were maintained the abuse of white drugs would decrease. This did not seem to be borne out by the experience of the Netherlands Indies where, notwithstanding the existence of an opium monopoly, the abuse of white drugs was on the increase. He had no solution himself to offer, but suggested that the problem required reconsideration.

M. DELGORGE (Netherlands) explained that the Netherlands authorities had never held the existence

of an opium monopoly to be a guarantee against the abuse of white drugs. The growth of this abuse, he himself believed to be partly due to a change in the habits of drug addicts, who could not nowadays afford time for the leisurely practice of opium-smoking.

SECRET MEETINGS NARCOTIC POLICE

These meetings were attended by the Narcotic Enforcement Heads of the United Kingdom, The Netherlands, Canada, Switzerland, the United States, and the American Treasury Attaché at Paris.

Information was exchanged concerning notorious international illicit traffickers.

The activities of Carlos BACULA, former Peruvian Diplomat were discussed. It was brought out that certain South American diplomats may still be engaged in running narcotics for BACULA. In July, 1937, one of BACULA's connections, Dr. Eduard Argarich, a member of the Argentinian Diplomatic Corps, committed suicide after having been discovered by the Yugoslav Police in running narcotics to Paris for shipment to the United States. Among BACULA's connections were "Jerry the Lug" IANDOSCO, "Little Augie" DEL GRACIO, Jack "Legs" DIAMOND (deceased), the Frenchman DEVINEAU, the Greek banker ELIROPULUS

and many other traffickers of international repute.

A few days after our meetings, BACULA was arrested at Zurich, Switzerland, on a warrant from the German Police at Vienna, in connection with the seizure of 300 kilos of raw opium evidently destined for the United States.

Since the German annexation of Austria, the German Narcotic Police have done more in one month than the Viennese police did in ten years in narcotic enforcement.

Laurent DELEGLISE, a former Frenchman, who bought Austrian nationality and who was a well known trafficker in the United States and Canada, lived outside of Vienna in a medieval castle called RANNA. German police with machine guns surrounded the castle, captured DELEGLISE and placed him in a concentration camp along with Herman BLAU AUG, the latter having been one of the most persistent smugglers of enormous quantities of narcotics to the United States. Several other traffickers were similarly apprehended.

These meetings, which are held independently of sessions of the Opium Advisory Committee, offer a splendid opportunity to further international police cooperation.

PREPARATORY COMMITTEE FOR A CONFERENCE
TO EXAMINE THE POSSIBILITY OF LIMITING
AND CONTROLLING THE CULTIVATION OF THE
OPIUM POPPY AND THE PRODUCTION OF RAW
OPIUM:

Instead of devoting its time at the outset to obtaining an agreement among the producing countries on the principles to be incorporated in a convention, the Committee spent a number of days discussing details of several plans to limit production.

After futile debate on details it was finally agreed to consider the following principles:

Main Principles on which a future convention might be based.

I. Substances subject to limitation.

(1) Question whether limitation shall extend to the cultivation of the opium poppy for purposes other than production of raw opium, in particular the question of the use of poppy straw and capsules as raw material for extraction of morphine.

(2) While it is impossible to fix a quantitative limit for the production of poppy straw, as being a by-product of the cultivation of the poppy for seed, effective means must be laid down to ensure that none of it is used (or exported for use) for the manufacture of dangerous drugs except by license, and under the supervision of the Government.

II. Requirements to which production is to be limited.

(3) Question of World requirements to which production is to be limited.

(4) A definite quantitative limit to be fixed annually for the amount of raw opium to be produced each year.

(5) This limit should be the sum of the requirements of the consuming countries (including the consumption of the producing countries) as certified by their respective Governments, subject to examination by a controlling authority.

III. Methods of achieving limitation.

(6) World requirements of raw opium to be ascertained by a system of government estimates (annual and supplementary).

(7) The governments of importing countries to undertake the obligation to take over each year such quantities as have been estimated for (binding estimates).

(8) Governments of producing countries to submit estimates concerning the area to be cultivated.

(9) Estimates to be examined by an international controlling authority.

(10) Alternative methods for the allocation of the exportable quantity to exporting-producing countries, viz. (a) quota system or (b) free order system.

(11) The controlling authority to have the task of allocating to each producing country the annual quantities to be (a) produced (production quotas) and (b) exported (export quotas).

IV. Question of stocks.

(12) Regulating stocks to be kept in producing countries at a fixed level under international and

national control.

(13) Question whether the future Convention should contain provisions for determining the level of stocks to be kept in consuming countries.

(14) Existing excessive stocks to be reduced over a period of years.

V. International control.

(15) The execution of the Convention, as in the case of the Drugs Limitation Convention of 1931, to be supervised by a controlling authority to be constituted in manner laid down in the Convention and entrusted with such powers and duties as shall be specified in the Convention.

VI. National control.

(16) Measures to safeguard the carrying out of the Convention by producing countries through national control; establishment of Government monopolies.

VII. Question whether limitation could or should be combined with regulation of raw opium prices.

It became apparent from the statements of the principal producing countries - Turkey, Yugoslavia and Iran - that they were not ready to agree to limitation. They acted in concert throughout in demanding the right to decide for themselves the acreage to be sown and the amount of opium to be produced. They stated that excess stocks would be

held under Government control. On account of social and economic necessity within their own countries, they declared their intention to act independently of an international controlling authority.

It is possible that an extension of morphine extraction from the poppy straw may result in an automatic limitation of opium production for medical needs and that the only market remaining for producing countries will be the opium smoking and eating monopolies.

EXCERPTS FROM PROGRESS REPORT OF
THE OPIUM TRAFFIC SECTION OF THE
LEAGUE OF NATIONS SECRETARIAT:

The Advisory Committee adopted a body of rules suitable for use by Governments for the effective control of pharmacies. The Committee decided to ask the Council to request the Secretary-General to communicate these rules to Governments for their information and guidance. The Council, on September 16th, 1937, (Ninety-eighth session) requested the Secretary-General to communicate the rules to Governments, and this was done on November 11th, 1937.

The attention of Governments had been drawn to the numerous irregularities to which traffickers

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in narcotic drugs resort in order to obtain passports, and the traffic in false passports of which they frequently avail themselves. The Committee stressed the desirability of a thorough study of this question and recommended that direct cooperation should be established between the authorities charged with the issuance of passports and those in the same country responsible for the control of the drug traffic, with a view to the punishment of offenses of this kind.

For its part, the Assembly, on October 2nd, 1937 (eighteenth session), on the proposal of its Fifth Committee, adopted the following resolution:

"The Assembly,

"Considering the serious situation existing in the Far East as revealed by the discussions held at the Twenty-second session of the Advisory Committee on Traffic in Opium and Other Dangerous Drugs and by additional information furnished to the Fifth Committee;

"Considering further that such a situation constitutes a danger, not only to China, but also to the whole world;

"Endorses fully the resolution on the subject adopted by the Opium Advisory Committee at its last session, which was approved by the Council;

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"Repeats its previous earnest appeals to the Japanese Government to take effective measures without delay to put an end to the clandestine manufacture and illicit traffic carried on by Japanese subjects in China, and requests the Japanese Government to inform the Opium Advisory Committee of the action which is being taken;

"And trusts that the Chinese Government will not relax its efforts in the face of an admittedly difficult situation, and that it will be able to report to the Opium Advisory Committee a progressive improvement in the situation in the regions in China to which neither Japanese nor other foreign influence extends."

In pursuance of the resolutions adopted by the Advisory Committee, the Council and the Assembly, the Secretary-General, in communicating them to Governments, requested the latter to give effect, so far as lay within their power, to the recommendations made therein, and also to comply with the Advisory Committee's request for information.

The Supervisory Body noted with satisfaction that the number of ratifications of the Limitation Convention is now 54, a figure higher than that reached up to the present by any international convention negotiated under the auspices of the League.

A factor which has contributed to the improvement in the situation with regard to the medical

needs of the world is the increasingly close relationship between estimates and statistics. A comparison of estimates with the most recent statistics relating to drug manufacture appears to show that the wide gaps formerly found to exist between Government forecasts and actual needs show a diminishing tendency, since Governments endeavor more and more to bring their estimates down to the level of actual requirements.

There is attached hereto the American Statement made before the Opium Advisory Committee concerning the situation in the Far East.

Yours respectfully,

H. J. Anslinger
H. J. ANSLINGER
Commissioner of Narcotics.

June 15, 1938. 536
2:01 p.m.

H.M.Jr: Hello.

Operator: Mr. Knoke. Go ahead.

H.M.Jr: Hello.

Knoke: Mr. Secretary?

H.M.Jr: Talking.

K: I'm Knoke.

H.M.Jr: Yes.

K: I'm calling to report out.

H.M.Jr: Yes.

K: I'm leaving tonight and I just wanted to say goodbye.

H.M.Jr: Oh, you're going tonight?

K: Yes.

H.M.Jr: Oh, are you going on the Bremen?

K: Yes.

H.M.Jr: Oh I didn't know you were going that soon.

K: Well, we had to rush it because otherwise I couldn't have met Cariguel in Paris.

H.M.Jr: I see.

K: Who is going on a vacation. A week later would have - would have got me just a trifle too late.

H.M.Jr: Well, you can go over and settle that gold rumor.

K: Yes. I'll settle everything I can, settle.

H.M.Jr: All right. Well I hope you have a good time.

K: Thank you very much, Mr. Secretary. I'll try and get some information everywhere.

H.M.Jr: Do that. How long are you going to be gone?

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K: Well I expect to be back the middle of August.

H.H.Jr: Oh, Well, I hope to sail for Europe on the 18th of July.

K: Oh, yes.

H.H.Jr: I'm not advertising it.

K: Well -

H.H.Jr: That's just for you.

K: I see. You'll be in France?

H.H.Jr: Yes, Southern France.

K: Oh, I say. Well I will have just passed through by then.

H.H.Jr: Well. Good luck.

K: I also hope you have a pleasant vacation.

H.H.Jr: Thank you.

K: Goodbye, sir.

June 15, 1938.

3:49 p.m.

H.M.Jr: Hello

Operator: Commissioner Hanes. Go ahead.

H.M.Jr: Hello.

Commr.
Hanes: Hello. Mr. Secretary?

H.M.Jr: Yes.

H: John Hanes.

H.M.Jr: How are you?

H: Fine, thank you. How are you, sir?

H.M.Jr: I'm all right.

H: Good.

H.M.Jr: Hanes - I saw the President this morning and told him about the discussion that I've been having with Douglas about your services.

H: Yes, sir.

H.M.Jr: And told the President - reminded him what my understanding was on July 1, you see?

H.M.Jr: Yes.

H.M.Jr: Douglas.

H: Yes, sir.

H.M.Jr: And that my suggestion was that we swear you in on July 1, and that you work with us mornings, giving him the afternoons as long as necessary, and the President said, "why," he said, "I think that's proper and entirely fair." See?

H: Yes.

H.M.Jr: So, unless you have some objection.

H: Well, I haven't any. I've told you right along.

H.M.Jr: I know.

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H: I haven't

H.M.Jr: Well then - I'm not going to say any more to Douglas. I'm just going to go ahead on that basis that on July 1, we'll swear you in.

H: Well - he's - you know he's in California now.

H.M.Jr: Yes.

H: Bill's gone out West, and I don't know when he'll be back. He's in Seattle today. I imagine he'll be back sometime about the end of next week.

H.M.Jr: Well I'm not - frankly - unless you ask me very earnestly I'm just not going to fuss about it.

H: The only thing that I could ask you would be this - the only thing that I would want to ask you - feel like asking, is that you don't let me get off on the wrong foot with Bill.

H.M.Jr: Well -

H: That's all, because when I leave here, I just want to leave a good taste.

H.M.Jr: Well you - I'll do everything I can to cooperate, but on the other hand -

H: He just - I know he doesn't want me to go on the first of July.

H.M.Jr: Well -

H: I know that - he said to me three or four times - "I just hope that Daugherty won't leave me on the first of July, because I'm right in the middle of this thing."

H.M.Jr: Well -

H: I - Personally, I think that I can give him all that he needs and I certainly can keep in touch with the situation, although I'd like to devote a hundred per cent of my time to you and get the work. That's what I want to do, sir.

H.M.Jr: Well - well then, I'm -

H: Suppose I do this. Suppose I tell Bill the minute he gets back.

H.M.Jr: Suppose you tell him the minute he gets back.

H: That you had this talk and if he wants to do anything further about it - that you expect me over there on July the 1st - definitely.

H.M.Jr: Yes, and the President expects you over here.

H: All right, and if -

H.M.Jr: And -

H: And if he wants to change anything let him go to see you or the President, or -

H.M.Jr: Well, let him go - yes - right. Let him go see the President, because I - the President was very definite that he wants you over here July 1.

H: Yes.

H.M.Jr: He feels there's a big job to be done over here and at the same time he would like you to continue the afternoons with SEC as long as necessary.

H: Yes.

H.M.Jr: But the - I mean I put it very - I put it up to the President this way - "Do you think I'm right - Do you think I'm fair and is this what you want"? And he said "Absolutely".

H: Yes.

H.M.Jr: See?

H: I see.

H.M.Jr: So, I'll do everything I can to cooperate and leave a good taste in Douglas' mouth.

H: Yes.

H.M.Jr: But on the other hand, I don't want a sour taste myself. How's that?

H: That's right.

H.M.Jr: Well, let's get together next week.

H: I'll tell him as soon as he comes back.
H.M.Jr: And I - I want to see you next week.
H: All right. Let me know. Any time at all.
H.M.Jr: All right.
H: Thank you.

June 15, 1938.
4:20 p.m.

H.M.Jr: Hello.
Jesse
Jones: Hello, how are you?
H.M.Jr: Hello, Jesse.
J: How are you?
H.M.Jr: Oh, I'm all right. I'm disappointed about the railroad business.
J: Yes, that was pretty bad wasn't it? Are you going to have any time tomorrow?
H.M.Jr: I'm going up tonight to do what you did last year at Temple University.
J: Oh, you are?
H.M.Jr: Yes. I'm making the commencement address.
J: Going to be decorated.
H.M.Jr: That's right.
J: When are you coming back?
H.M.Jr: I won't be back till Monday, Jesse.
J: Back Monday, eh.
H.M.Jr: But - are you going to be in town next week?
J: Yes, I am.
H.M.Jr: Well after this cloud - smoke' blows over I want very much to talk to you about -
J: All right, then.
H.M.Jr: What I want to talk to you about is the railroad thing, and if there is anything under - the existing authorities that you can do.
J: Yes.
H.M.Jr: Because believe me it's a sick baby.

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J: I know - you don't know how sick it is, sir or - I don't mean that because you do know - we all know.

H.M.Jr: Well I'd very much like to talk to you about it. I mean if there's anything we can do.

J: All right, then - Then if we can do it this Monday or Tuesday.

H.M.Jr: Well now I'll tell you what we'll do. Let's say lunch next Tuesday.

J: All right.

H.M.Jr: How's that?

J: That's all right.

H.M.Jr: Well let me just look, please. I - yes - how's that?

J: That's all right. I've got an invitation - I'm invited to - not to address but to meet with the Savings Banks on next Tuesday in New York, but I don't think I'm going to do it - I don't think I'm ready to talk to them.

H.M.Jr: Well.

J: And I told him he wired me to know
if I wouldn't meet with them.

H.M.Jr: Yes.

J: To discuss this railroad situation.

H.M.Jr: Yes.

J: So I told him on the phone today that I didn't think I'd be ready by Tuesday but I would do it the latter part of the week, so I think that Tuesday is all right.

H.M.Jr: Well if there's any change, let me know.

J: I'll do that.

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H.M.Jr: That's quite an order they give you up at Temple, isn't it?

J: Oh you bet your life, it's a nice place to go Henry.

H.M.Jr: You - you talk at the college or -

J: No, you talk - you talk at the same place the Convention was held.

H.M.Jr: I see.

J: You were up there weren't you?

H.M.Jr: Oh, yes.

J: Well you talk from that same place, and the house will be full.

H.M.Jr: Is that right?

J: And it's as nice a place to talk - in fact it's as nice - I believe it's the nicest place to talk that I've talked in.

H.M.Jr: Is that right?

J: The acoustics are good and - well the whole situation. You'll really enjoy it.

H.M.Jr: All right.

J: I'm delighted that you're going and I congratulate you.

H.M.Jr: Thank you.

J: Goodbye.

H.M.Jr: Goodbye.